

1 **Reference: Section 2: Customer Operations**

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3 **Q. Volume 1, page 2-38. Is the implied operating efficiency of 1% simply the difference**
4 **between the forecast increase in labour costs and the weighted labour rate inflation?**
5 **Are other factors considered in attributing an operating efficiency of 1%?**
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7 A. Yes, the implied operating efficiency of 1% is the difference between the forecast
8 increase in labour costs and the weighted labour rate inflation.
9

10 In forecasting its labour costs, Newfoundland Power assesses its anticipated operational
11 requirements for each year. This includes adjustments for additional known and
12 measurable costs, as well as planned operating efficiencies.
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14 Newfoundland Power's operating labour costs are forecast to increase by approximately
15 2.1% annually over the period 2019 to 2023. The Company's annual labour rate inflation
16 is approximately 3.1% over this period. This implies an efficiency of 1.0% per year.¹
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18 From another perspective, based solely on labour inflation and without any other
19 adjustments, operating labour costs would total approximately \$39.5 million in 2023.²
20 However, the Company's operating labour costs are forecast to be approximately \$38.1
21 million in 2023. This represents an operating efficiency of approximately \$1.4 million.
22

23 This operating efficiency is the practical result of the adjustments Newfoundland Power
24 has made to its operating cost forecast to account for known costs and planned
25 efficiencies, as well as other initiatives the Company has implemented to maintain its
26 overall operating efficiency.
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28 A reduction in labour costs of approximately \$1.4 million associated with the
29 implementation of LED street lights contributes to this operating efficiency.³ A variety
30 of other initiatives also contribute to this operating efficiency, such as a \$148,000
31 reduction in labour costs due to the Company's annual Application Enhancements capital
32 project.⁴ As these savings are reflected in Newfoundland Power's proposed revenue
33 requirement, customers would receive the benefit of these operating cost savings
34 regardless of whether the planned efficiencies are realized. For additional information on
35 other initiatives the Company has implemented to maintain its operating efficiency, see
36 response to Request for Information PUB-NP-012.

¹ See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations*, page 2-38.

² Operating costs were \$35,241 in 2019 ($\$35,241 * 1.0292 * 1.0275 * 1.0300 * 1.0285 = \$39,479$).

³ See the *2022/2023 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2: Customer Operations*, page 2-38, footnote 82.

⁴ The annual Application Enhancements capital project focuses on the use of technology to reduce or eliminate manual business processes. The decrease in labour costs is partially offset by an increase in non-labour costs of \$58,000, which results in a net cost reduction of \$90,000. See Newfoundland Power's *2021 Capital Budget Application, Volume 2, Report 6.1 2021 Application Enhancements*.