

1 **Q. Further to the response to PUB-NP-017:**

- 2 a) **Operating expenses will increase from the \$68.956 million in the 2023TY to \$81.6**  
 3 **million forecast for the 2026 test year, an increase in test year operating costs of**  
 4 **approximately 18%, even though Newfoundland Power states that it has taken**  
 5 **and will continue to take appropriate action to manage its costs to the minimum**  
 6 **reasonable level. Given this level of increase forecast for operating costs and the**  
 7 **cost pressures facing customers, please explain whether it would be appropriate**  
 8 **for the Board to impose a productivity allowance on Newfoundland Power.**
- 9 b) **Newfoundland Power states that an assessment of its operating costs over the**  
 10 **forecast period 2022-2026 is a more appropriate basis to assess its management**  
 11 **of operating costs than a comparison to the 2023 test year. Please explain in**  
 12 **more detail than provided in the response why this is and whether**  
 13 **Newfoundland Power agrees that it is typical regulatory practice to evaluate**  
 14 **actual costs in comparison to a test year forecast and to compare a forecast test**  
 15 **year with the last test year forecast used to set rates.**
- 16 c) **If the 2023 test year forecast is not a fair comparator to evaluate future test**  
 17 **years, please explain whether this indicates an issue with how Newfoundland**  
 18 **Power forecasts a test year.**
- 19 d) **Since the 2023 test year forecast for costs was well below the actual 2023 results,**  
 20 **is there a concern that the forecasts for 2024 to 2026 are too high?**
- 21 e) **Approximately 75% of the increase in non-labor costs is associated with**  
 22 **computing equipment and software costs, other company fees and insurance**  
 23 **costs. Please provide more details than in the response and in the response to**  
 24 **PUB-NP-022 a) to explain why computing equipment and software costs are**  
 25 **forecast to increase, including the specific software products and licenses that**  
 26 **are forecast to increase and the associated increase for each.**

27  
 28 A. a) Newfoundland Power submits that it would not be appropriate to impose a  
 29 productivity allowance on the Company's 2025 and 2026 test year operating forecasts  
 30 for the following reasons.

- 31  
 32 • Newfoundland Power's costs of serving customers have been incurred in an  
 33 efficient manner, consistent with the provincial power policy reflected in the  
 34 *Electrical Power Control Act, 1994* (the "EPCA") and the *Public Utilities Act*  
 35 (the "Act").<sup>1</sup>

36  
 37 Over the 10-year period, 2013 to 2022, the Company reduced its gross operating  
 38 cost per customer by approximately 9.5% on an inflation-adjusted basis, from  
 39 \$285 per customer in 2013 to \$258 per customer in 2022.<sup>2</sup> The Company  
 40 achieved these reductions by seeking out opportunities to improve its operating

<sup>1</sup> The power policy as set out in the EPCA requires that power be delivered to consumers in the province at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service. The Act provides that customer rates approved by the Board should provide sufficient revenue to the utility to enable it to earn a just and reasonable return.

<sup>2</sup> See also Figure 2 in the response to Request for Information PUB-NP-010 which shows that Newfoundland Power's operating cost per kWh has been relatively consistent over the last decade, based on the scenario requested in that Request for Information.

1 efficiency.<sup>3</sup> Without undertaking these initiatives, the Company's operating cost  
2 reductions experienced over the last decade would not have occurred. These  
3 efficiencies will continue to benefit customers through 2025 and 2026.

4  
5 Over the same time period, Newfoundland Power maintained its reliability and its  
6 customer satisfaction metrics.<sup>4</sup> The Company has also operated in an  
7 environmentally responsible manner.<sup>5</sup>

- 8  
9 • Operating cost efficiency is demonstrated over the 2022 to 2026 forecast period.

10  
11 The efficiency of Newfoundland Power's operations can be observed in its  
12 forecast labour costs, which are most directly within management's control.  
13 While labour costs are forecast to increase by approximately \$4.8 million from  
14 2022 to 2026, or 3.1% per year, this is approximately 1% less than the Company's  
15 labour inflation rate, which indicates a reasonable level of operating efficiency.<sup>6</sup>

16  
17 Consistent with Newfoundland Power's historical approach to operating cost  
18 management, the Company is forecasting to improve its operating cost efficiency  
19 by: (i) continuing to deploy its human resources in an effective manner, and  
20 (ii) seeking out opportunities, such as leveraging its operating technologies, to  
21 maintain the electrical system and deliver service to customers in the most  
22 efficient manner.<sup>7</sup>

- 23  
24 • Newfoundland Power's level of operating efficiency demonstrated in its 2025 and  
25 2026 test years is also consistent with prior test years approved by the Board, in  
26 which the Board did not impose a productivity allowance.

27  
28 In each of the Company's last two general rate applications, Newfoundland Power  
29 demonstrated operating cost efficiency through its forecast labour costs being 1%  
30 lower than its labour inflation over those respective time periods.<sup>8</sup>

- 31  
32 • Imposing a productivity allowance on Newfoundland Power's 2025 and 2026 test  
33 year operating costs with reference to the increase from the 2022 and 2023 test  
34 years would not be consistent with past practice of the Board.

35  
36 In its order on Newfoundland and Labrador Hydro's ("Hydro") *2017 General*  
37 *Rate Application* (the "2017 GRA"), the Board imposed a productivity allowance

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<sup>3</sup> For examples, see the *2025/2026 General Rate Application, Volume 1, 2.3.4 Operating Efficiency*, as well as the response to Request for Information NLH-NP-007.

<sup>4</sup> See the *2025/2026 General Rate Application, Volume 1, Section 2.3.2 Electrical System Reliability*.

<sup>5</sup> See the *2025/2026 General Rate Application, Volume 1, Section 2.3.3 Environmental Responsibility*.

<sup>6</sup> See the *2025/2026 General Rate Application, Volume 1, Section 2.4 Operating and Capital Costs*, page 2-35.

<sup>7</sup> See the responses to Requests for Information PUB-NP-017, PUB-NP-023, and PUB-NP-027 for further information on Newfoundland Power's operating cost management over the 2022 to 2026 forecast period, including specific examples of how the Company minimizes its labour and non-labour costs.

<sup>8</sup> See Newfoundland Power's *2019/2020 General Rate Application, Volume 1*, page 2-40 and the Company's *2022/2023 General Rate Application, Volume 1*, page 2-38.

on Hydro's 2018 and 2019 test year operating costs.<sup>9</sup> In its findings, the Board was clear in its expectation that test year operating costs are assessed against recent actual and forecast information.

For example, at page 35 of Order No. P.U 16 (2019), the Board stated:

*"In this regard the Board notes the significant increases in costs in the 2018 and 2019 test years as compared to actual costs in 2016 and 2017 and further that, according to the latest updates, the forecast 2018 costs are lower than the proposed 2018 test year costs. The Board also notes that, based on Grant Thornton's calculations, the total costs per kWh have steadily increased since 2015. The Board finds that Hydro has not proven that the proposed test year costs are consistent with least-cost reliable service."*

Newfoundland Power also observes that in Hydro's 2017 GRA filing, Hydro indicated cost efficiency by comparing its 2019 test year operating costs to its 2015 test year level.<sup>10</sup> The Board did not reference this test year comparison in its findings on Hydro's operating costs in Order No. P.U 16 (2019) when imposing a productivity allowance.

Overall, the Company observes that a productivity allowance is intended to provide an incentive to manage costs and find efficiencies,<sup>11</sup> or is imposed in a situation where the proposed test years costs are found not to be consistent with least-cost reliable service.<sup>12</sup> As provided above, Newfoundland Power has demonstrated sound cost management and a continued focus on finding operating cost efficiencies throughout the 2026 forecast period in a manner consistent with the provincial power policy.

- b) The Company's 2025 and 2026 test year operating costs must reasonably reflect expected costs of delivering electricity service to customers in those years.<sup>13</sup>

As a matter of standard practice, the Company derives its test year operating forecasts from its most recent actual/forecast information, as well as with consideration of any cost efficiencies or pressures known over that time period.<sup>14</sup> This process is no different than for any other component of Newfoundland Power's test year forecasts. For example, the Company's customer, energy and demand test year forecast is based on recent actuals, adjusted for any known forecast effects (e.g. government electrification initiatives, price elasticity, etc.), as opposed to using the 2023 test year as the starting point. Another example

<sup>9</sup> See Order No. P.U. 16 (2019), pages 34 to 36.

<sup>10</sup> See Hydro's 2017 GRA, Volume 1, Chapter 3: Operations, Revision 2 - October 16, 2017, page 3.34.

<sup>11</sup> Order No. P.U. 49 (2016), page 53, lines 27-28.

<sup>12</sup> Order No. P.U. 16 (2019), page 35, lines 8-25.

<sup>13</sup> See footnote 1.

<sup>14</sup> See, for example, the *Company's 2003 General Rate Application* which provided that test year forecasts were based on recent actuals/forecasts and provided analysis to demonstrate cost efficiency in the test years by comparing to recent actual information.

would be Newfoundland Power's debt costs, which are based on actual debt issues and recent interest rate forecasts, as opposed to the 2023 test year forecast.

The Company agrees that comparisons between actuals and test years, as well as test years to previously approved test years, are common in regulatory proceedings, including as part of this Application.<sup>15</sup> In Newfoundland Power's view, however, the most recent actual/forecast information provides the most reasonable basis on which to establish test year forecasts.<sup>16</sup> This is consistent with the longstanding regulatory practice used by the Board in the Company's GRA processes.

- c) No, there is no issue with how Newfoundland Power forecasts its test year operating costs.

As provided in part b), the Company's approach to forecasting its operating costs has been consistent over a long period of time, with no issues raised by the Board in its approval of Newfoundland Power's test year revenue requirements.

Further, as provided in part a), the Board imposed a productivity allowance on Hydro's 2018 and 2019 test years based on an assessment of actual costs, as opposed to a comparison to Hydro's previously approved test year. In the Company's view, this provides further clarification of the Board's past practice that test year costs must be reflective of recent actual/forecast information.

- d) There is no concern that Newfoundland Power's operating cost forecasts for 2024 to 2026 are too high based on the fact that 2023 actual costs were higher than the 2023 test year.

As provided in part b), the best indicator of forecast costs is recent actual performance. Newfoundland Power has derived its 2024 to 2026 forecast costs primarily from its 2022 actual and 2023 forecast operating cost information.<sup>17</sup>

Operating cost increases forecast over the 2024 to 2026 period are primarily inflationary in nature when compared recent actuals, with the exception of labour efficiencies and higher non-labour costs related to computing equipment and software costs, other company fees and insurance costs as outlined in the response to Request for Information PUB-NP-017. Computing equipment and software costs are also explained in greater detail in part e) of this response.

<sup>15</sup> See the response to Request for Information PUB-NP-018 for detailed explanations on variances in the Company's operating costs for 2023 as compared to the 2023 test year. See also Attachment C to Request for Information PUB-NP-141 for a comparison of 2023 actual costs to the 2023 test year, as well as a similar comparison for the Company's previous three general rate applications.

<sup>16</sup> Specifically related to 2023, the use of the 2023 test year to forecast future operating costs would disregard significant increases in inflation since the Company's last GRA, and actual costs incurred in 2022 and 2023. See the response to Request for Information PUB-NP-137, part a) for further details regarding inflation.

<sup>17</sup> Further, Newfoundland Power's 2023 actual gross operating costs were \$73.0 million, or \$0.5 million higher than its 2023 forecast of \$72.5 million.

- e) Attachment A provides details on Newfoundland Power's computing equipment and software costs from 2022 to 2026 forecast.<sup>18</sup>

Table 1 summarizes the information provided in Attachment A.<sup>19</sup>

**Table 1:**  
**Computing Equipment and Software Costs**  
**2022 and 2026 Forecast**  
**(\$000s)**

Category	2022	2026F	Change
Infrastructure and Network Management	448	857	409
Cybersecurity Management	325	704	379
Customer Service Software	845	952	107
Business Backoffice Software	353	504	151
Operations and Engineering Software	908	1,975	1,067
<b>Total</b>	<b>2,879</b>	<b>4,992</b>	<b>2,113</b>

#### *Infrastructure and Network Management*

This category includes software tools designed to monitor, manage and optimize various components of the Company's information technology infrastructure and networks. These types of software provide for oversight of the performance, availability and security of critical resources such as servers, networks, storage devices and applications.

The increase in software costs for 2026 forecast compared to 2022 primarily relates to the implementation of a modern technology management solution,<sup>20</sup> as well as increased licensing and support costs associated with its servers and databases.<sup>21</sup>

#### *Cybersecurity Management*

This category includes software tools and solutions designed to protect Newfoundland Power's digital assets, data, systems and networks from cyber threats. These tools are used for security of the Company's systems, managing and implementing cybersecurity policies, and detecting and responding to security incidents.

<sup>18</sup> Attachment A also includes 2023 test year comparisons in response to Request for Information NLH-NP-112.

<sup>19</sup> Computing equipment and software costs are allocated to the categories in Attachment A and Table 1 based on their primary function.

<sup>20</sup> See the response to Request for Information PUB-NP-023 for details on this solution.

<sup>21</sup> "VMware" listed in Attachment A, allows multiple versions of operating systems to operate on the same physical server. "SQL Server" listed in Attachment A is a database system that stores and retrieves data requested by software applications. Increased cybersecurity requirements also contribute to higher maintenance costs in this category.

1 The increase in software costs for 2026 forecast compared to 2022 primarily relates to  
2 new firewall support and maintenance and increased functionality associated with  
3 security monitoring and identifying system threats.

4  
5 *Customer Service Software*

6 This category includes specialized software solutions designed to manage customer  
7 interactions, enquiries and support services specific to utility companies. This  
8 includes software to enable billing and payments, service requests and work orders,  
9 meter data management, customer communications, self-service portals, analytics and  
10 reporting, and integration with backend systems.

11  
12 The increase in software costs for 2026 forecast compared to 2022 primarily relates to  
13 the implementation of the Company's new Customer Information System.

14  
15 *Business Backoffice Software*

16 This category includes software solutions designed to streamline and automate  
17 administrative and operational tasks that support the backend functions of a business.  
18 These tasks include accounting, finance, procurement, inventory management, human  
19 resources and other administrative processes.

20  
21 The increase in software costs for 2026 forecast compared to 2022 primarily relates to  
22 upgrades to Newfoundland Power's financial management and human resources  
23 management systems.<sup>22</sup>

24  
25 *Operations and Engineering Software*

26 This category includes software tools and solutions designed to support the  
27 Company's core operation technologies as well as to manage and optimize  
28 operations, streamline engineering workflows, and enhance productivity.

29  
30 The increase in software costs for 2026 forecast compared to 2022 primarily relates to  
31 costs required to maintain Newfoundland Power's core operation technologies: the  
32 Workforce Management System, the Outage Management System, the Geographic  
33 Information System, and the Asset Management System.<sup>23</sup>

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<sup>22</sup> See the response to Request for Information PUB-NP-023 for details on these upgrades.

<sup>23</sup> See the response to Request for Information PUB-NP-142, part a) for further details associated with operations and engineering software.