

1 Q. **Reference: Response to CA-NLH-214, part b**

2 Further to CA-NLH-214(b), please identify comparable utilities with regulated and non-regulated
3 operations that use revenue as a component of a three-factor shared-cost allocator. Explain
4 whether and how their treatment of intercompany revenues, non-market contract prices and
5 other revenue distortions addresses Hydro's concerns, and why comparable adjustments would
6 or would not be appropriate for Hydro.

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9 A. Newfoundland and Labrador Hydro ("Hydro") is aware that certain utilities and diversified
10 energy companies use revenue as one component of a multi-factor allocator. As explained in
11 KPMG LLP's ("KPMG") response to part b) of CA-NLH-214 of this proceeding, Hydro's concern is
12 not whether revenue can be adjusted to address particular distortions, but whether revenue is
13 appropriate to use based on Hydro's circumstances.

14 In KPMG's response to part a) of CA-NLH-214, they stated:

15 KPMG does not consider there to be one prescribed or universally applicable
16 Massachusetts Formula, fixed set of factors or weighting that constitutes the
17 North American regulated utility industry standard. Common factors include
18 assets, labour or activity, and revenue or another measure of operational scale.
19 The specific factors, their definitions and their weightings vary depending on the
20 nature of the costs being allocated, the utility's corporate and operating
21 structure, available data, and the applicable regulatory context. A regulator may
22 direct a particular formula in a specific proceeding based on the evidence and
23 circumstances before it. That does not make the same fixed formula universally
24 applicable to all utilities or cost pools.

25 Hydro's hybrid allocator was also found to be reasonable by the Board of Commissioners of
26 Public Utilities expert, Doane Grant Thornton LLP ("Grant Thornton"). In their report, filed as
27 Information Item #5 of this proceeding, Grant Thornton stated:

28 In our opinion, the Hybrid Allocator is a reasonable methodology for allocating
29 the costs of functions that support the organization as a whole and that cannot
30 practically be assigned directly to individual lines of business, and its application

1 to the Executive, Corporate Secretary, Communications (Culture), and Safety,
2 Health and Environment functions is reasonable. A blended, scale-based
3 measure is appropriate for costs of this nature; the selection of gross PP&E and
4 O&M costs is supportable and reflects a considered assessment of alternatives.
5 **Further, the equal weighting of the two factors does not operate to the**
6 **disadvantage of ratepayers. [emphasis added].**

7 Consistent with the views expressed by KPMG and Grant Thornton, Hydro does not consider
8 there to be a single prescribed allocation formula that is universally applicable across utilities.
9 The appropriateness of allocation factors depends on the nature of the costs being allocated,
10 the utility's operating structure, and the circumstances of the organization. Accordingly, the fact
11 that another utility may make adjustments to revenue for intercompany transactions, non-
12 market pricing arrangements, or other factors would not, in itself, demonstrate that similar
13 adjustments would be appropriate for Hydro or that revenue would be a more representative
14 allocator for Hydro's shared costs. Hydro continues to consider its hybrid allocator, including the
15 factors and weightings used within it, to be reasonable and appropriate in Hydro's
16 circumstances.