

1 Q. **Volume 1 (1st Revision), Chapter 3: Operations**

2 Hydro's total operating costs have increased from \$123.9 million in 2016 to \$145.3
3 million in the 2019 test year, or 17%. What is the percentage increase on an
4 inflation-adjusted basis? In the response, please describe the basis of the inflation
5 adjustment. (Volume I (1st Revision), Chapter 3: Operations, Page 3.34, Table 3-17)

6
7

8 A. Table 1 presents Hydro's operating costs on an inflation-adjusted basis using the
9 inflation adjustment is the GDP Implicit Price Deflator series issued by the
10 Conference Board of Canada, Canadian Short Term Forecast, December 15, 2016.

11

12 The base year used as the comparator is critical to the reasonability of the increase
13 as the results can vary. When using 2016 actuals, which includes lower operating
14 costs (please refer to Hydro's response to PUB-NLH-054) the 2019 Test Year shows
15 an 11% increase in costs. If the 2015 Actuals are used, there is a reduction of 9% in
16 2019 Test Year. Similarly, when using the 2015 Test Year as submitted and the 2015
17 Approved Test Year cost levels as the base, there is a decrease of 2% and an
18 increase of 3% respectively.

Table 1 2019 TY (Real \$) vs. Cost Base

Cost Base	% change
2015 Test Year as Submitted	-2%
2015 Approved Test Year	3%
2015 Actual	-9%
2016 Actual	11%