

- 1 **Q. Further to the response to PUB-NP-012:**  
 2 **a) Please restate Table 1 to include the 2023 labor inflator and GDP deflator rates.**  
 3 **b) Please explain why the GDP deflator is appropriate to use to adjust non-labor**  
 4 **costs for inflation. In the response include what other inflation adjustment**  
 5 **factors are available to use and when Newfoundland Power last reviewed the**  
 6 **appropriateness of using the GDP deflator?**  
 7 **c) It is stated that labor is inflation adjusted using the Company’s internal**  
 8 **weighted labor inflation rate. Please explain what other inflation adjustments**  
 9 **are available to use instead of the Company’s weighted labor rate, why they**  
 10 **weren’t used and why it is appropriate to use a measure within the company’s**  
 11 **control rather than an objective inflation measure. In the response, please**  
 12 **provide more detail than in the response to PUB-NP-029 (d) as to why this**  
 13 **adjustment is appropriate.**  
 14  
 15 a) Table 1 provides the annual inflation rates used to adjust the nominal operating costs  
 16 from 2013 to 2023.

**Table 1:  
 Inflation Rates  
 2013 to 2023  
 (%)**

<b>Year</b>	<b>Labour Inflators<sup>1</sup></b>	<b>GDP<sup>2</sup></b>
2013	4.36	1.74
2014	4.25	1.95
2015	3.75	(0.88)
2016	3.54	0.75
2017	3.13	2.57
2018	1.75	1.62
2019	2.40	1.56
2020	2.92	0.57
2021	2.75	8.18
2022	3.00	7.21
2023	2.75	0.91

- 17 b) Newfoundland Power conducted a study of inflation indices prior to its *1998 General*  
 18 *Rate Application*.<sup>3</sup> The Company evaluated alternatives, completed a utility survey  
 19 and filed a comprehensive report recommending the GDP deflator for Canada  
 20 (the “GDP Deflator”) as the most suitable inflation index for forecasting the

<sup>1</sup> Labour is inflation-adjusted using the Company’s internal weighted labour inflation rates.

<sup>2</sup> Non-labour costs are inflation-adjusted using GDP deflators from the Conference Board of Canada’s data release on August 2, 2023.

<sup>3</sup> In Order No. P.U. 7 (1996-97), the Board ordered the Company to research a suitable inflation index to measure Newfoundland industrial cost inflation.

1 Company's non-labour costs.<sup>4</sup> In Order No. P.U. 36 (1998-99), the Board ordered the  
2 adoption of the GDP Deflator as an appropriate inflation index for forecasting  
3 Newfoundland Power's non-labour expenses.<sup>5</sup>  
4

5 In accordance with this order, Newfoundland Power uses the GDP Deflator as an  
6 inflation index for both forecast and historical non-labour costs.<sup>6</sup> This provides for  
7 comparability of the Company's overall non-labour costs in constant dollars over  
8 time. The Board has continued to accept this inflation index for use in general rate  
9 applications and annual capital budget applications over the last two decades.  
10

11 The Company considers the appropriateness of its use of the GDP Deflator by  
12 comparing its forecasts with actual results. In Newfoundland Power's view, use of the  
13 GDP Deflator continues to produce reasonable results, therefore, the Company has  
14 not undertaken a comprehensive review of other alternatives.<sup>7</sup> Newfoundland Power  
15 observes that certain alternative inflation indices previously reviewed by the  
16 Company, including the Consumer Price Index ("CPI"), were determined to be  
17 inappropriate at that time for reasons that remain relevant today.<sup>8</sup> As such,  
18 Newfoundland Power still considers the GDP Deflator to be an appropriate inflation  
19 index for forecasting its non-labour costs.  
20

- 21 c) Newfoundland Power considers its internal weighted labour inflation rate to be the  
22 most appropriate measure to both forecast labour costs and inflation-adjust historical  
23 labour costs. The Company has been consistent with forecasting its test year labour  
24 costs in this manner for more than two decades.<sup>9</sup>  
25

26 Approximately half of Newfoundland Power's workforce is represented by the  
27 International Brotherhood of Electrical Workers, Local 1620 (the "IBEW"). Wages  
28 for union employees are determined through collective bargaining negotiations  
29 between the Company and the IBEW and generally result in multi-year collective

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<sup>4</sup> The report titled *Non-Labour Inflation Index, A Summary Report* was filed in the Company's 1998 *General Rate Application* as Exhibit RGC-5.

<sup>5</sup> See Order No. P.U. 36 (1998-99), page 20.

<sup>6</sup> Certain of the Company's non-labour costs are not forecast based on inflation. For example, other company fees, computing equipment and software and insurance are forecast based on known and measurable changes.

<sup>7</sup> Newfoundland Power acknowledges that GDP Deflator increases from 2021 to 2023 were significantly higher than forecast. The increases resulted from a combination of global economic impacts following the COVID-19 pandemic, leading to the highest levels of inflation experienced in 40 years. The Company's non-labour costs were also higher than forecast over the same period. See the response to Request for Information PUB-NP-018.

<sup>8</sup> CPI measures price changes by comparing the cost of a fixed basket of household commodities over time. The goods and services in this basket are divided into eight major components: food; shelter; household operations, furnishings and equipment; clothing and footwear; transportation; health and personal care; recreation, education and reading; and alcoholic beverages, tobacco products and recreational cannabis. In Newfoundland Power's study in 1998, CPI was determined to be an inappropriate inflation index as it was not reflective of the types of materials consumed by an electric utility.

<sup>9</sup> See, for example, Newfoundland Power's 2003 *General Rate Application, Operations & Customer Service: Evidence (1<sup>st</sup> Revision)*, page 28 states that "labour costs are forecast to increase by approximately \$0.6 million, or 2 per cent, from 2002 to 2004. This is primarily the result of negotiated labour increases, offset by the impact of the productivity initiatives...".

1 agreements.<sup>10</sup> As such, the collective agreements provide details about known and  
2 measurable changes in union wages through 2026.<sup>11</sup> Newfoundland Power's  
3 compensation consultants are not aware of any consulting firm or survey provider that  
4 provides projected salary increases for more than a year. As such, the Company's  
5 weighted labour inflation rate based on negotiated union wage rates is the best  
6 available estimate to forecast overall labour costs. See the response to Request for  
7 Information PUB-NP-144 for further details.

8  
9 The Company also observes that there are limited alternative inflation indexes on  
10 which to forecast labour costs. While CPI is one index that is readily available, it is  
11 driven by different inputs than wage increases and is not an appropriate measure of  
12 the Company's forecast labour costs. For example, CPI does not consider factors such  
13 as changes in supply and demand for labour resulting from changes in demographic  
14 trends in labour markets. Further, it would disregard negotiated wages and resulting  
15 collective agreements between the Company and the IBEW.

16  
17 Newfoundland Power also uses its internal weighted labour inflation rate to  
18 inflation-adjust historical labour costs.<sup>12</sup> This adjustment is for the purpose of  
19 comparing the Company's overall labour costs in constant dollars over time by  
20 removing the impact of inflationary increases in labour rates. The resulting  
21 inflation-adjusted labour costs enable an analysis of changes in the Company's  
22 operating labour costs related to operating efficiencies, changes in work requirements  
23 and position changes over time.

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25 For the reasons outlined above, and in the absence of other reliable labour inflation  
26 rates, the Company's use of its internal weighted labour inflation rate is reasonable  
27 for both forecasting labour costs and inflation-adjusting historical labour costs.

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<sup>10</sup> See part b) of the response to Request for Information PUB-NP-031 for further details.

<sup>11</sup> The response to Request for Information PUB-NP-031 also provides a comparison of Newfoundland Power's union compensation increases to other Atlantic Canadian utilities from 2022 to 2026.

<sup>12</sup> The Company's internal weighted labour inflation rate reflects only base compensation increases, as well as progression. It does not reflect other changes in labour costs associated with things such as promotions, new hires and changes in the number of employees.