Q. **Reference: Volume 2, Exhibit 2, Attachment 2 (KPMG Report), pages 20 and 21**

KPMG indicates (pages 20 and 21) that the proposed change to exclude Admin BU components in the Hydro updated cost allocation framework results in a $0.6 million higher cost allocation to Hydro's regulated operations as compared to the prior inclusion of such costs. KPMG states (page 21) "T*he shift in allocations can generally be explained by the fact that more of the Admin Fee BUs 'Home" assignments are on the non-regulated side of the business.*" Explain if KPMG's view is that the shift of an additional $0.6 million of shared/common cost allocations to Hydro's regulated operations as a result of a proposed change to exclude Admin BUs components is justified based on the principle of cost-causation or if this shift is simply a result of a simplification in the proposed Hydro intercompany cost allocation framework.

A. *The following response was provided by KPMG LLP. ("KPMG").*

KPMG's view is that the approximately $0.6 million shift is not the result of the separate decision to simplify the allocation process by moving from a partial two-step approach to a one-step approach. It arises principally from excluding Admin Business Units ("BU") components from the relevant allocator bases.

Under Newfoundland and Labrador Hydro's ("Hydro") framework, Admin BUs are intermediate shared-service cost pools rather than the final regulated or non-regulated allocation destinations. Including Admin BU full-time equivalents, users or other components in the allocator bases can result in a portion of an Admin Fee being allocated to other Admin BUs or back to itself. It can also make the regulated/non-regulated allocation partly dependent on whether an Admin BU has been assigned a regulated or non-regulated "Home."

Excluding those components removes that administrative-location effect and applies the relevant cost-driver proxy to the regulated and non-regulated lines of business that are the final allocation destinations. KPMG therefore considered the change to improve objectivity and to be better aligned with cost-causality principles at the methodological level. The approximately $0.6 million impact is the calculated result of applying the revised allocator bases; the direction or amount of the shift was not itself the rationale for the change.

The separate transition from a partial two-step process to a one-step process was primarily intended to simplify the calculation and improve traceability. KPMG's sensitivity using the 2025 budget indicated that the difference between the one-step and two-step results was negligible.

KPMG's review assessed the allocation methodology and did not assess the prudence or reasonableness of the underlying shared-service cost amounts. Accordingly, KPMG did not conclude that each incremental dollar of the approximately $0.6 million was directly caused by regulated operations; rather, the amount reflects application of the revised allocator bases.