Q. **Reference: Volume 2, Exhibit 2, Attachment 2 (KPMG Report), pages 29, 30, 32 and 33**

KPMG indicates (pages 29, 30, 32 and 33) that based on the review of intercompany cost allocation practices of a Canadian utility comparator group – several of Hydro's proposed cost allocators are not common or not consistent for a number of the shared /common service cost pools (Hydro Place office space and related costs, procurement, accounts payable and general ledger). Explain if Hydro is concerned that a number of its proposed intercompany cost allocators are either not common or not consistent with the cost allocation practices of a Canadian utility comparator group based on the research conducted by KPMG.

A. As discussed in Newfoundland and Labrador Hydro's ("Hydro") response to CA-NLH-217 of this proceeding, in the Intercompany Transactions Costing Guidelines Review report, KPMG LLP ("KPMG") 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]

Hydro's objective in developing its Intercompany Transactions Costing Guidelines was to select allocators that appropriately reflect the underlying cost drivers and service consumption for the activities being allocated. While KPMG observed that certain allocators proposed by Hydro were not commonly used by, or were not consistent with, some members of the comparator group, Hydro does not view consistency with comparator utility practices as the primary consideration. Rather, Hydro considers whether an allocator appropriately reflects cost causality for the specific service being provided.

[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.

Hydro believes the allocators within its Intercompany Transactions Costing Guidelines appropriately reflect cost causality and provide a reasonable measure of service consumption for each function utilizing an administration fee.