Q. **Reference: Volume 2, Exhibit 2, Attachment 2 (KPMG Report), pages 25, 31 and 37**

KPMG indicates (pages 25, 31 and 37) that the allocation of (1) Information Systems, (2) Network Services, and (3) Business System Transformation - is allocated based on various forms of average users and results in approximately 57% to 58% of these shared costs being allocated to Hydro's regulated operations and 42% to 43% being allocated to non-regulated operations for the 2026 Forecast. The KPMG descriptions of these three cost pools indicate a diverse mix of costs that relate to information systems for individual IT users and overall enterprise systems/application development.

a) Explain if Hydro considered the use of a hybrid allocator to allocate the three information technology shared costs pools, considering that cost causation related to enterprise systems and application development should appropriately reflect the size, scope, scale and complexity of affiliate operations.

b) Explain if the use a hybrid allocator for these three information technology shared costs pools would simplify the Hydro intercompany cost allocation framework by eliminating the need for calculation of a number of metrics related to average users.

c) Provide an estimate of the impact to Hydro's regulated operations net shared cost allocation of allocating the three information technology shared costs pools for the 2027 Test Year using the proposed hybrid allocator (and not the proposed average user allocators).

A. Newfoundland and Labrador Hydro ("Hydro") did not consider the use of a hybrid allocator for the Information Systems, Network Services, and Business Systems cost pools. Hydro uses average users as the allocator for these cost pools, as the number of users supported is considered a reasonable proxy for the consumption of services and the associated costs incurred. This allocation approach was reviewed as part of the Board of Commissioners of Public Utilities' review of Hydro's Intercompany Transactions Costing Guidelines within the 2013 General Rate Application ("GRA") and was determined to be reasonable. As there have been no material changes to the nature of these services or the underlying cost pools, Hydro continues to consider average users to be an appropriate allocator and did not undertake an evaluation of a hybrid allocator for these functions.

In the Intercompany Transactions Costing Guidelines Review report, KPMG LLP stated that "*[w]here an activity and its costs support multiple entities, costs should be allocated based on associated cost drivers. In other words, cost allocations should reflect cost causality.*" They described cost causality as "*where costs cannot be directly assigned, or it is impractical to do so, the allocator used to allocate costs is reflective of the drivers of the cost of the service and/or the goods provided.*"[1] The report outlined that comparator utilities generally use hybrid allocators where a single allocator is not considered reflective of the underlying cost drivers.

In summary, the use of average users allocator for these Information Technology ("IT")-related cost pools was previously reviewed in the 2013 Amended GRA and determined to be reasonable, and Hydro continues to consider the average users allocator reflective of the underlying cost drivers and an appropriate measure of service consumption for these functions. While application of a hybrid allocator for IT-related costs may simplify the cost allocation framework, Hydro does not believe it appropriately reflects cost causality and would not provide an appropriate measure of service consumption for these cost pools.

[1] "Intercompany Transactions Costing Guidelines Review," KPMG LLP, March 26, 2026, p. 13, provided in "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. II, exh. 2.