

1 **Q. What steps is Newfoundland Power taking to manage and reduce capital costs, as it**
2 **has done with respect to labour costs?**

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4 A. Since the cost of labour is a significant component of the Company's capital costs,
5 Newfoundland Power's success in managing its labour costs also contributes to the
6 control of capital costs. Further, the Company has a rigorous annual process of preparing
7 its capital budget that determines what improvements and additions to the electrical
8 system are necessary to ensure the Company is able to fulfill its legislative mandate of
9 providing safe and reliable electric service at reasonable cost.

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11 Newfoundland Power manages its business with a view to overall costs. As
12 circumstances change, so too will capital expenditure priorities. The year-to-year mix of
13 capital and operating costs is less important than the fundamental imperative of ensuring
14 electrical service is provided in a safe and reliable manner. In recent years, the Company
15 has focused capital investment on the refurbishment of the electrical system. While this
16 has led to higher capital budgets, in absolute dollar terms, than the lower budgets of the
17 early 1990s, it has enabled Newfoundland Power to improve service levels, and has
18 contributed to the Company's efforts to manage overall costs and keep customer rates
19 stable.

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21 The Company's strategy of focusing on core requirements, and forming technical
22 alliances with manufacturers, contractors and suppliers, will help to minimize the costs
23 associated with maintaining technical expertise in all areas. For information on the cost
24 savings associated with certain tasks that are now contracted out by Newfoundland
25 Power, please refer to the Company's response to Request for Information CA-336.

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27 Looking to the future, Newfoundland Power is pursuing strategies that will ensure the
28 workforce implementing its capital programs will have more diverse skills and will make
29 greater use of technology.

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31 The Company's capital planning process is a deliberate effort to balance customer needs,
32 reliability, productivity, safety and environmental concerns with prudent capital
33 expenditure. By the exercise of prudent engineering and business judgment, the
34 Company attempts to balance the level of required expenditure with the imperatives of
35 customer expectations as to service and reliability.

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37 In addition, once the required capital program is determined, the Company ensures
38 projects are undertaken at the lowest possible cost by obtaining necessary services and
39 materials through competitive tendering.