

1 **Q. Page 1-5, lines 11-12: Please provide the calculation or analysis to demonstrate**
2 **Newfoundland Power’s operating labour cost increase at a rate approximately 1.7%**
3 **per year is lower than the labour rate inflation.**
4

5 **A. General**

6 Table 1 shows a comparison of Newfoundland Power’s annual labour cost increase to the
7 Company’s annual labour rate inflation over the 2015 to 2020 forecast period.

Table 1
Annual Labour Cost vs. Labour Rate Inflation
2015 to 2020 Forecast
(%)

	Annual Increase	Excluding CSS Costs¹
Labour Rate Inflation	2.4%	2.4%
Labour Cost Increase	1.7%	1.4%
Difference	0.7%	1.0%

8 ***Labour Rate Inflation***

9 Labour rate inflation represents the Company’s weighted average labour rate increases
10 over the 2015 to 2020 period. Weighted labour rate increases reflect a combination of
11 base wage increases and forecast progression increases in employees’ wages as a result of
12 experience.²

13
14 The weighted labour rate increases were 3.54% in 2016, 3.13% in 2017 and are forecast
15 to be 1.75% in 2018 and 2019, and 2.00% in 2020.³

16
17 The average of these annual increases is approximately 2.4%.⁴

¹ “CSS costs” are forecast labour costs related to the replacement of the Company’s 25-year-old Customer Service System (“CSS”). See *Volume 1, Application, Company Evidence and Exhibits, Section 2.2.2 Balancing Costs and Service*, page 2-10 to 2-12 for additional information regarding the replacement of the Company’s CSS.

² The two agreements the Company has with its union expired on September 30, 2017. The collective bargaining process with the union is ongoing and no tentative agreements have been reached to date. Weighted labour rate increases for 2018 to 2020 forecast reflect the Company’s latest offer to the union.

³ The 2018 and 2019 forecast include a 1.00% base wage increase and a 0.75% forecast progression. The 2020 forecast includes a 1.25% base wage increase and a 0.75% progression.

⁴ $(3.54\% + 3.13\% + 1.75\% + 1.75\% + 2.00\%) / 5 \text{ years} = 2.434\%$, or approximately 2.4%.

1 ***Labour Cost Increase***

2 Newfoundland Power's total operating labour costs are forecast to increase by a total of
3 approximately 8.3% from 2015 to 2020.⁵ This represents an average annual increase of
4 approximately 1.7% through the 5 year period.⁶

5
6 Total labour cost for 2020 includes \$408,000 for the replacement of the Company's
7 Customer Service System which is a once-in-a-generation effort.⁷ Excluding these costs,
8 labour costs are forecast to increase by an average of 1.4% annually through the
9 5 year period.⁸

10
11 ***The Difference***

12 The forecast annual increase of approximately 1.7% per year in total labour costs through
13 the period compares to an annual increase in the Company's weighted average labour rate
14 (or, labour inflation) of approximately 2.4%.

15
16 This implies an improvement in operating efficiency of approximately 0.7% per year.⁹

17
18 Excluding increased labour costs for once-in-a-generation expenditures for the Customer
19 Service System, the forecast annual increase in total labour costs would decrease to 1.4%
20 which implies an improvement in operating efficiency of approximately 1.0% per year.¹⁰

⁵ In 2020, Newfoundland Power's labour costs are forecast to be \$36,772,000. This compares to the Company's 2015 labour costs of \$33,941,000. This is a difference of \$2,831,000, or 8.3%.

⁶ $8.3\% / 5 = 1.66\%$, or approximately 1.7%.

⁷ See *Volume 1, Application, Company Evidence and Exhibits, Section 2.2.2 Balancing Costs and Service*, page 2-10 to 2-12 for additional information regarding the replacement of the Company's Customer Service System.

⁸ In 2020, Newfoundland Power's labour costs are forecast to be \$36,772,000 which includes \$408,000 related to the Company's Customer Service System. Total labour costs excluding these costs are \$36,364,000
 $(\$36,364,000 - \$33,941,000) / 33,941,000 / 5 = 0.014$, or 1.4%.

⁹ $2.4\% - 1.7\% = 0.7\%$

¹⁰ $2.4\% - 1.4\% = 1.0\%$.