**Section 2: Customer Operations/Operating Costs**

**Q. Volume 1, Section 2, page 2-29 and Additional Information, PUB Information Request (ii), Schedule B, Attachment 1, page 1 of 4. Gross Operating Costs are forecast to increase from $68.956 million in the 2023 TY forecast to $79.083 million in the proposed 2025 test year, an increase of 14.7%. Please explain the specific actions Newfoundland Power has taken to keep operating costs to the minimum reasonable level possible, particularly in light of the challenges for costs and reliability arising from the Muskrat Falls Project Newfoundland Power describes in its Application, including on pages 3-30 to 3-34.**

A. ***Operating Cost Management***

The provincial power policy requires Newfoundland Power to operate in a manner that results in power being delivered to customers at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.[1]

Newfoundland Power manages its operating costs in accordance with the provincial power policy. The Company acknowledges pressures on customer rates resulting from the Muskrat Falls Project, and remains focused on providing efficient and reliable service delivery to customers.

Newfoundland Power's operating costs are subject to inflationary pressures. Effective management of both the Company's labour and non-labour costs requires recognition of this essential fact. Since the time of Newfoundland Power's *2023/2023 General Rate Application* filing in mid-2021, inflation has increased at a rate that was not reasonably foreseeable at that time. For example, in mid-June 2021, forecast increases in the GDP Deflator for Canada were 2.32% in 2021 and 1.75% in 2022. Actual increases in the GDP Deflator for Canada were 8.18% in 2021 and 7.21% in 2022.

For this reason, in the Company's view, an assessment of its operating costs over the 2022 to 2026 forecast period is a more appropriate basis to assess its management of operating costs than a comparison to the 2023 test year.

Over the 2022 to 2026 forecast period, gross operating costs are forecast to increase by $11.1 million, or approximately 3.9% per year. This reflects a combination of labour and non-labour costs.

***Labour Costs***

The efficiency of Newfoundland Power's operations can be observed in its forecast labour costs, which are most directly within management's control. Labour costs are forecast to increase by approximately $4.8 million from 2022 to 2026, or 3.1% per year.[2]

[1] See section 3(b)(iii) of the *Electrical Power Control Act, 1994*.

[2] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2.4 Operating and Capital Costs*, page 2-35.

This is approximately 1% less than the Company's labour inflation rate, which indicates a reasonable level of operating efficiency.

Newfoundland Power's general approach to labour cost management focuses on effective deployment of the Company's human resources. As a result of its statutory obligations, the Company has no practical choice but to continue to maintain its electrical system. Where practical management choices exist, they relate to *how* the Company approaches the maintenance of its electrical system and provision of service to its customers.

Implementing, enhancing and leveraging operational technologies enables the Company an opportunity to keep increases in labour costs to a level less than inflation and to maintain overall efficient service delivery to customers. From 2022 to 2026, technology initiatives are forecast to reduce operating labour costs by a total of approximately $480,000.[3] This is approximately 1% of forecast operating labour in 2026.[4]

Specific examples of the use of technology to manage labour costs include:

(i) Newfoundland Power routinely seeks to digitize paper-based forms through its Digital Forms Portfolio. The digitization of paper-based forms and elimination of manual processes provides multiple operational benefits, including reduced data entry requirements, improved data quality and enhanced record keeping. As an example, the Company is proposing to digitize forms related to its vegetation management processes in 2024.

(ii) Newfoundland Power implements software solutions to more efficiently manage work flows, such as those related to its information and business systems. For further information on these efficiencies, see the response to Request for Information PUB-NP-023.

(iii) The Company has expanded its Geographic Information System ("GIS") to provide location-related information for electrical system assets, including street lights. Since 2022, street light outages have been tracked on a map to ensure accurate and precise analysis of required repairs or replacements. This eliminates approximately 1,000 duplicate reports of street light outages received from customers annually, which allows the Company to optimize its field operations.

[3] See the response to Request for Information PUB-NP-036.

[4] $480,000 / $43,882,000 2026 forecast operating labour costs = 0.01, or approximately 1%. See *the 2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2.4 Operating and Capital Costs*, Table 2-9, page 2-35.

(iv) Continued automation of the electrical system enables an efficient restoration of service to customers following outage events, including major events, which serves to minimize labour costs associated with system restoration. [5]

(v) Newfoundland Power leverages its existing operational technologies to maintain the electricity system. For example, its outage management system is able to pinpoint specific sections of feeders where high frequencies of outages occur. This allows technical staff to identify specific areas where reliability performance can be improved through a targeted approach, thereby ensuring issues are addressed and avoiding future required field response.

(vi) The Company has also leveraged its automated meter reading technology to complete out-of-route meter reads. This reduces bill estimations, customer calls handled by Customer Service Representatives, and meter reading labour to collect these readings outside of normal meter reading schedules.

(vii) The Company also leverages its existing operational technologies to improve customer service. For example, through its outage management system, the Company has been able to improve its messaging to customers regarding outages in their service area which reduces the number of calls that would otherwise be handled by Customer Service Representatives. For further information on efficiencies within the customer services function, see the response to Request for Information PUB-NP-027.

(viii) The Company continues to advance its ability to complete work virtually. Examples include the use of digital signature technology to reduce administrative workloads, virtual training sessions, and polices that enable employees to work remotely.[6]

The Company also implements larger technology projects which can lead to greater operational cost savings. As a recent example, in 2021 the Company commenced its six-year *LED Streetlighting Replacement Plan* to replace all high-pressure sodium streetlights in its service territory with LED fixtures. This reduced annual operating labour costs by approximately $1.5 million in 2021, and these savings are expected to continue through 2026. While this initiative does not reduce forecast operating labour costs in 2026 relative to 2022, it reduces forecast 2026 operating labour costs overall.

Attracting and retaining skilled employees is also an important factor enabling the Company's efficient and effective service delivery over the long term. Recent changes in the Company's workforce demographics highlight this importance. For example, at the

[5] For example, the approximate overtime labour cost of a two-person line crew is $200/hour and the approximate cost of a technologist is $100/hour. Reducing the time required to locate an outage at night by two hours would therefore yield labour savings of $600 for a single outage call. During major events, avoided labour costs would accumulate significantly.

[6] Since deploying the digital signature technology in 2020, approximately 4,000 documents have been processed without needing to be printed and distributed to signees.

end of 2023, 31% of permanent employees had less than five years of experience at the Company, compared to 9% at the end of 2020.[7]

Competitive compensation is a key component of Newfoundland Power's ability to maintain a skilled workforce.[8] Labour inflation over the 2022 to 2026 forecast period primarily reflects collectively bargained base wage increases negotiated by the Company and the International Brotherhood of Electrical Workers, Local 1620.[9] Annual increases in Newfoundland Power's labour costs are comparable to the other Atlantic Canadian utilities over the same period.[10] The Company also strives to be an employer of choice, and ensures its workplace continues to evolve to meet employee expectations while upholding the Company's values.

Overall, Newfoundland Power manages changes in its workforce, along with its work requirements, to maintain its electrical system and efficient service delivery to customers. As outlined in this response, the Company has taken a number of actions to maintain efficiency in its operations and labour costs. A reasonable level of labour efficiency is demonstrated from 2022 to 2026 with labour costs increasing by less than the Company's labour inflation rate over that timeframe. Further, Newfoundland Power is forecasting to maintain its workforce at a stable level of full-time equivalent employees over the 2024 to 2026 period.[11]

***Non-Labour Costs***

Non-labour costs are forecast to increase by approximately $6.2 million from 2022 to 2026, or 4.9% per year.[12] Of the increase in non-labour costs, almost 75% is associated with computing equipment and software costs, other company fees and insurance costs, many of which are largely beyond the control of management.[13,14] Details on these costs, along with specific actions that the Company has taken to manage these costs, follow.

*(i) Computing Equipment and Software.* Computing equipment and software costs include annual licensing and support fees for third-party hardware and software solutions, including cybersecurity.[15] Increases in these costs through 2026 are

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7 In the past five years, the Company has hired approximately 200 permanent employees. This represents almost one-third of the Company's full-time equivalent employees.

8 Newfoundland Power's compensation system is designed to be competitive with reference to relevant labour markets, and the Company targets median levels of compensation. See the responses to Requests for Information PUB-NP-029 and PUB-NP-031.

9 See the response to Request for Information PUB-NP-029.

10 See the responses to Requests for Information PUB-NP-029 and PUB-NP-031.

11 See the response to Request for Information PUB-NP-013.

12 See *the 2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2.4 Operating and Capital Costs*, page 2-36, line 12 to line 13.

13 The increase in computing equipment and software, other company fees and insurance for 2026 less 2022 is $4.6 million. See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Exhibit 2,* lines 15, 19 and 26. $4.6 million/$6.2 million = 0.74, or almost 75%.

14 See the response to Request for Information PUB-NP-023 for further details on what specific actions Newfoundland Power is taking to keep these costs as low as reasonably possible.

15 For further detail, see the response to Request for Information PUB-NP-022, part a).

reflective of market increases by software vendors. Newfoundland Power manages these costs through a combination of: (i) competitive tendering; (ii) securing multi-year agreements, where possible, to manage overall costs and cost stability; (iii) engaging license advisory services, as appropriate, to ensure management of these costs are consistent with sound utility practice; (iv) considering ongoing costs associated with new system implementations as part of the Company's capital budget applications;[16] and (v) optimizing internal use of licenses to ensure costs are managed to the minimum reasonable level.[17]

*(ii)* *Other Company Fees.* Changes in other company fees primarily reflect costs associated with upcoming changes in accounting standards, regulatory proceedings, and information technology.[18]

Newfoundland Power currently reports its financial statements in accordance with United States generally accepted accounting principles ("U.S. GAAP"). This is permitted under an exemption from the Ontario Securities Commission ("OSC"), which expires in 2027. At that time, the Company will be required to report its financial statements in accordance with International Financial Reporting Standards ("IFRS").[19] While these implementation costs are temporary, the Company will manage these costs to the minimum reasonable level by engaging consultants with the relevant expertise.[20]

Purchased power expense is Newfoundland Power's largest cost, accounting for approximately two-thirds of its revenue from rates. Hydro is expected to file its next general rate application in 2025, its first since 2017, which will include recovery of costs associated with the Muskrat Falls Project. Reliability concerns associated with the Muskrat Falls Project are under review by the Board. These costs are largely outside the Company's control; however, the Company will intervene in Hydro's regulatory proceedings to attempt to ensure supply reliability for its customers, minimize supply costs, and keep customer rates to the minimum reasonable level.

*(iii)* *Insurance Costs.* Over the past three years, actual annual premium increases have averaged approximately 10%. This is consistent with overall insurance market trends. Newfoundland Power participates in the Fortis Inc. group insurance program, which enables access to broad coverage at the best available rates. The Company's insurance broker, Aon Reed Stenhouse Inc. ("AON"), confirms each year that the Company's rates and coverages are the best available, given current

[16] See the Company's *2022 Capital Budget Application, Report 7.3 Workforce Management System, Appendix A*.
[17] For further detail, see the response to Request for Information PUB-NP-023.
[18] For further detail, see the responses to Requests for Information PUB-NP-018, part f) and PUB-NP-022, part c).
[19] The Company has taken several steps to avoid the requirement to convert to IFRS, including requesting a permanent exemption from the OSC to continue to report in U.S. GAAP and applying to the OSC to cease to be a reporting issuer. Neither application was approved. For further detail on IFRS conversion, see the response to Request for Information PUB-NP-022, part c).
[20] See the response to Request for Information PUB-NP-023 for further details.

market conditions.[21] This ensures that insurance costs are managed in a least cost manner. Newfoundland Power observes that customers continue to benefit from this insurance coverage, including from recent claims related to transformer in-service failures.[22]

*(iv)* *Other Non-Labour Costs*. Excluding non-labour costs already discussed, other increases through 2026 are slightly better than inflation, averaging approximately 1.3% per year.[23] This reflects the Company's continued focus on efficient service delivery over the long term. For specific examples of how the Company minimizes non-labour costs, see the responses to Requests for Information PUB-NP-023 and PUB-NP-027.

Finally, Newfoundland Power provides education and awareness on energy conservation initiatives to help customers manage their energy costs.[24] While these initiatives do not directly result in a decrease in the Company's operating costs, customer education and awareness activities have a direct impact on customers' energy usage. This results in electricity bill savings for customers that do take action, and overall reduced system costs, which benefits all customers.

***Conclusion***

Newfoundland Power has maintained a reasonably consistent level of service reliability for its customers over the last decade. From 2013 to 2022, the Company reduced its operating cost per customer by approximately 9.5% on an inflation-adjusted basis.[25] This cost performance is better than the Company's peers. The operating cost per customer of the Company's U.S. peer group has increased by 15.1% over the same period when adjusted for inflation.[26]

Newfoundland Power also aims to maintain efficiency in serving its customers. The Company's forecast operating labour costs through 2026 result in an estimated 1% productivity as compared to 2022, demonstrating reasonable labour efficiency over this period. While certain non-labour operating costs are increasing at a rate higher than inflation, they are reasonable and form part of the Company's overall delivery of least-cost, reliable service to customers. Newfoundland Power has taken, and will continue to take, appropriate actions to manage its costs to the minimum reasonable level. This is consistent with the requirements of the provincial power policy.

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[21] See Attachment A to the response to Request for Information NLH-NP-021 for AON's confirmation of the appropriateness of the Company's insurance coverage for the 2023-2024 term.

[22] For example, failures associated with the Dunville transformer in 2021 and Bonavista in 2018 were claimed under the Company's insurance policy.

[23] Other non-labour costs (excluding computing equipment and software, other company fees and insurance) are forecast to increase by an average of 1.3% annually from 2022 to 2026. The GDP deflator for the same period averages approximately 1.5% annually.

[24] See the response to Request for Information PUB-NP-027 for further details.

[25] See the *2025/2026 General Rate Application, Volume 1, Application, Company Evidence and Exhibits, Section 2.1 Overview,* page 2-2, lines 6 to 9.

[26] See the response to Request for Information PUB-NP-011.