

1 **Q. INFORMATION SYSTEMS**

2
3 **PUB 22.0 (RE: p. 61 & 62 of 73) Application Enhancements (\$1,087,000)**

4
5 **PUB 22.2**

6 **Please provide details of the cost benefit analysis associated with improvements to**
7 **line inspection systems (\$83,000).**

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9 A. The net present value analysis associated with improvements to the line inspection
10 systems is provided in Attachment A. The estimated labour cost savings, due to a
11 reduction in time to schedule, plan, follow up, and report on work related to line
12 inspections, is \$22,770 per year, based on 2004 labour costs. The net present value
13 analysis escalates the labour cost savings as noted therein.

NET PRESENT VALUE ANALYSIS

Line Inspections

		<u>Capital Impacts</u>		<u>Ongoing Operating Expenditures</u>						
<u>YEAR</u>		New Software	CCA Tax Software	<u>Cost Increases</u>		<u>Cost Benefits</u>		Net Operating Expenditures	Income Tax	After-Tax Cash Flow
		A	B	Labour	Non-Lab	Labour	Non-Lab	G	H	I
0	2005	(\$83,000)	\$41,500	\$0	\$0	\$0	\$0	\$0	\$14,990	(\$68,010)
1	2006	\$0	\$41,500	\$0	\$0	\$23,453	\$0	\$23,453	\$6,519	\$29,972
2	2007	\$0	\$0	\$0	\$0	\$24,157	\$0	\$24,157	(\$8,725)	\$15,431
3	2008	\$0	\$0	\$0	\$0	\$25,123	\$0	\$25,123	(\$9,074)	\$16,049
4	2009	\$0	\$0	\$0	\$0	\$25,877	\$0	\$25,877	(\$9,347)	\$16,530
5	2010	\$0	\$0	\$0	\$0	\$26,330	\$0	\$26,330	(\$9,510)	\$16,819
Present Value (2005-2010) (See Note J)				Discount Rate		7.03%				\$11,125

NOTES:

A is the total capital cost.

B is the Capital Cost Allowance deduction. It was calculated using declining balance depreciation and the 50% rule for capitalizing additions.

C and D include any software maintenance fees and internal support costs associated with the project. The cost estimates are escalated to the current year using the GDP Deflator Index for non-labour and a general corporate cost escalator for labour.

E and F are the reduced operating costs. The cost estimate is escalated to current year using the GDP Deflator Index for non-labour and a general corporate cost escalator for labour.

G is the sum of columns C, D, E and F.

H is the impact on taxes from the CCA and operating cost deductions. It is equal to column B less column G times the tax rate.

I is the after tax revenue requirement, which is the sum of the capital expenditure (column A) plus operating expenditures (column Q) less the tax reduction (column G).

J is the present value of column I. Column I is discounted using Newfoundland Power's weighted after-tax cost of capital.