

1 **Q. It was stated at the Technical Conference that generally, labour costs associated**
2 **with projects that provide benefits extending for more than a year are capitalized.**
3 **Please provide examples of labour costs that are expensed because they are**
4 **associated with projects with benefits that extend for less than a year. For Example,**
5 **how are the labour costs associated with tree trimming categorized?**
6

7 **A. General**
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9 The discussion that took place during the technical conference held on November 14,
10 2019 was neither recorded nor transcribed. Unless expressly indicated in the response to
11 this Request for Information, Newfoundland Power is not to be taken to have adopted the
12 wording of any statement attributed to it in the question.
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14 The Company's capital expenditures, which include labour costs, are expenditures in
15 excess of \$1,000 that meet all of the following criteria:
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- 17 1. Provide substantial benefits for a period of more than one year;
- 18 2. Extend the useful life of an asset or increase the capacity of an asset or the quality
19 of output efficiency, and may reduce operating costs; and
- 20 3. Are held for use to conduct business/generate income.
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22 In addition, there are individual expenditure items less than \$1,000 that can be included
23 in a capital project, such as capital inventory items or timesheet entries. These items
24 contribute to the overall cost of the capital asset, and would in aggregate be well in
25 excess of the \$1,000 capitalization limit described above.
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27 **Examples of Operating Labour Costs**

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29 Examples of Newfoundland Power's operating labour costs include:
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- 31 • Salaries and expenses of plant supervisors and operators engaged in operating
32 hydro and internal combustion plants;
- 33 • Salaries and expenses of supervisors and operators engaged in the operation and
34 maintenance of substations; and
- 35 • Salaries and expenses incurred associated with repair and maintenance of
36 distribution services in connection with customer trouble calls.
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38 See Section 7 of the Company's System of Accounts for a listing of all operating expense
39 accounts.¹

¹ The most recent version of the Company's System of Accounts was filed with the Board on March 29, 2019.

Line Vegetation Management

In cases of routine maintenance and operations, Newfoundland Power charges vegetation management expenditures to an operating account.

Vegetation management costs are included in capital expenditure estimates when clearing of vegetation is required to:

- Construct a new line on a new right of way (“ROW”);
- Relocate an existing line to a new ROW;
- Facilitate construction associated with a capital project on an existing line (e.g. when it is necessary to clear a path through brush to allow materials to be brought to the site and installed); or
- Accommodate a standards change. For example, upgrading a line from single phase to three phase would require the ROW to be widened from 5.4 meters to 7.5 meters. Clearing the additional 2.1 meters is a capital expenditure.²

² The accounting treatment of costs associated with tree trimming were identified in the response to Request for Information PUB 15.0 NP as part of Newfoundland Power’s 2006 Capital Budget Application. These guidelines remain consistent with accounting principles generally accepted in the United States (“U.S. GAAP”). Under U.S. GAAP, the initial measurement of property, plant and equipment includes “...the historical cost of acquiring an asset includes the costs necessarily incurred to bring it to the condition and location necessary for its intended use.” See Accounting Standards Codification 360-10-30-1.