

1 **Undertaking Request (U-63)**

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3 ***Transcript Reference: July 24, 2018, Pg. 41, line 6 to Pg. 44, line 4***

4 Undertake to provide the difference between the embedded contractor cost versus the
5 employee cost for both the 2018 and 2019 test years.

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8 **Undertaking Response**

9 As outlined in PUB-NLH-138, there are two professional services agreements related to
10 operational support. The total amount included in the 2018 and 2019 Test Year revenue
11 requirements for these two contractors is \$284,400 and \$286,400, respectively.

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13 The first contract is for a Regulatory Systems Consultant at a cost of \$225,008 in the 2018
14 Test Year and \$227,008 in the 2019 Test Year. The equivalent annual employee cost (total
15 compensation, benefits and payroll costs) is estimated to be \$208,656.

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17 While the total annual employee cost is less, the additional expense is justified on the basis
18 of the contractor's experience and expertise and the lack of availability in the market of
19 such expertise on a term basis. The contractor has approximately 40 years of relevant
20 experience in public utility and system development environments which is critical to the
21 development of key regulatory files (e.g. open access, cost of service, and others) which are
22 not part of Hydro's routine annual filings. The contract is term until 2020.

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24 Key regulatory files and system development activities in which the contractor is involved
25 include:

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- Cost of Service Software

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- Old (1992) system developed by external consultants for Hydro with no
ongoing system support;

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- 1 ○ Consultant participated in developing new module for transmission tariff
- 2 development;
- 3 ○ Enhancements to provide linkage of load and revenue forecast to cost of
- 4 service model;
- 5 ○ Enhancements to include on-island and off-island purchases;
- 6 ○ Enhancements to use current dollars rather than original cost in calculating
- 7 specifically assigned charges; and
- 8 ○ Enhancements in preparation for cost of service methodology review to
- 9 include costs associated with Muskrat Falls Project.
- 10 • Marginal Cost Software
- 11 ○ Working in partnership with CA Energy to develop marginal cost
- 12 methodology software which Hydro can update and maintain on a stand-
- 13 alone basis.
- 14 • Depreciation
- 15 ○ Developed software for calculation of depreciation expenses for 2017 GRA
- 16 filing using old and new rates.
- 17 • Other
- 18 ○ Software development ongoing for tracking of off-island power purchases;
- 19 ○ Software development for tracking and auditing of RSP Refund to
- 20 customers; and
- 21 ○ Training in cost of service and marginal cost software to new employees in
- 22 Regulatory Department.
- 23

24 The second embedded contractor provides diesel plant operations services to the Norman
25 Bay plant at a monthly contract rate of \$4,949 or \$59,392 annually. The contract has been
26 in place since the plant opened. Comparatively, the annual salary cost to hire an employee,
27 including benefits and payroll costs, is approximately \$105,216.