

1 **Q. INFORMATION SYSTEMS**

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

4  
5 **PUB 22.3**

6 **Please provide details of the cost benefit analysis associated with improvements to**  
7 **the MRO inventory processes (\$108,000).**

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9 A. The net present value analysis associated with improvements to the MRO inventory  
10 processes is provided in Attachment A. The estimated labour cost savings, due to a  
11 reduction in employees purchasing materials on an *ad hoc* basis, is \$37,950 per year,  
12 based on 2004 labour costs. The labour savings are offset somewhat by increased costs  
13 for hardware and software maintenance of \$4,000 per annum. The net present value  
14 analysis escalates the labour cost savings and cost increases as noted therein.

## NET PRESENT VALUE ANALYSIS

### MRO Inventory

		<u>Capital Impacts</u>		<u>Ongoing Operating Expenditures</u>						
<u>YEAR</u>		<u>New Software</u>	<u>CCA Tax Software</u>	<u>Cost Increases</u>		<u>Cost Benefits</u>		<u>Net Operating Expenditures</u>	<u>Income Tax</u>	<u>After-Tax Cash Flow</u>
		A	B	<u>Labour</u>	<u>Non-Lab</u>	<u>Labour</u>	<u>Non-Lab</u>	G	H	I
0	2005	(\$108,000)	\$54,000	\$0	\$0	\$0	\$0	\$0	\$19,505	(\$88,495)
1	2006	\$0	\$54,000	\$0	(\$4,068)	\$39,089	\$0	\$35,021	\$6,855	\$41,876
2	2007	\$0	\$0	\$0	(\$4,137)	\$40,261	\$0	\$36,124	(\$13,048)	\$23,076
3	2008	\$0	\$0	\$0	(\$4,212)	\$41,872	\$0	\$37,660	(\$13,603)	\$24,057
4	2009	\$0	\$0	\$0	(\$4,287)	\$43,128	\$0	\$38,840	(\$14,029)	\$24,811
5	2010	\$0	\$0	\$0	(\$4,362)	\$43,883	\$0	\$39,520	(\$14,275)	\$25,245
<b>Present Value (2005-2010) (See Note J)</b>				<b>Discount Rate:</b>		<b>7.03%</b>		<b>\$27,278</b>		

#### 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.