

1 **Q. (Reference CA-NP-067) In Footnote 1 and on page 2 of 2 it is stated that “In**
2 **Order No. P.U. 36 (1998-1999), the Board ordered the adoption of the GDP**
3 **Deflator for Canada as an appropriate inflation index for forecasting**
4 **Newfoundland Power’s non-labour expenses.” Please confirm that this**
5 **statement should be corrected to reflect the Board Order on page 95 [sic] of**
6 **P.U. 36(1998-1999), which states “The adoption of the GDP deflator for Canada**
7 **is accepted as an appropriate inflation index to forecast non labour operating**
8 **expenses.” Also, please confirm that that non labour operating expenses are**
9 **not capital expenditures.**

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11 A. Newfoundland Power confirms that the referenced quote appears on page 94 of Order
12 No. P.U. 36 (1998-1999), which is in relation to a general rate application process where
13 a primary focus is the reasonableness of operating costs included in revenue
14 requirements.

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16 On page 18 of Order No. P.U. 36 (1998-1999) the Board elaborated on the selection of
17 an appropriate industrial inflation index:

18
19 *Since all of the parties at the hearing supported the GDP deflator for*
20 *Canada as the appropriate inflation index to forecast non-labour*
21 *operating expenses and, based on NP’s research and report, which has*
22 *been carefully considered together with the other evidence and argument*
23 *at the hearing, the Board hereby orders the adoption of the GDP deflator*
24 *for Canada as an appropriate inflation index to forecast non-labour*
25 *operating expenses.*¹

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27 As stated in the Board’s order, the evidence partially relied on by the Board consisted of
28 research, including a utility survey, and a comprehensive report. Neither the referenced
29 report, titled *Non-Labour Inflation Index, A Summary Report*, nor the utility survey made
30 any distinction between operating and capital non-labour costs.

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32 Consistent with Order No. P.U. 36 (1998-1999), Newfoundland Power has used the GDP
33 deflator for Canada as an inflation index for forecasting the Company’s overall non-
34 labour costs, whether they are capital or operating costs, over the last two decades.
35 The Board has accepted this inflation index for use in annual capital budget applications
36 as well as general rate applications over this timeframe.

37
38 Non-labour operating expenses are not capital expenditures.

¹ See Order No. P.U. 36(1998-1999), pages 18 and 19.