

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 35(2025)

IN THE MATTER OF the **Electrical Power Control Act, 1994**, SNL 1994, Chapter E-5.1 (the “**EPCA**”) and the **Public Utilities Act**, RSNL 1990, Chapter P-47 (the “**Act**”), as amended, and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro for the approval of a deferral account to enable deferral and recovery of costs incurred in implementing cloud-based software solutions.

WHEREAS Newfoundland and Labrador Hydro (“Hydro”) is a corporation continued and existing under the **Hydro Corporation Act, 2024**, SNL 2024, Chapter H-18, is a public utility within the meaning of the **Act**, and is also subject to the provisions of the **EPCA**; and

WHEREAS in Order No. P.U. 13(2012), the Board approved Hydro’s adoption of International Financial Reporting Standards (“IFRS”) which Hydro implemented as of January 1, 2014, including IFRS 14 — Regulatory Deferral Accounts, which permits Hydro to continue to recognize regulatory deferral account balances; and

WHEREAS on October 14, 2025, Hydro filed an application requesting approval of the Board to:

- i) create a Cloud Cost Deferral Account, allowing Hydro to defer the implementation costs associated with cloud-based computing arrangements effective January 1, 2025;
- ii) include the deferral account in rate base; and
- iii) amortize the implementation costs included in the deferral account over Hydro’s unit of property depreciation rate for similar software assets; and

WHEREAS the Application states that cloud-based computing arrangements, where the customer contracts to pay a fee for the right to access a supplier’s application through the internet or via a dedicated line, have become more common for securing information systems software and applications; and

WHEREAS the costs of purchasing software and related infrastructure of traditional on-premises applications would be considered long-term assets and capitalized in accordance with International Accounting Standard 38 *Intangible Assets*, however, the Application notes that IFRS does not contain explicit guidance on the accounting treatment for cloud computing arrangements or the costs to implement them; and

WHEREAS the Application states that industry practice typically requires costs pertaining to cloud-based solutions to be expensed as operating costs as incurred, including both upfront implementation costs and annual subscription fees, as the arrangement is viewed as a service contract; and

WHEREAS the Application also states that cloud computing applications are typically used by utilities for several years, but the one-time, upfront implementation costs can be significant and if expensed as incurred, would result in a mismatch between the timing of costs and the benefit to customers, creating intergenerational equity issues; and

WHEREAS the Application proposes the creation of a Cloud Cost Deferral Account to hold one-time upfront implementation costs and other directly attributable costs for cloud-based arrangements that would have been capitalized had the implementation model been a traditional on-premises solution; and

WHEREAS the Application also proposes that the implementation costs be amortized over Hydro's unit of property depreciation rate for similar software assets, representing an estimate of the expected benefit period; and

WHEREAS the Application states that for information systems that will be used by all lines of business, the costs will be recovered in accordance with Hydro's Intercompany Transactions Costing Guidelines, and the cost recovery and applicable return on rate base charged to the non-regulated lines of business will be included in Hydro's revenue requirement as a credit to ensure only the costs of servicing Hydro's regulated business are recovered from customers; and

WHEREAS the Application was copied to: Newfoundland Power Inc. ("Newfoundland Power"); the Consumer Advocate, Mr. Dennis Browne, KC; a group of Island Industrial Customers: Corner Brook Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) GP Inc., and Vale Newfoundland and Labrador Limited; the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City; Teck Resources Limited; and Linde Canada Inc.; and

WHEREAS the Board issued requests for information which Hydro answered on November 6, 2025; and

WHEREAS on November 13, 2025 Newfoundland Power advised that it did not have any comment and no other comments were received by the Board; and

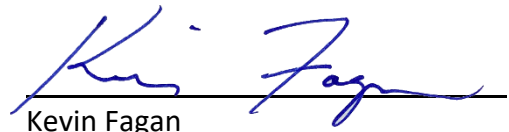
WHEREAS on November 19, 2025 Hydro filed its reply noting that there were no comments from the parties and that the approval of the application will enable Hydro to appropriately recover prudent costs from customers over a period which better represents the transfer of benefits to customers, ensuring intergenerational equity; and

WHEREAS the Board is satisfied that, consistent with intergenerational equity regulatory principles, Hydro should be permitted to defer the implementation costs associated with cloud-based computing arrangements and amortize these costs over Hydro's unit of property depreciation rate for similar software assets.

IT IS THEREFORE ORDERED THAT:

1. The proposed Cloud Cost Deferral Account, as set out in Schedule A, to be effective as of January 1, 2025 is approved.
2. The inclusion of the Cloud Cost Deferral Account in rate base is approved.
3. Newfoundland and Labrador Hydro shall pay the expenses of the Board arising from this application.

DATED at St. John's, Newfoundland and Labrador, this 24th day of November 2025.


Kevin Fagan
Chair and Chief Executive Officer


John O'Brien, FCPA, FCA, CISA
Commissioner


Colleen Jones
Assistant Board Secretary

NEWFOUNDLAND AND LABRADOR HYDRO
Proposed Cloud Cost Deferral Account Definition

This account shall be charged with the costs incurred in implementing cloud-based software solutions. More specifically, the costs that would have been capitalized had the solution been on-premise and the costs were eligible for capitalization under International Financial Reporting Standards. The amount charged to this account will include up-front payments for implementation costs and other directly attributable costs for cloud-based solutions, and capitalized interest as calculated in accordance with Hydro's Capitalization Guidelines.

In-service software solutions will be amortized over a period approved in Hydro's depreciation study for similar software commencing at the in-service date.