Q. **Reference: Volume 2, Exhibit 2, Attachment 2 (KPMG Report), page 13**

KPMG states "*KPMG's review is limited to the assessment of Hydro's cost allocation methodologies. KPMG was not engaged to assess the reasonableness of the shared/common services costs being allocated. Therefore, the principle of 'prudency' has not been considered in our evaluation.*"

a) Identify the last GRA in which Hydro's shared/common services costs were reviewed by the Board for the prudency of the underlying costs.

b) Explain how Hydro expects the Board to reach a conclusion on the prudency of the underlying shared/common services costs being allocated in this proceeding, without a prudency review of the underlying shared/common service costs.

A. **a)** KPMG LLP's ("KPMG") statement reflects the scope of its engagement. KPMG was retained to assess the reasonableness of Newfoundland and Labrador Hydro's ("Hydro") methodologies for allocating shared/common service costs among its regulated and non-regulated operations. KPMG did not assess the prudency of the individual costs that are being allocated through those methodologies. For example, KPMG assessed whether a safety and health administration fee is allocated using a reasonable methodology, but did not review whether the underlying expenditures for labour, safety supplies or other related costs were prudently incurred.

The last general rate application ("GRA") in which Hydro's shared/common service costs were reviewed and approved by the Board of Commissioners of Public Utilities ("Board") for prudency was Hydro's 2017 GRA. In that proceeding, the Board reviewed Hydro's revenue requirement, including the underlying costs that formed part of Hydro's shared/common service charges.

b) Hydro does not expect the Board to rely on KPMG's report to assess the prudency of the underlying shared/common service costs. Rather, the Board's prudency review will occur through its review of Hydro's proposed 2027 Test Year revenue requirement in this proceeding.