

1 Q. Explain how Hydro accounted for non-regulated capital work when determining the number of
2 incremental positions in each of the departments that were analyzed.

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5 A. In terms of Newfoundland and Labrador Hydro's ("Hydro") identification of incremental
6 positions for the purpose of calculating capitalization percentages, an explanation of how Hydro
7 has ensured that non-regulated capital work has been excluded from the number of positions in
8 each department is outlined, by department, below.

9 **Major Projects**

10 To date, the positions in Hydro's Major Projects department have worked exclusively on
11 regulated work. Labour costs associated with this department are captured in a business unit
12 which is tagged as regulated and included in Hydro's calculation of regulated Operating Costs.

13 Should any of the positions in Hydro's Major Projects department regulated business unit work
14 on non-regulated capital work in the future, their time would be charged accordingly to a non-
15 regulated business unit, via timesheet¹ and excluded from Hydro's calculation of Labour costs in
16 the regulated Major Projects business unit and thereby excluded from the calculation of General
17 Expenses Capitalized.

18 **Engineering Services, Regulatory Affairs, Production Operations and Transmission and Rural**
19 **Operations**

20 The positions in these departments work exclusively on regulated work. Labour costs associated
21 with these particular departments are captured in business units that are tagged as regulated
22 and included in Hydro's calculation of regulated Operating Costs.

¹ In accordance with Hydro's Intercompany Transactions Costing Guidelines as reviewed in the 2013 General Rate Application and approved in Board Order No. P.U. 49(2016).

1 The Engineering Services department Hydro included in its application is Hydro's regulated
2 Engineering Services department. Hydro has a separate non-regulated Engineering Services
3 department that manages capital work associated with non-regulated assets. Hydro's regulated
4 and non-regulated Engineering Services departments and associated costs and positions are
5 tracked in separate business units. Non-regulated Engineering Services business units and
6 associated positions and labour costs have been excluded from the proposed capitalization
7 percentages contained in Hydro's application.

8 Hydro's Regulatory Affairs department works on capital applications associated with Hydro's
9 regulated assets, with the Board of Commissioners of Public Utilities ("Board"). The incremental
10 positions noted for Regulatory Affairs are not affiliated with any non-regulated capital work as
11 there would be no requirement for this work to be presented to the Board for approval.

12 Production Operations and Transmission and Rural Operations departments work is related to
13 the operation of Hydro's regulated generation and transmission assets only, the costs of which
14 are captured in separate business units tagged to Hydro's regulated business and used to
15 calculate regulated Operating Costs. These departments and positions are not associated with
16 non-regulated assets or non-regulated capital work. Operations departments costs and positions
17 that are responsible for non-regulated production and transmission assets are captured in
18 separate business units that have been excluded from the calculation of Hydro's capitalization
19 rates in this application.

20 Should any of the positions in these departments be required to work on non-regulated work
21 under extenuating circumstances, their time would be charged accordingly to a non-regulated
22 business unit, via timesheet² and excluded from Hydro's calculation of Labour costs in the
23 related regulated Operations business unit and thereby excluded from the calculation of Hydro's
24 proposed capitalization rates in this application.

² In accordance with Hydro's Intercompany Transactions Costing Guidelines as reviewed in the 2013 General Rate Application and approved in Board Order No. P.U. 49(2016).

Supply Chain

To calculate Hydro's proposed incremental buyers positions, Hydro first collected purchase order data for all purchase orders issued for both the regulated and non-regulated business from 2021 to 2024. Hydro then used this data to calculate an average annual percentage of purchase orders created and issued related to purchases of goods and services for the regulated business. This percentage of regulated purchase orders was then split between capital and operating using the same data from 2021 to 2024 to calculate an average ratio between capital and operating purchases.

The average percentage of capital purchase orders for the regulated business was then applied to the total of all supply chain buyer position hours to estimate the total hours spent on regulated capital purchase orders. The estimated hours were then used to calculate the number of buyers which are incremental to the regulated capital program.

Stores worker positions are those which work in Hydro's regulated warehouses. Hydro's regulated inventory related to its regulated assets is held in separate warehouses and locations from Hydro's inventory related to non-regulated operations. Stores worker positions in warehouses that hold regulated inventory are tracked in separate business units from non-regulated stores workers. Only those positions held in regulated business units were considered in Hydro's calculation of capitalization percentages in this application.

Finance, Human Resources and Information Services

For these departments, Hydro has proposed to capitalize 10% of operating labour costs, consistent with that approved by the Board for Newfoundland Power Inc. Finance, Human Resources, and Information Services costs related to Hydro's regulated business are tracked separately from non-regulated activities in separate business units. Costs for these shared services are allocated between regulated and non-regulated in accordance with Hydro's Intercompany Transactions Costing Guidelines. The 10% capitalization ratio proposed in Hydro's application will be applied to the Finance, Human Resources, and Information Services labour costs captured in Hydro's regulated business units.