

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

2 Further to the response to CA-NLH-214, part d, please provide an illustrative calculation of the
3 impact to shared service costs allocations to Hydro regulated operations for the 2027 Test Year
4 of using a three-factor hybrid allocator (1/3 weight to revenues, 1/3 weight to gross PPE and 1/3
5 weight to O&M costs) – using gross revenue as a measure of revenue.

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8 A. Further to Newfoundland and Labrador Hydro's ("Hydro") response to part d) of CA-NLH-214 of
9 this proceeding, Hydro does not consider it appropriate to prepare the requested illustrative
10 calculation using gross revenue. As explained in Hydro's response to parts b) and d) of
11 CA-NLH-214, Hydro has identified concerns with the use of revenue as an allocation factor and
12 has not identified an appropriate revenue measure for inclusion in the hybrid allocator.

13 As outlined in KPMG LLP's report within Exhibit 2 of Hydro's 2026 General Rate Application,
14 Hydro identified the following concerns with the revenue component of the Massachusetts
15 Formula which may distort the resulting allocation percentages:

- 16 • Electricity rates associated with the Churchill Falls contract are lower than prevailing
17 market rates.
- 18 • Complex intercompany transactions introduce challenges in appropriately isolating
19 revenue sources by line of business. Examples noted include:
 - 20 o A portion of Nalcor Energy Marketing revenue is sold on behalf of Muskrat Falls and
21 Regulated Hydro, and the revenue shows up on Nalcor Energy Marketing's
22 financials.
 - 23 o The majority of Lower Churchill Falls revenues are from intercompany transactions.¹

¹ "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. II, exh. 2, att. 2, sec. 5.3.2, p. 22.

1 Given Hydro's concerns, it would not be appropriate to include gross revenue as a measure in
2 the calculation of the allocator as it would incorporate the distortions that caused Hydro to
3 conclude that revenue is not an appropriate measure to use.

4 As stated in Hydro's response to CA-NLH-345 of this proceeding, Hydro's hybrid allocator was
5 found to be reasonable by the Board of Commissioners of Public Utilities' expert, Doane Grant
6 Thornton, who stated that ". . . **the equal weighting of the two factors does not operate to the**
7 **disadvantage of ratepayers.**" [emphasis added]