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April 1, 2026

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Mike McNiven
Board Secretary

Re: Recovery of Costs Associated with Information Systems Assets

Please find enclosed Newfoundland and Labrador Hydro's application for an Order relating to the treatment and approval of the costs associated with various Information Systems assets.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/mc

ecc:

Board of Commissioners of Public Utilities
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Ryan Oake
Board General

Island Industrial Customer Group
Paul L. Coxworthy, Stewart McKelvey
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Senwung F. Luk, Olthuis Kleer Townshend LLP
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Newfoundland Power Inc.
Dominic J. Foley
Douglas W. Wright
Regulatory Email

Recovery of Costs Associated with Information Systems Assets

March 31, 2026

An application to the Board of Commissioners of Public Utilities

IN THE MATTER OF the *Electrical Power Control Act, 1994*, SNL 1994, Chapter E-5.1 ("*EPCA*") and the *Public Utilities Act*, RSNL 1990, Chapter P-47 ("*Act*"), and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro ("Hydro") for an Order relating to the treatment and approval of the costs associated with various Information Systems ("IS") assets, pursuant to the *Act.*

To: The Board of Commissioners of Public Utilities ("Board")

THE APPLICATION OF HYDRO STATES THAT:

A. Background

1. Hydro, a corporation continued and existing under the *Hydro Corporation Act, 2024*, is a public utility within the meaning of the *Act*, and is subject to the provisions of the *EPCA*.

2. On December 4, 2024, Bill 33, an Act Respecting the Amalgamation of Newfoundland and Labrador Hydro-Electric Corporation and Nalcor Energy ("Nalcor"), received Royal Assent. The legislation is cited as the *Hydro Corporations Act, 2024*, and formalizes the legal requirements of the amalgamation of Hydro and Nalcor.

3. As a result of the proclamation of the *Hydro Corporations Act, 2024*,[1] as of January 1, 2025, Nalcor and Hydro's assets vest in Hydro, and Hydro is charged with all obligations and liabilities formerly held by Hydro and Nalcor. All Nalcor subsidiaries are Hydro subsidiaries.

4. Prior to amalgamation, IS assets were owned and administered by Nalcor, with costs recovered from Hydro and other entities through administration fees. The Board had the opportunity to review and approve the administration fees paid by Hydro to Nalcor through Hydro's General Rate Applications ("GRA"), and those fees were recovered by Hydro through customer rates.

[1] Government of Newfoundland and Labrador, *Order in Council 2024-210,* December 13, 2024, https://www.exec-oic.gov.nl.ca/public/oic/details?order-id=22472.

5. Following amalgamation, these are Hydro's assets, and Hydro's expenditures related to those assets are subject to the *Act* and Board oversight. The IS assets continue to be utilized by Hydro and its subsidiaries for regulated and non-regulated activities, and the allocation of costs continues to be governed by the Intercompany Transaction Costing Guidelines ("Intercompany Guidelines").

6. IS assets consist of technical infrastructure; while not directly utilized for the operation of the province's electrical power grid, the hardware and software that comprise this collection of assets provide functionality and services that are beneficial to ratepayers. The assets enable employees to perform a wide array of work to support various activities such as health and safety, finance, human resources, customer service, communications, administration, and other such functions.

7. Most of the IS assets that became Hydro's upon amalgamation were recorded at their Net Book Value ("NBV"). However, some IS assets were work-in-progress, meaning the capital project was ongoing upon amalgamation. These capital projects were in various stages of procurement; for some projects, procurement was complete, and for others, contracts had not yet been awarded.

8. As of the date of amalgamation, Hydro recorded all existing IS assets, including those projects that were ongoing and included in work-in-progress, in Hydro's non-regulated business segment with the intention of a future application to the Board to transfer the applicable assets into the regulated business segment.

9. As of January 1, 2025, there were four IS projects that were ongoing and had been approved and initiated by Nalcor, for which procurement commitments had been made. As a result of amalgamation, Hydro is bound by the contractual agreements made by Nalcor and proceeded with the execution of capital work related to these projects.

10. One of the projects, the Email Migration Project, is a cloud-based project for which the Board approved the inclusion of the operation costs in Hydro's approved Cloud Cost Deferral Account effective January 1, 2025. This approval was granted in Board Order No. P.U. 1(2026). The three remaining projects are described in Section 3.0 and Appendices A, B, and C of Schedule 1 to this application and are:

    (i) Accounts Payable ("AP") Automation;

(ii) Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026); and

(iii) Renew Microsoft Enterprise Agreement (2025–2028).

11. The IS assets proposed for transfer that were in-service as of the date of amalgamation are further described in Section 1.2.3 and are generally related to:

(i) Hydro's Enterprise Resource Planning ("ERP") System, JD Edwards EnterpriseOne ("JDE E1");

(ii) Cognos TM1 ("TM1"); and

(iii) Information Management ("IM") software.

12. These assets comprise the Business System Transformation ("BST") Program, which Hydro has participated in since its inception as a shared services offering by Nalcor in 2015. The purposes and history of this program are more particularly described in Section 1.5 to Schedule 1 to this application.

13. In Board Order No. P.U. 23(2019), the Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems and agreed that the BST Program could be fully reviewed and tested through the cost recovery methodology proposed by Hydro. The Board disallowed cost recovery at that time but invited Hydro to file a further application setting out additional evidence justifying the recovery of the costs in the context of least-cost service. The Board approved the continued deferral of BST costs.

14. In 2022, the Board approved Hydro's application for the recovery of actual and forecast deferred costs up to the end of 2022 associated with the ERP like-for-like implementation and the IM Program, through customer rates to be established in Hydro's next GRA.[2]

15. In that Order, the Board ordered that Hydro continue to defer the remaining $6.5 million forecast at the time to be deferred through to the end of 2028. The Board cited the ongoing uncertainties with respect to the timing of the filing of Hydro's next GRA and the test years that

[2] Board Order No. P.U. 27(2022).

would be utilized, as well as the potential impact of organizational changes on the shared services model and the cost allocation methodology.

16. As of January 1, 2025, the BST Program assets are Hydro's assets as of the date of amalgamation. Hydro is proposing to include these assets at their NBV in its regulated business segment and in the regulated rate base as of December 31, 2026. Hydro is further proposing to recover the costs relating to the like-for-like ERP replacement and IM implementation that have been allocated to the regulated business segment and included in the BST Program Deferral Account since the end of 2022. Hydro provides further information on these deferred costs and its proposals associated with the like-for-like replacement of its ERP in Section 5.1 of Schedule 1, and the IM Program in Section 5.3 of Schedule 1 to this application.

17. In 2024, Hydro discontinued the BST Program and determined that any future in-scope projects would be approved as stand-alone projects pending a review of business priorities and project justification.[3] With the conclusion of the BST Program, Hydro believes it is also timely to proceed with the recovery of the remaining BST Program deferred costs for assets that are currently in service that were excluded from the 2022 BST Application,[4] including JDE E1 additional functionalities and TM1. Further information on these deferred costs and proposals is provided in Section 5.1 and Section 5.2 of Schedule 1 to this application.

18. As discussed in Schedule 1 to this application, Hydro's IS assets continue to be administered through a shared services model. The shared services model allows Hydro's non-regulated and regulated business segments to coordinate procurement and utilization of assets across operations. Given the nature of Hydro's business and the corporate services it shares across entities, maintaining separate IS systems is not feasible or economical.

19. Costs associated with IS assets and related activities are recovered through one of two administration fees as per the Intercompany Guidelines. The two fees are the IS Administration

[3] Remaining in-scope projects at that time included projects such as AP Automation and the replacement of Clarity, Hydro's budgeting and forecasting software.

[4] "Business Systems Transformation Program Application," Newfoundland and Labrador Hydro, May 25, 2022 ("2022 BST Application").

Fee and the BST Administration Fee, as discussed in Section 1.4 and Attachment 1 to Schedule 1.[5]

B. Application

20. Hydro's proposal, as detailed in Schedule 1 to this application, is to transfer the NBV of those assets that were in service as of January 1, 2025 to Hydro's regulated business segment effective December 31, 2026, with inclusion of the assets in Hydro's rate base as they are used and useful in the provision of Hydro's regulated services. The rate base will be proposed for approval in Hydro's next Capital Budget Application ("CBA"), as is the established regulatory process for approval of rate base.

    Hydro's proposal for those projects that were not in service as of amalgamation is to transfer the assets and their related costs to the regulated business segment, effective December 31, 2026. Hydro will include the assets in Hydro's rate base upon the in-service date of each of the assets, with the rate base then proposed for approval within the applicable CBA in accordance with past regulatory practice.

21. Costs associated with IS assets, including those above, will continue to be allocated in accordance with the Intercompany Guidelines. As shown throughout Schedule 1 to this application, Hydro's regulated business segment will be responsible for approximately 57% of the total cost, with the other non-regulated lines of business responsible for the remainder.

22. Hydro also proposes the approval and recovery of the remaining BST Program deferred costs for assets that are currently in service that were excluded from the 2022 BST Application, including JDE E1 additional functionalities and TM1. Further information on these deferred costs and proposals related to the JDE E1 additional functionalities are provided in Section 5.1 and Section 5.2 of Schedule 1 to this application.

[5] The Intercompany Guidelines were updated in 2026 and reviewed by KPMG LLP who determined them to be reasonable. There were no material changes to the IS or BST Administration Fees in the updated Intercompany Guidelines. For further information, please refer to "Review of Newfoundland and Labrador Hydro's Intercompany Transaction Costing Guidelines," Newfoundland and Labrador Hydro, March 30, 2026, att. 2.

C. Newfoundland and Labrador Hydro's Request

23. Hydro hereby requests that the Board make an Order approving:

a) The inclusion in Hydro's regulated business segment of the in-service IS assets described in Schedule 1 to the application at the NBV of the assets as of December 31, 2026, more particularly:

(i) JDE E1 with a forecast NBV as at December 31, 2026 of $3.9 million;

(ii) TM1 with a forecast NBV as at December 31, 2026 of $0.7 million; and

(iii) IM with a forecast NBV as at December 31, 2026 of $0.4 million.

b) The inclusion of these in-service IS assets in Hydro's rate base, with approval of the relevant rate base to be proposed in the applicable CBA;

c) The inclusion in Hydro's regulated business segment of the estimated capital costs as of December 31, 2026, for those IS assets not in-service as of amalgamation, described in Section 3.0 of Schedule 1, and Appendices A, B, and C to the application, more particularly:

(i) AP Automation with a total estimated cost of $1.4 million;

(ii) Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026) with a total estimated cost of $1.1 million; and

(iii) Renew Microsoft Enterprise Licenses (2025–2028) with a total estimated cost of $1.3 million.

d) The inclusion of those IS assets not in-service prior to amalgamation in Hydro's rate base as each asset is in-service, with approval of the relevant rate base to be proposed in the applicable CBA;

e) Recovery of the actual and forecast costs in the BST Program Deferral Account of $7.8 million associated with JDE E1, TM1 Release 1.1 and 1.2, and IM implementation as at December 31, 2026, through customer rates to be established in Hydro's next GRA;

f) The discontinuance of transfers to the BST Program Deferral Account effective December 31, 2026; and

g) The application of the BST Fee methodology for the allocation of costs associated with TM1 and JDE E1 additional functionalities.

D. Communications

24. Communications with respect to this application should be forwarded to Shirley A. Walsh, Senior Legal Counsel, Regulatory for Hydro.

DATED at St. John's in the province of Newfoundland and Labrador on this 31st day of March 2026.

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Counsel for the Applicant
Newfoundland and Labrador Hydro
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St. John's, NL A1B 4K7
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Schedule 1

Application to Transfer Existing Information Systems Assets

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1.0 Background

1.1 Amalgamation

In June 2021, the Government of Newfoundland and Labrador made an announcement that Nalcor Energy's ("Nalcor") operations would be moved under Newfoundland and Labrador Hydro ("Hydro").[1] At that time, the changes were operational in nature, and the companies began to operate as an integrated organization ("Organization").[2] The Nalcor legal entity structure and all its subsidiaries remained unchanged until January 1, 2025, when the *Hydro Corporation Act, 2024,* resulted in the finalization of the legal amalgamation of Nalcor and Hydro.

As a result of the amalgamation, Nalcor and Hydro's assets, liabilities, obligations and agreements continue under the amalgamated Hydro, and all Nalcor subsidiaries are now Hydro subsidiaries. These subsidiaries continue to operate as they did prior to amalgamation.

Hydro, as a Public Utility subject to the *Public Utilities Act* ("*Act*") and the oversight of the Board of Commissioners of Public Utilities ("Board"), must obtain prior approval of expenditures related to the construction, purchase or lease of improvements or additions to its property, as well as inclusion of the value of the property and assets in Hydro's rate base.

Any assets that were previously that of Nalcor are now assets of Hydro. While Hydro is subject to the *Act*, the majority of the assets previously held by Nalcor and related activities, including future sustaining capital expenditures, continue to be exempt from the *Act* as a result of Orders made by the Lieutenant-Governor in Council.[3] One exception to this is assets and related activities associated with Information Systems ("IS"). Any future capital expenditures related to Hydro's IS assets are now subject to review and approval by the Board. To inform the Board of how amalgamation legislation impacts the regulatory process and regulated business segment, Hydro submitted the report on amalgamation activities ("Amalgamation Report").[4]

Prior to amalgamation, IS assets and expenses were recorded in the non-regulated line of business – housed under then parent company Nalcor with an administration fee being charged to the regulated

[1] Government of Newfoundland and Labrador, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro," June 23, 2021, https://www.gov.nl.ca/releases/2021/exec/0623n04.
[2] For clarity, within this evidence the use of Nalcor is in reference to the Nalcor legal entity.
[3] Please refer to Orders in Council OC2024–217.
[4] "Report on Amalgamation Activities," Newfoundland and Labrador Hydro, rev. April 17, 2025 (originally filed April 15, 2025).

business segment Hydro and other non-regulated entities to recover their portion of the costs. Costs charged to the regulated business segment through the administration fees were recorded as operating costs in the year they were charged and were recovered through customer rates. Historically, the Board has had the opportunity to review and approve the administration fees charged by Nalcor to Hydro through its General Rate Applications ("GRA").

1.2 Information Systems Assets

IS assets consist of technical infrastructure used by the Organization that is not directly utilized for the operation of the province's electrical power grid. The assets which comprise this category include both physical and non-physical assets that enable employees to perform a wide array of work to support various activities. This infrastructure is used for the purposes of health and safety, finance, human resources, customer service, communications, administration, and other such functions. The hardware and software which comprise this collection of assets provide functionality and services that are beneficial to ratepayers.

IS is a common service department, the allocation of costs of which have been and will continue to be governed by the Intercompany Transactions Costing Guidelines ("Intercompany Guidelines"), provided as Attachment 1. Regulated customers will continue to pay for only those costs related to providing IS services to the regulated business segment.

IS assets were in various stages of completion and in service as of the date of amalgamation. Some IS assets were work-in-progress, meaning the capital project was ongoing upon amalgamation. These capital projects were in various stages of procurement; for some projects, procurement was complete, and for others, contracts had not yet been awarded. A large portion of IS assets were in-service upon amalgamation and, as part of amalgamation, the ownership of these assets at their Net Book Value ("NBV") was transferred from Nalcor to Hydro. Upon amalgamation, Hydro recorded all existing IS assets, including those projects which were ongoing and included in work-in-progress, in its non-regulated business segment, with the anticipation that an application would be made to the Board to transfer appropriate assets into the regulated business segment at a later date.[5]

[5] Hydro has determined that smaller miscellaneous hardware and software assets such as peripherals, laptops and licenses would remain in non-regulated Hydro. These IS assets will be replaced at the end of service life by regulated IS assets approved through the applicable capital programs within Hydro's annual CBA.

1.2.1 Projects Without Procurement Commitments as of Amalgamation

Subsequent to amalgamation, any ongoing IS capital projects greater than $750,000 for which no procurement commitments had been made are required to be put forward to the Board for review and approval. Hydro submitted a supplemental capital application in 2025 for two IS projects, which was approved in Board Order No. P.U. 11(2025). In its 2026 CBA, Hydro included its proposed planned IS projects for 2026. As a result, all costs associated with these projects will now be recorded in the regulated business segment. Once these projects are in-service, Hydro will include the assets in its rate base, and propose the recovery of that rate base as part of its CBA process, consistent with past regulatory practice. Any future capital spend for proposed IS capital projects will be included as part of Hydro's CBA's, consistent with the 2026 CBA, and, if approved, recorded in the regulated business segment and, subsequently, in rate base. Therefore, this application does not include any proposals associated with new capital projects or projects without procurement commitments as of amalgamation as those such proposals have been or will be part of a separate regulatory process, such as Hydro's future CBA's.

1.2.2 Projects with Procurement Commitments as of Amalgamation

As at January 1, 2025, the date of amalgamation, there were four IS projects that were ongoing, for which procurement commitments had been made, approved and initiated by Nalcor.[6] As a result of amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025 and proceeded with the execution of capital work related to these projects accordingly. Hydro noted in its Amalgamation Report that it would provide the Board with the scope of this work and the justification of each of the four projects with external procurement commitments, in the form of capital proposals for these projects, as part of a future application which would propose the transfer of these assets to Hydro's regulated business segment.

One of the projects that was ongoing relates to Hydro's Email Migration Project to replace Hydro's Lotus Notes email platform which was at the end of its useful life. The Email Migration Project, which began in 2024, is a cloud-based project intended to migrate from the Lotus Notes email platform to the Microsoft email platform to address issues with the Lotus Notes platform. In Board Order No. P.U. 35(2025), the Board approved the creation of a Cloud Cost Deferral Account effective

[6] These projects were described in Section 3.1.3 of the Amalgamation Report.

January 1, 2025, allowing Hydro to defer operating costs incurred in the implementation of cloud-based software solutions;[7] specifically, the costs that would have been capitalized had the solution been on-premises. Given the Email Migration Project is a cloud-based solution, Hydro filed an application in December 2025 with the Board to transfer costs incurred in 2025 associated with the project to the Cloud Cost Deferral Account. The application included a project description which described the project's purpose and justification of associated expenditures. The application was approved in Board Order No. P.U. 1(2026).

The information and associated proposal for the three remaining projects, which were not in-service upon amalgamation, have been provided within the evidence for this application in Section 3.0 and Appendices A, B and C. Upon in-service, Hydro will include these assets in rate base and propose approval of the rate base through the applicable CBA process, consistent with past regulatory practice.

1.2.3 In-service IS Assets as of Amalgamation

IS assets which were in service as of the date of amalgamation, can be grouped into three asset categories:

- Capital expenditures relating to Hydro's Enterprise Resource Planning ("ERP") System, JD Edwards EnterpriseOne ("JDE E1");
- Capital expenditures related to the implementation of Cognos TM1 ("TM1"); and
- Capital expenditures relating to Information Management ("IM") software.

For those assets which were in-service as of January 1, 2025, Hydro noted in its Amalgamation Report that it would file a future application to the Board for approval to transfer these assets from the non-regulated business segment to the regulated business segment with corresponding inclusion in Hydro's regulated rate base as these assets are used and useful in the provision of Hydro's regulated services. Hydro is proposing to transfer these assets at their NBV to the regulated business segment effective December 31, 2026. Hydro also indicated that the application would include the mechanism for cost recovery from other lines of business, which would be in accordance with the Intercompany Guidelines. This information and evidence for the associated proposals have been included within the evidence for

[7] Implementation costs associated with IS solutions which are cloud-based generally do not qualify as capital assets under International Financial Reporting Standards and therefore are required to be recorded as operating costs in the period in which they are incurred.

this application, with information on IS cost allocation and recovery included in Section 1.4; evidence to support the transfer of the assets at their NBV is included in Section 4.0.

1.3 IS as a Shared Service Model

Hydro's IS assets have been and will continue to be administered through a shared services model. The shared services model allows Hydro's non-regulated and regulated business segments to coordinate procurement and utilization of assets across operations. Given the nature of Hydro's business and the corporate services it shares across entities, maintaining separate IS systems is not feasible or economical. The resulting duplication of services would be inefficient, costly, and counterproductive to Hydro's mandate to provide the least-cost, reliable service. The Liberty Consulting Group cited reintegration of Hydro's operations as promoting the efficiency required to provide reliable service at optimum cost for customers.[8]

From a practical perspective, given that many of Hydro's IS needs are the same or similar across its entities, continuing with a shared services approach enables Hydro to avail of economies of scale and reduce costs for its customers by incurring only a portion of the overall cost of the establishment and implementation of the IS assets and system upgrades.

For example, if Hydro and the Lower Churchill Companies[9] each had to acquire and implement their own Accounts Payable ("AP") system, the duplication of effort would result in higher costs to Hydro's customers than participation in a shared services approach. If Hydro had pursued a standalone AP system for its regulated operations, customers would have paid for the whole of that cost, in addition to the full cost of a separate AP system for the Lower Churchill Companies.[10] Instead, Hydro has one system that is shared between all entities, resulting in less cost to customers, not only as a result of the sharing of the system between Hydro and the Lower Churchill Companies, but also due to the fact that a portion of system costs is allocated to other non-regulated entities such as Churchill Falls (Labrador)

[8] "Final Report on Phase Two of Muskrat Falls Project – Potential Rate Mitigation Opportunities," The Liberty Consulting Group, September 3, 2019, p. 6.
[9] Lower Churchill Companies operate the Muskrat Falls Assets, including the Muskrat Falls Hydroelectric Generating Facility, the Labrador-Island Link, and the Labrador Transmission Assets.
[10] In accordance with Order in Council OC2013–343, Hydro is required to pay all costs related to the Lower Churchill Project. Therefore the costs of the BST Program allocated to affiliates for recovery through the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement will be included in the charges paid by Hydro's Island Interconnected customers.

Corporation Limited. In Board Order No. P.U. 27(2022),[11] the Board stated it was "of the view that the shared-services approach is preferable to a stand-alone model, considering the sharing of information required in the context of the corporate structure of Nalcor and Hydro."

1.4 IS Cost Allocation and Recovery

Costs associated with IS assets and related activities are recovered through administration fees per the Intercompany Guidelines. The costs are recovered from the entities via one of two administration fees:

- **IS Administration Fee ("IS Admin Fee")**: based on an allocation of average users – defined as the average of the number of full-time equivalent ("FTE") and contractors, email inboxes, number of computers and JDE E1 Users.
- **BST Administration Fee ("BST Admin Fee")**: is a modification of the average user based on the relevant components of the BST Program (i.e., the average of (a) number of FTEs and (b) JDE E1 Users).

The Intercompany Guidelines outline the costing framework used to charge costs among the lines of business. Both the IS Admin Fee and the BST Admin Fee are categorized as a Common Service Cost that are charged through an administration fee.

During Hydro's 2013 GRA, the allocation methods for common services were reviewed by the Board's Expert, Mr. Brad Rolph from Grant Thornton, and Nalcor's expert, Deloitte who all found the methods reasonable.[12] Further, in Board Order No. P.U. 27(2022), the Board accepted the model Hydro employed, stating it was "satisfied that the shared-services approach for the Enterprise Resource Planning and the Information Management Program through the Business Systems Transformation Program led by Nalcor is reasonable and consistent with the provision of least-cost service."
The Intercompany Guidelines were updated in 2026 and reviewed by KPMG LLP ("KPMG"), a third-party expert, who determined them to be reasonable.[13] The updates to Hydro's Intercompany Guidelines were not substantial, and there were no material changes to the IS or BST Admin Fees. KPMG evaluated the allocation methodology based on regulatory precedence from the Board, the Alberta Utilities

[11] Issued in relation to "Business Systems Transformation Program Application," Newfoundland and Labrador Hydro, May 25, 2022.
[12] Board Order No. P.U. 49(2016), pp. 37–38/45–1.
[13] For further information, please refer to "Review of Newfoundland and Labrador Hydro's Intercompany Transaction Costing Guidelines," Newfoundland and Labrador Hydro, March 30, 2026, att. 2.

Commission, the Ontario Energy Board and other jurisdictions across Canada. In its review, KPMG found that the methodology used by Hydro was a reasonable mechanism to allocate shared costs between regulated and non-regulated lines of business, and that allocators are based on clear and quantifiable measures.

As outlined in Hydro's Amalgamation Report, there was no change to this approach as a result of amalgamation, just a change in the flow or direction of the administration fee. For example, prior to amalgamation, Hydro received the BST Admin fee from Nalcor. Post-amalgamation, Hydro is charging the BST Admin fee to recover costs from other business segments.

The proposals in this application for the transfer of assets between the non-regulated business segment to the regulated will have the same effect - no material change to the approach, just a change in the flow or direction of the fee. Costs incurred to service the non-regulated business segments, including capital, operating and return on rate base, will be recovered from the non-regulated business segments.

1.5 Business Systems Transformation Program

Hydro began its participation in the corporate BST Program in 2015 as part of a shared services offering led by Nalcor. The purpose of the BST Program was to address technical and functional concerns with the organization's existing systems.

The BST Program sought to meet the evolving information systems needs of the business and included three key components:

- Migration of ERP system from JDE World to JDE E1;
- Implementation of the planning, budgeting and forecasting solution TM1; and
- The establishment and implementation of an IM Program.

Initially, Hydro proposed inclusion of annual costs associated with all three components of the BST Program as part of Hydro's 2017 GRA, but as part of the Settlement Agreement associated with that GRA, these costs were removed from the revenue requirements for the 2018 and 2019 Test Years

pending a further application.[14] In accordance with the Settlement Agreement, costs and expenses related to the BST Program were set aside in a deferral account.

Hydro filed the 2018 Justification Report with the Board on June 22, 2018 to provide additional information on the BST Program and the associated costs and benefits. The 2018 Justification Report provided evidence in relation to the inadequacies of Hydro's existing business and IM systems, as well as the benefits associated with its participation in the BST Program. It also outlined the methodology for allocation of BST Program costs to Hydro through an Intercompany Administration Fee and the cost recovery methodology proposed by Hydro.

In Board Order No. P.U. 23(2019), the Board made the following determinations:

- The Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems;[15]
- The Board accepted that overall system integration may be appropriate;[16]
- The Board agreed that the BST Program could be fully reviewed and tested through the cost recovery methodology proposed by Hydro;[17]
- The Board disallowed cost recovery at that time but invited Hydro to file a further application setting out additional evidence justifying the recovery of the costs in the context of least-cost service;[18] and
- The Board approved continued deferral of BST costs.[19]

In accordance with Board Order No. P.U. 23(2019), in 2022, Hydro applied for recovery of costs relating to the like-for-like implementation of its ERP system JDE E1, along with IM program implementation being conducted through the BST Program.[20] The 2022 BST Application forecasted a total allocation of $13.2 million to Hydro's regulated business segment through 2028. Of the $13.2 million proposed for recovery, $12.7 million was related to JDE E1 like-for-like implementation, and the remaining $0.5

[14] "Settlement Agreement," April 11, 2018, p. 3, para. 11.
[15] Board Order No. P.U. 23(2019), pp. 5–6/44–2.
[16] Board Order No. P.U. 23(2019), p. 6/28–29.
[17] Board Order No. P.U. 23(2019), p. 5/37–38.
[18] Board Order No. P.U. 23(2019), p. 7/4–7.
[19] Board Order No. P.U. 23(2019), p. 7/7–9.
[20] "Business Systems Transformation Program Application," Newfoundland and Labrador Hydro, May 25, 2022 ("2022 BST Application").

million was related to IM Program implementation. In the 2022 BST Application, Hydro indicated that expenditures related to TM1 and JDE E1 functionality enhancements were excluded, to be addressed in a separate future application to the Board.

The total costs incurred by Nalcor for the implementation of the JDE E1 like-for-like and IM Program were allocated to the individual lines of business using the cost methodology provided in Schedule 2. Of the $13.2 million[21] in allocated costs included in the 2022 BST Application for recovery, $6.7 million was the total actual and forecast deferral amount as of the end of 2022, with the remaining $6.5 million relating to the forecast amount of costs to be deferred through to the end of 2028. In Board Order No. P.U. 27(2022), the Board approved recovery of the $6.7 million in costs deferred up to the end of 2022, to be recovered in customer rates established in Hydro's next GRA. Hydro will propose an amortization period and include the associated amortization of this portion of the deferral in its revenue requirement in its upcoming GRA.

For the remaining $6.5 million in costs, the Board ordered that Hydro continue to defer those costs, stating

> Given the ongoing uncertainties with respect to the timing of the filing of Hydro's next GRA and the test years which will be reflected in this application and considering the potential impact of organizational changes on the shared services model and the cost allocation methodology, the Board believes that the recovery of the forecast costs beyond 2022 should be addressed as part of Hydro's next GRA proceeding.[22]

Post-amalgamation, these in-service assets are now Hydro's and Hydro is proposing within this application to transfer these assets to its regulated business segment and include these assets in its regulated rate base for recovery as of December 31, 2026. As such, and to allow for regulatory efficiency with its upcoming GRA, Hydro believes it is prudent to also consider in this application the recovery of costs relating to like-for-like ERP replacement and IM implementation that have been allocated to the regulated business segment and included in the BST Program Deferral Account since the end of 2022.

[21] Hydro's current forecast total costs associated with JDE E1 like-for-like and IM for recovery is $13.7 million, which is not materially different from its forecast allocation in the 2022 BST Application.
[22] Board Order No. P.U. 27(2022), pp. 8–9/35–2.

Hydro provides further information on these deferred costs and its proposals associated with the like-for-like replacement of its ERP in Section 5.1 and the IM Program in Section 5.3.

Since the 2022 BST Program Application, Hydro has re-evaluated the implementation chronology of IS projects and, in 2024, Hydro discontinued the BST Program and determined that any future in-scope projects would be approved as stand-alone projects pending a review of business priorities and project justification.[23] With the conclusion of the BST Program, Hydro believes it is also timely to propose the approval and recovery of the remaining BST Program deferred costs for assets that are currently in-service that were excluded from the 2022 BST Application, including JDE E1 additional functionalities and TM1, within this application. Hydro includes further information on these deferred costs and proposals related to the JDE E1 additional functionalities in Section 5.1 and TM1 in Section 5.2.

2.0 Application and Justification

As Hydro outlined in its Amalgamation Report, Hydro believes that IS assets that were either placed in-service or had begun their work scopes/had completed the procurement process prior to amalgamation are used and useful in the service of Hydro's regulated activities and should be included in Hydro's regulated business segment for inclusion in the rate base.

Future sustaining capital associated with these assets and related infrastructure will require Board approval and will be recorded in the regulated business segment, and therefore Hydro is proposing to transfer the appropriate existing IS assets so that the original asset and its sustaining capital is recorded in the same business segment. The omission of these assets from Hydro's regulated business presents issues in achieving fulsome and consistent application of regulatory processes; without the transfer, Hydro would be proposing future capital projects for sustaining capital on assets for which the costs and justification had not been reviewed and approved by the Board.

The impacts of the transfer of the NBV of these assets to Hydro's regulated business unit will be mitigated by the continuation of the previously approved methodology, wherein any IS asset that is utilized by both regulated and non-regulated segments of the business will be subject to cost allocation amongst those lines of business in accordance with the Intercompany Guidelines. As noted previously, the proposals in this application for the transfer of assets result in no material change to the

[23] Remaining in-scope projects at that time included projects such as AP Automation and replacement of Clarity, Hydro's budgeting and forecasting software.

Intercompany Guidelines admin fee approach, just a change in the flow or direction of the fee. Costs incurred to service the non-regulated business segment will be recovered from the non-regulated business segment.

One notable change with the transfer of the assets and the inclusion in the rate base will be the earning of a return on rate base on the assets. Currently, there is no return charged from the non-regulated to the regulated business segment on the recovery of the costs of these assets.[24] However, Hydro notes that future IS capital projects, including sustaining capital associated with these assets, will be recorded in the regulated business segment and, pending approval by the Board, will be included in rate base and attract a return. The existing and future assets represent prudent expenditures that are suitable for recovery and an associated rate of return. Hydro also notes that any return on rate base earned on the portion of the asset value which is ultimately being used to service the non-regulated business segments will be charged to and recovered from those non-regulated business segments. Said another way, customers will only pay for the portion of costs which related to servicing the regulated business, including the proportionate return on rate base.

The like-for-like ERP replacement and IM Program that were included in the BST Program have been previously examined by the Board, and in Board Order No. P.U. 27(2022), the Board accepted that the shared-services approach for the ERP and the IM Program through the BST Program led by Nalcor was reasonable and consistent with the provision of the least-cost service.

Transfer of the assets is also supported by the principle that a utility should be allowed the recovery of costs for its regulated operations when those costs are prudent and used and useful in providing the service. The assets in question represent infrastructure that is beneficial to customers in that they support the work necessary to meet Hydro's mandate of delivering power to consumers in the province at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

Hydro is proposing the transfer of the expenditures relating to existing IS assets from the non-regulated business segment to the regulated business segment, effective December 31, 2026, at their NBV. The existing IS assets are comprised of the following categories of assets:

- Assets not in-service prior to the effective date of amalgamation on January 1, 2025; and

[24] The incremental return recovered from customers resulting from approval of this application (i.e., the proposed inclusion of IS assets in rate base) is approximately $136,000 in the first year. This return is specific to the regulated business segment only.

- Assets that were in-service prior to the effective date of amalgamation, January 1, 2025, and were formerly assets of Nalcor.

Hydro is proposing the inclusion in the rate base, those assets which were in service as of January 1, 2025, the date of amalgamation. For those assets which were not in service on amalgamation, Hydro is proposing to include them in the rate base upon their in-service date. The approval of the rate base will be requested in the applicable annual CBA, consistent with regulatory practice.

Hydro is also proposing the recovery of the portion of the BST Program Deferral Account that has not yet been approved for recovery by the Board. The BST Program Deferral Account relates to costs associated with existing IS assets that were in service prior to January 1, 2025, and is included in the second category above.

3.0 IS Projects Not In-Service Prior to Amalgamation

As a result of amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025. As such, approval from the Board was not sought for the planned IS projects over the legislated threshold of $750,000 that were past the procurement phase. In the Amalgamation Report, Hydro committed to providing further information to the Board on these assets and their associated expenditures to help understand their effect on costs and rates.

For three IS projects that were ongoing upon amalgamation, Hydro has provided project descriptions that align with the provisional Capital Budget Application Guidelines[25] and describe the purpose and justification of these capital projects and associated expenditures; these are included as Appendix A, Appendix B and Appendix C to this schedule.

Table 1 outlines the total estimated capital cost of these three projects and programs.

[25] "Capital Budget Application Guidelines (Provisional)," Board of Commissioners of Public Utilities, January 2022.

Table 1: IS Projects Not In-Service prior to Amalgamation ($ Millions)

Project or Program	Total Estimated Cost[26]
AP Automation	1.4
Perform Software Upgrades and Minor Enhancements – Information Technology (2024-2026)	1.1
Renew Microsoft Enterprise Agreement (2025-2028)	1.3
Total	**3.8**

AP Automation includes the implementation of a modern AP system that is necessary to mitigate risks associated with security and controls, maintain favorable credit and business relationships, and avoid losses from incorrect payments and interest charges. A full project description is provided in Appendix A. The Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026) Program includes upgrades and minor enhancements related to Hydro's IS software systems and applications, which largely consist of tools and programs for the corporate functions of the organization. A full program description is provided in Appendix B. The Renew Microsoft Enterprise Agreement (2025-2028) project is a three-year project which involves the purchase of Microsoft Enterprise Licenses which are required to utilize office tools, software and services, as well as security technology. A full project description is provided in Appendix C.

As these assets are put into service, they will support Hydro in fulfilling its mandate to provide safe, reliable, least-cost service, in an environmentally responsible manner. As such, Hydro believes transferring the assets and their related costs to the regulated business segment is reasonable and prudent and is therefore proposing the transfer of costs associated with the assets incurred effective December 31, 2026.

Hydro believes these assets should be added to its regulated rate base upon their in-service date, with the rate base proposed for approval within the applicable CBA, in accordance with past regulatory practice.

Costs associated with IS assets, including those above, will continue to be allocated using Hydro's Intercompany Guidelines under the IS Admin Fee based on the number of users. Hydro's regulated

[26] Forecast total costs at project completion.

business segment will be responsible for approximately 57% of the total cost, with the other non-regulated lines of business responsible for the remainder.

4.0 In-Service IS Assets

For the purpose of this application, in-service IS assets encompass assets placed into service as part of the BST Program and related sustaining capital expenditures, such as routine upgrades and fixes, prior to amalgamation, January 1, 2025.

Hydro's in-service IS assets are best separated into three asset categories – JDE E1, TM1 and IM. These assets are considered to have remaining useful life and an associated forecast NBV as at December 31, 2026 is shown in Table 2.

Table 2: Net Book Value of Existing In-Service IS Assets ($ Million)

Asset Category	Forecast NBV as at December 31, 2026
JDE E1	3.9
TM1	0.7
IM	0.4
Total	**5.0**

Hydro is proposing the transfer of existing IS asset expenditures from the non-regulated business segment to the regulated business segment effective December 31, 2026 at their NBV. A complete listing of the assets in each of the above asset categories is provided in Attachment 2. For those assets which were in-service as of the date of amalgamation, Hydro is also proposing their inclusion in rate base. In addition, Hydro is proposing the recovery of the portion of the BST Program Deferral Account which relates to these existing IS assets that has not yet been approved for recovery by the Board as discussed in Section 5.0.

Costs associated with IS assets will continue to be allocated using Hydro's Intercompany Guidelines under the BST and IS Admin Fees.

4.1 JDE E1

4.1.1 Purpose

An ERP solution provides pre-built integrations and integrity processes, access to information from a single source, enhanced process controls, and a reduction of integration issues caused through use of multiple systems. JDE E1, Hydro's ERP system, provides increased functionality in the areas of project

management, supply chain management, capital asset management, customer service, human resources, and finance. To meet business requirements, a high level of integration is required between all components of an ERP system. This approach supports the existing organizational structure and its shared services model.

4.1.2 Scope

Hydro implemented JDE E1 in 2018. Its legacy ERP system was a critical repository of information, including maintenance, vendor, payroll and customer service data, and had reached the end of its service life. Failure of these systems or inability to access components would have been disruptive to the business and could put Hydro's ability to provide reliable service to customers at risk. The upgrade of its existing business systems was required for Hydro to meet its mandate of least-cost reliable service in the future, and in Board Order No P.U. 23(2019), the Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems.[27] Newfoundland Power Inc. ("Newfoundland Power") acknowledged that, in light of the stated deficiencies and shortcomings of Hydro's existing business systems, the status quo was not a reasonable alternative.[28]

Hydro's ERP assets and related expenditures include the JDE E1 "like-for-like" implementation and the Utiligy360 Customer Information System[29] that were approved in Board Order No. P.U. 27(2022), as well as additional JDE E1 functionalities and sustaining capital expenditures.

The scope of the JDE E1 additional functionalities for the supply chain, human resource management, customer service and capital asset management modules, were placed in service from 2016 through 2022; however, were not included within Hydro's 2022 BST Application. These additional functionalities include the following projects: Employee Self-Service, Online Requisition System, Crew Scheduler and the Utiligy360 Automated Work Order functionality. Hydro provides further details on the justification of the JDE E1 additional functionalities in Appendix D to this schedule.

All assets included in the sustaining capital component of JDE E1 have a gross capital cost of less than $750,000. Sustaining capital costs consist primarily of updates and minor enhancements to the existing JDE E1 software, which allow Hydro to ensure the system remains current, secure, and aligned with the

[27] Board Order No. P.U. 23(2019), pp. 5–6/44–2.
[28] Board Order No. P.U. 23(2019), p. 5/42–44.
[29] Utiligy360 is utilized by Hydro's regulated business segment only, and 100% of the associated costs are allocated to regulated business.

vendor's latest standards. These upgrades bring both tools and application code to the most recent supported release and ensure continued vendor support, enhanced cybersecurity protection, and compatibility with infrastructure and other Information Technology systems. Upgrades not only mitigate cybersecurity risks and reduce the potential of service disruptions but also enable Hydro to take advantage of new functionality, performance improvements, and user experience enhancements.

There are 17 existing IS assets and related expenditures, including upgrades, fixes, enhancements and other projects that are related to the JDE E1 and Utiligy360 software. The NBV of IS Asset List, provided as Attachment 2 to this schedule, provides further details on the assets included within this scope of software.

4.1.3 Cost

Hydro is proposing to transfer the JDE E1 assets to the regulated business segment for inclusion in the rate base effective December 31, 2026 at the remaining forecast NBV of $3.9 million. The total cost of implementation of JDE E1 additional functionalities, including capital, operating and program management costs is provided in Appendix D.

A breakdown of the JDE E1 asset category is shown in Table 3 including gross capital cost, proposed transfer value, being the forecast NBV as of December 31, 2026, and an estimate of the portion of the remaining NBV which will be allocated to the regulated business segment through the BST and IS Admin Fees.

Table 3: Summary of Capital Cost and NBV – JDE E1 Asset Category ($ Millions)

	Forecast Total Gross Capital Costs as of December 31, 2026	Forecast NBV as of December 31, 2026	Regulated Hydro's Estimated Share of Remaining NBV[30] (%)
JDE E1 Like-for-Like (BST Program)	15.5	2.1	57
Utiligy360 (BST Program)	2.7	0.4	100
JDE E1 Additional Functionalities (BST Program)[31]	1.7	0.7	57
Sustaining Capital	1.4	0.7	57
Total	**21.3**	**3.9**	

[30] Includes an estimate of remaining capital costs to be allocated to the regulated business segment under the BST and IS Admin Fees, as applicable. Excludes costs that will be allocated to the Lower Churchill entities and ultimately recovered from the regulated business segment through payments for power purchases. Also excludes the impact of return on rate base.
[31] Hydro is assigned 100% of the $0.5 million associated with the Customer Service module enhancements.

Of the total $21.3 million gross capital costs incurred associated with the JDE E1 asset category, $17.4 million has been depreciated and already allocated to Hydro's business segments via the BST and IS Admin Fees in accordance with Hydro's Intercompany Guidelines. A portion related to the regulated business segment has been deferred as discussed in Section 5.1.

The remaining $3.9 million will be depreciated over the assets' remaining useful life, and costs will be allocated to the other business segments by Hydro in accordance with the Intercompany Guidelines. Cost recovery from each entity will also include the recovery of the rate of return on the portion of the asset value which has been allocated to each business segment.

4.2 TM1

4.2.1 Purpose

Hydro utilizes depreciation software to perform its capital budgeting work in support of its annual capital program and supplemental capital applications.

4.2.2 Scope

For the purpose of this application, TM1 represents Release 1.1 and 1.2, which are in-service and used and useful to Hydro's regulated service. It excludes any expenditures associated with Release 1.3. The Organization's legacy budgeting tools prevented the integration of capital and operating budgeting and forecasting processes, and the lack of interconnectivity created an elevated risk related to capital expenditure planning and decision-making. Ultimately, it was determined that a more robust system was required. As part of the former BST Program, the need for a single and fully integrated solution to support capital, operating and labour budgeting was identified. The solution chosen was Cognos TM1, which would effectively replace Hydro's legacy capital and operating budget tools.

Hydro implemented Releases 1.1 and 1.2 of TM1 software in 2018, as a replacement for its legacy depreciation system, Capital Asset Projection Module ("CAPM"), which had reached the end of its service life. A failure of the legacy systems or inability to access components would have been disruptive to the business and its customers. As noted previously, the Board had agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems,[32] and Newfoundland Power had acknowledged that the status quo was not a reasonable alternative.[33] Hydro provides further

[32] Board Order No. P.U. 23(2019), pp. 5–6/44–2.
[33] Board Order No. P.U. 23(2019), p. 5/42–44.

information, including history of the assets and justification for the implementation of TM1, and the in-service TM1 assets, in Appendix E to this schedule.

For TM1, sustaining capital was also incurred; however, all assets included in the sustaining capital balance had a gross capital cost of less than $750,000. Sustaining capital costs consist primarily of updates and minor enhancements to the existing TM1 software, which allow Hydro to ensure the system remains current, secure, and aligned with the vendor's latest standards. These upgrades bring both tools and application code to the most recent supported release and ensure continued vendor support, enhanced cybersecurity protection, and compatibility with infrastructure and other IT systems. Upgrades not only mitigate cybersecurity risks and reduce the potential of service disruptions but also enable Hydro to take advantage of new functionality, performance improvements, and user experience enhancements.

There are ten existing IS assets and related expenditures, including upgrades, fixes, enhancements and other projects that are related to TM1 Releases 1.1 and 1.2. The IS Asset List document, provided as Attachment 2 to this schedule, provides further details on the assets included within this scope of software.

4.2.3 Cost

Hydro is proposing to transfer TM1 Releases 1.1 and 1.2 and related expenditures (i.e., the portion of TM1 assets that are currently in-service) to the regulated business segment effective, December 31, 2026, for inclusion in the rate base at the remaining forecast NBV of $0.7 million. The total cost of implementation of TM1 Release 1.1 and 1.2, including capital, operating and program management costs, is provided in Appendix E.

A breakdown of the TM1 asset category is shown in Table 4 including gross capital cost, proposed transfer value being the forecast NBV as of December 31, 2026 and an estimate of the portion of the remaining NBV which will be allocated to the regulated business segment through the admin fees.

Table 4: Summary of Asset Cost and NBV – TM1 Asset Category ($ Millions)

	Forecast Total Gross Capital Costs as of December 31, 2026	Forecast NBV as of December 31, 2026	Regulated Hydro's Estimated Share of Remaining NBV[34] (%)
TM1 Release 1.1 and 1.2 (BST Program)	3.4	0.6	57
Sustaining Capital	0.2	0.1	57
Total	**3.6**	**0.7**	

Of the total $3.6 million in gross capital costs incurred for TM1 Release 1.1 and 1.2, including sustaining capital, $2.9 million has been depreciated and already allocated to Hydro's business segments via the BST and IS Admin Fees in accordance with Hydro's Intercompany Guidelines. A portion related to the regulated business segment has been deferred as discussed in Section 5.2.

The remaining $0.7 million will be depreciated over the assets remaining useful life, and costs will be allocated accordingly in accordance with the Intercompany Guidelines. Cost recovery from each entity will also include the recovery of the rate of return on the portion of the asset value which has been allocated to each business segment.

4.3 IM

4.3.1 Purpose

As a Crown corporation, Hydro is subject to the *Management of Information Act* and is legislatively required to develop, implement, and maintain a record management system for the creation, classification, retention, storage, maintenance, retrieval, preservation, protection, disposal, and transfer of information. In addition, Hydro is also subject to the *Access to Information and Privacy Act*, which governs the dispersal of information to the public and helps ensure protected information remains confidential. This requires Hydro to have an information management system which provides for consistent information management practices, procedures, expertise, and a strategic approach to managing and protecting its information to ensure legislative compliance. Therefore, IM assets are necessary for meeting regulatory requirements and maintaining the privacy of multiple stakeholders.

[34] Includes an estimate of remaining costs to be allocated to the regulated business segment under the BST and IS Admin Fees, as applicable. Excludes costs that will be allocated to the Lower Churchill entities and ultimately recovered from the regulated business segment through payments for power purchases. Also excludes the impact of return on rate base.

4.3.2 Scope

Hydro primarily utilizes the Content Manager software for the execution of IM functions of the organization. The software was implemented in 2018 as part of the former BST program and enables Hydro to adhere to its legislative requirements with regard to the management of its information throughout the information lifecycle, from creation to disposal. In Board Order No P.U. 23(2019), the Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing IM systems.[35] Hydro's IM upgrade and related expenditures were approved in Board Order No. P.U. 27(2022).

For IM, sustaining capital was also incurred, however, all assets included in the sustaining capital balance had a gross capital cost of less than $750,000. Sustaining capital costs consist primarily of updates and minor enhancements to the existing IM Content Manager software, which allow Hydro to ensure the system remains current, secure, and aligned with the vendor's latest standards. These sustaining capital projects are essential to maintain system stability, data integrity, and compliance with privacy and information security standards. Without these upgrades, Hydro would be unable to receive critical patches and vendor assistance, increasing operational and cybersecurity risks. These upgrades align with Hydro's commitment to risk mitigation, information governance, and modernization of digital infrastructure, ensuring efficient and secure document management.

There are 17 existing IS asset expenditures, including upgrades, fixes, and other projects which are in-service related to IM. The IS Asset List, provided as Attachment 2 to this schedule, provides further details on the assets included within this scope of software.

4.3.3 Cost

Hydro is proposing to transfer the IM assets to the regulated business segment effective January 1, 2027, for inclusion in the rate base at the forecast remaining NBV as at December 31, 2026, of $0.4 million.

A breakdown of the IM asset category is shown in Table 5 including gross capital cost, proposed transfer value being the forecast NBV as of December 31, 2026 and an estimate of the portion of the remaining NBV which will be allocated to the regulated business segment through the admin fees.

[35] Board Order No. P.U. 23(2019), pp. 5–6/44–2.

Table 5: Summary of Asset Cost and NBV – IM Asset Category ($ Millions)

	Forecast Total Gross Costs as of December 31, 2026	Forecast NBV as of December 31, 2026	Regulated Hydro's Estimated Share of Remaining NBV[36] (%)
Information Management (BST Program)	0.2	0.1	57
Sustaining Capital	0.6	0.3	57
Total	**0.8**	**0.4**	

Of the total $0.8 million in gross capital costs incurred, $0.4 million has been depreciated and already allocated to Hydro's business segments via the BST and IS Admin Fees in accordance with Hydro's Intercompany Guidelines. A portion related to the regulated business segment has been deferred as discussed in Section 5.3.

The remaining $0.4 million will be depreciated over the assets remaining useful life, and costs will be allocated accordingly in accordance with the Intercompany Guidelines. Cost recovery from each entity will also include the recovery of the rate of return on the portion of the asset value which has been allocated to each business segment.

5.0 BST Program Deferral Account Balance

Hydro is forecasting a total of $14.5 million of costs in its BST Program Deferral Account associated with JDE E1, TM1 Release 1.1 and 1.2, and IM implementation as at December 31, 2026, $6.7 million of which has been previously approved by the Board for recovery and $7.8 million of which were allocated to Hydro's regulated business segment and are not yet approved for recovery by the Board. A breakdown of the deferral is included in Table 6.

[36] Includes an estimate of costs to be allocated to the regulated business segment under the BST and IS Admin Fees, as applicable. Excludes costs that will be allocated to the Lower Churchill entities associated with the assets and ultimately recovered from the regulated business segment through payments for power purchases. Also excludes the impact of return on rate base.

Table 6: Breakdown of Forecast BST Deferral Account ($ Millions)[37]

Asset Category	Actual Deferred Costs Approved for Recovery	Actual and Forecast Deferred Costs to December 31, 2026 Proposed for Recovery[38]	Total Forecast BST Deferred Costs
JDE E1	6.3	5.8	12.1
TM1	-	2.0	2.0
IM	0.4	0.1	0.4
Total	**6.7**	**7.8**	**14.5**

Hydro is seeking approval for the recovery of the total actual and forecast costs, which were not included in Board Order No. P.U. 27(2022), equal to $7.8 million, with the disposition of the balance to be determined through its next GRA. Upon transfer of the assets at December 31, 2026, as proposed, costs associated with the BST Program, such as depreciation, will be recorded in the regulated business segment and therefore, deferral of costs to the BST Program Deferral Account will cease, and billings by the regulated segment to unregulated segments will commence.

5.1 JDE E1

In 2022, the Board approved the recovery of $6.3 million of the balance, which was deferred as of December 31, 2022, related to JDE E1 and Utiligy360 technologies in Board Order No. P.U. 27(2022), based on the shared services approach and the cost allocation methodology being found reasonable, and the Board's previous finding in 2019 that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems. The Board also indicated "the recovery of the forecast costs beyond 2022 should be addressed as part of Hydro's next GRA proceeding," and approved Hydro's continued deferral of costs.

Hydro is forecasting total deferral of approximately $12.1 million in JDE E1 program-related costs to the BST Program Deferral Account to the end of 2026.[39] $6.3 million of this was previously approved for

[37] Numbers may not add due to rounding.
[38] Proposed for recovery in this application, the disposition of which will be part of Hydro's upcoming GRA.
[39] Including JDE E1 additional functionalities, which were not included in the 2022 BST Application.

recovery by the Board in Board Order No. P.U. 27(2022); Hydro is proposing the remaining $5.8 million for recovery in this application.

As shown in Table 7, Hydro is seeking approval to recover the actual and forecast expenditures deferred through 2026 which have not yet been approved by the Board of $5.8 million with the disposition of the balance to be determined through its next GRA.

Table 7: JDE E1 Summary of Deferral Account Balance ($ Millions)

Cost Category	Actual Deferred Costs Approved for Recovery	Actual and Forecast Deferred Costs to December 31, 2026 Proposed for Recovery	Total Forecast BST Deferred Costs – JDE E1
JDE E1 Like-for-Like	6.3	5.1	11.4
Additional Functionalities	-	0.7	0.7
Total JDE E1	**6.3**	**5.8**	**12.1**

In its 2022 BST Program Application, Hydro forecasted that its allocation of the JDE E1 program costs would be 52.6%, and through December 31, 2025, the actual allocation to Hydro's regulated business segment represents approximately 54%.[40] Over the life of the asset, Hydro's regulated business segment share is forecast to be 54%. Therefore, there has been no material change to the regulated business segment's cost allocation percentage since the Board's approval of the 2022 BST Program Application.

In line with the previous Board approval of recovery of deferred costs associated with JDE E1 incurred to the end of 2022, and to promote regulatory efficiency for the GRA, Hydro believes the additional forecasted deferred costs related to the JDE E1 asset category that have accrued in the BST Program Deferral Account, which were not included in Board Order No. P.U. 27(2022) and those forecast to be deferred to December 31, 2026, should also be approved for recovery, in advance of the GRA.

5.2 TM1

Approximately $1.8 million in BST costs that have been deferred in the BST Program Deferral Account relate to TM1.[41] Hydro had delayed applying for approval for recovery of the costs relating to TM1 in the

[40] Excluding $2.3 million related to Utiligy360 and Customer Service module enhancements that are 100% paid by Hydro's regulated business segment.
[41] All TM1 costs which have been deferred in the BST Program Deferral Account relate to TM1 assets which are in-service, Release 1.1 and 1.2. There have been no costs associated with Release 1.3 charged to Hydro's regulated business segment.

2022 BST application; however, at this time, Hydro believes that approval for recovery of the total deferred amount to date, as well as future forecast deferrals of approximately $0.2 million is prudent and consistent with previous Board practice.

As shown in Table 8, Hydro is seeking approval to recover the actual and forecast expenditures to the end of 2026 of $2.0 million in customer rates with the disposition of the balance to be determined through its next GRA.

Table 8: TM1 Summary of Deferral Account Balance ($ Millions)

	Actual Deferred Costs Approved for Recovery	Actual and Forecast Deferred Costs to December 31, 2026 Proposed for Recovery	Total Forecast BST Deferred Costs – TM1
TM1	-	2.0	2.0

5.3 IM

In 2022, the Board approved the recovery of $0.4 million of the balance, which was deferred as of December 31, 2022, related to IM, in Board Order No. P.U. 27(2022), based on the shared services approach and the cost allocation methodology being found reasonable, and the Board's previous finding in 2019 that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems. The Board also indicated "the recovery of the forecast costs beyond 2022 should be addressed as part of Hydro's next general rate application proceeding," and approved Hydro's continued deferral of costs.

Since that time, Hydro is forecasting to defer approximately $0.1 million in additional IM program-related costs to the BST Program Deferral Account to the end of 2026. As shown in Table 9, Hydro is seeking approval to recover the additional actual and forecast costs of $0.1 million through customer rates with the disposition of the balance to be determined through its next GRA.

Table 9: IM Summary of Deferral Account Balance ($ Millions)

	Actual Deferred Costs Approved for Recovery	Actual and Forecast Deferred Costs to December 31, 2026 Proposed for Recovery	Total Forecast BST Deferred Costs - IM
IM	0.4	0.1	0.4

In its 2022 BST Program Application, Hydro forecasted that its allocation of the IM costs would be 52.6% and, through December 31, 2025, the actual allocation to Hydro's regulated business segment represents approximately 53%. Over the life of the asset, Hydro's regulated business segment share is forecast to be 53%. Therefore, there has been no material change to the regulated business segment's cost allocation percentage since the Board's approval of the 2022 BST Program Application.

In line with the previous Board approval of recovery of deferred costs associated with IM incurred to the end of 2022, and to promote regulatory efficiency for the GRA, Hydro believes the additional deferred costs related to the IM asset category that have accrued in the BST Program Deferral Account since the end of 2022 and those forecast to be deferred to December 31, 2026 should also be approved for recovery, in advance of the GRA.

6.0 Summary

Hydro proposes transferring existing IS assets, initiated before amalgamation, into its regulated business segment to ensure consistent regulatory oversight of existing assets and future sustaining capital. This transfer aligns with cost recovery principles, maintains shared-service cost allocation for assets used by both regulated and non-regulated segments, and supports Hydro's mandate to provide reliable, least-cost service to customers.

Hydro is proposing to transfer a forecasted total cost to completion of $3.8 million in capital projects which were ongoing as of the date of amalgamation, and $5.0 million of assets, which were in service as of the date of amalgamation.

Hydro is proposing that the transfer be effective December 31, 2026, and that the assets would transfer at their NBV. For those assets which were in-service as of the date of amalgamation, January 1, 2025, Hydro is also proposing their inclusion in the rate base. For those assets which were not in service on amalgamation, Hydro proposes to include them in the rate base upon their in-service date. Approval of rate base will be requested in the applicable CBA, consistent with past regulatory practice.

Costs associated with IS assets will continue to be allocated using Hydro's Intercompany Guidelines under the BST and IS Admin Fees. For those assets for which the cost is allocated using the BST Admin Fee, Hydro's regulated business segment will be responsible for an estimated 57% of the remaining NBV, with the other non-regulated lines of business responsible for the remainder. For those assets for which the cost is allocated using the IS Admin Fee, Hydro's regulated business segment will be responsible for

an estimated 57% of the remaining NBV, with the other non-regulated lines of business responsible for the remainder. All costs associated with servicing the non-regulated business segments will be recovered from those business segments, including return on rate base. Said another way, Hydro's Intercompany Guidelines and the administration fee process will ensure that regulated customers will not pay for non-regulated costs.

For completeness and efficiency with respect to these assets, Hydro believes it is prudent to also consider in this application the recovery of costs relating to the BST Program assets that have been incurred by the regulated business segment and included in the BST Program Deferral Account since the end of 2022, and forecast to the end of 2026. Hydro is forecasting a total of $14.5 million of costs in its BST Program Deferral Account associated with JDE E1, TM1 Release 1.1 and 1.2, and IM implementation, $6.7 million[42] of which has been previously approved by the Board for recovery, and $7.8 million of which were incurred or are forecasted to be incurred and are not yet approved for recovery by the Board. Hydro is requesting approval for the recovery of the $7.8 million. Upon the approval of the transfer of these assets to Hydro's regulated business segment, no further costs will be added to the BST Program Deferral Account.

Hydro believes approval of the proposed transactions and recovery methodologies are consistent with previous practice and approvals by the Board and are in line with regulations. Transfer of the assets is supported by the principle that a utility should be allowed the recovery of costs for its regulated operations when those costs are prudent and used and useful in providing the service. The assets in question represent infrastructure that is beneficial to customers in that it supports the work necessary to meet Hydro's mandate of delivering power to consumers in the province at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

[42] The $6.7 million previously approved relates to JDE E1 like-for-like and IM only; TM1 and JDE E1 additional functionalities were not included in Hydro's application when this balance was approved.

Appendix A

Accounts Payable Automation

Contents

Implement Accounts Payable Automation Software

Location: Various

Investment Classification: General Plant

Asset Category: Information Systems ("IS")

Estimated Cost: $1,421,600

1.0 Introduction

Newfoundland and Labrador Hydro ("Hydro") relies on key software programs and processes to effectively and efficiently conduct critical business functions, enabling fulfillment of its mandate of providing safe, reliable, least-cost service to its customers in an environmentally responsible manner.

Hydro conducts business with suppliers and contractors for an array of business needs across the organization. Hydro must ensure accurate, efficient execution of its accounts payable ("AP") activities to control risks, maintain favourable credit and business relationships, and to reduce the risk associated with delayed processing, such as late payments and potential interest charges.

In June 2021, the Government of Newfoundland and Labrador made an announcement to move Nalcor Energy's ("Nalcor") operations under Hydro.[1] At that time, the changes were operational in nature, and the companies began to operate as an integrated organization ("Organization").[2] The Nalcor legal entity structure and all of its subsidiaries remained unchanged until January 1, 2025, when the *Hydro Corporation Act, 2024,* served to finalize the legal merger of Nalcor and Hydro. As a result of the amalgamation, Nalcor and Hydro's assets, liabilities, obligations and agreements continue under the amalgamated Hydro.

Any IS assets that were previously that of Nalcor are now assets of Hydro. Any future capital expenditures related to these assets are subject to review and approval by the Board of Commissioners of Public Utilities.

[1] Government of Newfoundland and Labrador, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro," June 23, 2021, https://www.gov.nl.ca/releases/2021/exec/0623n04.
[2] For clarity, within this evidence the use of Nalcor is in reference to the Nalcor legal entity.

As of amalgamation, there were IS projects that were ongoing and had been approved and initiated by Nalcor, for which procurement commitments had been made; AP Automation was one of these projects. As a result of amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025 and proceeded with the execution of capital work related to these projects accordingly.

2.0 Project Description and Justification

Existing AP activities have relied significantly on manual processes with a high-volume of invoices requiring approval from personnel geographically dispersed across the province to enter, review, approve, and validate invoices. The existing manually operated invoicing functions open Hydro to risks and operational issues that would be mitigated with the implementation of automated AP software technology.

The current AP processes present significant and unacceptable risks to Hydro's business environment. Inefficient and error-prone processes increase the risk of fraudulent activity and financial losses, including interest charges, fees and penalties, and missed early-payment discounts due to untimely payments. These risks can ultimately undermine Hydro's ability to provide customers with the least-cost, reliable electricity service.

Hydro's operations depend on the timely delivery of infrastructure, materials, and equipment required to maintain the provincial electrical grid. Payment delays resulting from process inefficiencies or invoice errors can damage vendor relationships and lead to missed or deferred deliveries of critical goods and services, increasing operational risk. In addition, reputational harm arising from payment inefficiencies may reduce vendor willingness to do business with Hydro, potentially increasing costs through reduced competition or increased bids. Invoice processing errors also create the risk of inaccurate or inappropriate vendor payments, further exposing Hydro to financial and control risks.

In 2022, the Organization approved the replacement of the existing manual process with a solution that would ensure timely, secure and accurate processing and payment of its invoices and reduce the risk of financial losses.[3] The project commenced in 2022 with anticipated completion in 2026.[4]

[3] Contractual agreements were entered into with the Nalcor legal entity.
[4] Nalcor had planned to implement AP Automation within its Enterprise Resource Planning ("ERP") system in 2020; however, the project was deferred as a result of changing business priorities, business continuity during COVID-19, and significant engagement requirements with business, change management and training needs.

The AP solution, which would be integrated with Hydro's ERP system, JD Edwards ("JDE"), will have the ability to electronically scan invoices through optical character recognition; automate the matching of receipts, invoices and purchase orders; route invoices electronically for approval based on pre-defined criteria, and provide a central repository for all invoices. The new solution will result in a more efficient process and reduce risk through improving visibility of the status of invoices and decreasing the average duration of the procure-to-pay cycle.

3.0 Asset Overview

3.1 Asset Background

Hydro currently relies on largely manual processes for the administration and approval of accounts payable activities. Invoices are logged in JDE, manually distributed to authorized personnel for approval, and subsequently returned to AP for processing and payment within JDE. Currently, those invoices are received by mail or email from vendors, and staff record receipt of the invoice before sending the invoice for approval through email, shared network drives or by mail. The current process also involves manual matching for certain purchase order types, resulting in increased administrative effort and processing time.

3.2 Historical Reliability

The current manual process used to route invoices from the receipt stage to approval is time-consuming and contributes to longer procure-to-pay cycles. Tracking and advancing of manual workflows through email, inter-office mail or shared network drives increases the likelihood of delays in approval and misplaced documents, while requiring significant manual effort to monitor invoice status throughout each stage of the process.

3.3 Asset Condition

Hydro's current ERP system, JDE, does not possess the functionality to automatically capture and process invoice data or to support an integrated workflow for invoice tracking and approval. Consequently, these activities are performed manually outside of the core system, resulting in increased administrative burden, diminished process efficiency, and a higher potential for processing delays.

4.0 Analysis

4.1 Evaluation of Alternatives

The Organization conducted market research to determine the alternatives for evaluation and surveyed other utilities across Canada. The following alternatives were evaluated:[5]

- Deferral; and
- Implement AP Automation aolution.

4.1.1 Deferral

It was determined that further deferral is not a viable alternative due to the unacceptable level of risk to the business of continuing to utilize these current processes. Hydro must ensure the timely, secure, and accurate processing and payment of its invoices. Deferral of this solution also increases risk of financial losses due to fraudulent activity, smaller vendor pools for procurement activities, fees, penalties, and incorrect payments.

4.1.2 Implement AP Automation Solution

The AP Automation solution will have the ability to electronically scan invoices through optical character recognition; automate the matching of receipts, invoices and purchase orders; route invoices electronically for approval based on pre-defined criteria; and provide a central repository for all invoices. The new solution will result in reduced risk, improved visibility of the status of invoices, and decreased average duration of the procure-to-pay cycle.

4.2 Least-Cost Evaluation

There were no viable alternatives identified to facilitate a least-cost evaluation.

4.3 Chosen Alternative

It was determined that the implementation of an automated solution for AP activities would mitigate the risks to the business and harness the value of a digital solution to improve organizational efficiency.

[5] As a result of amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025, and proceeded with the execution of capital work related to these projects accordingly. The evaluation of alternatives in this proposal represents the evaluation which was performed at the time the project was being considered.

4.3.1 Risk of Asset Stranding

Hydro's business relies on supplies and contractors for a multitude of needs; thus, approval and payment of invoicing is a critical operational function. There is minimal risk of asset stranding for this automated system.

4.3.2 Risk Mitigation

Hydro assessed the pre- and post-implementation risk of the scope of work in accordance with Hydro's Capital Risk Assessment process. The outcome of this assessment is provided in Table 1.

Table 1: Risk Scoring Pre- and Post-Implementation

	Impact	Likelihood	Score
Pre-Implementation	3	4	**12**
Post-Implementation	3	1	**3**
		Risk Mitigated	**9**
		Risk Mitigated per $1 Million	**6.3**

5.0 Scope of Work

This project will acquire and implement a digital solution for the AP process. The project includes:

- Implementation of a technical solution (integrated with JDE) to streamline the AP process, focused on:
  - Invoice intake;
  - Workflow for invoice attest and approvals;
  - Repository that will provide access to all invoice documentation to facilitate review and approval; and
  - Reporting for payables management.

5.1 Project Budget

The estimate for this project is shown in Table 2.

Table 2: Project Estimate ($000)[6,7]

	2024 and Prior	2025	Beyond	Total
Material Supply	0.0	120.8	0.0	**120.8**
Labour	19.7	329.9	276.0	**625.6**
Consultant	29.8	321.0	136.2	**487**
Contract Work	0.0	0.0	0.0	**0.0**
Other Direct Costs	0.0	0.0	0.0	**0.0**
Interest and Escalation	0.0	0.0	0.0	**0.0**
Contingency	0.0	0.0	188.2	**188.2**
Total	**49.5**	**771.8**	**600.3**	**1,421.6**

Costs associated with this system will be shared among the lines of business in accordance with the Intercompany Transactions Costing Guidelines. The project cost will be split using the IS Administration Fee and allocated based on the average users. Hydro's regulated business segment will be responsible for approximately 58% of the total cost, with the remainder the responsibility of the remaining lines of business.

5.2 Project Schedule

The project to implement the AP automation solution is a five-year project[8] expected to be completed in the third quarter of 2026.[9] The schedule for this project is shown in Table 3.

[6] Project Estimate is consistent with the current forecast.
[7] Numbers may not add due to rounding.
[8] Hydro reported within its report on amalgamation activities that this was a two-year project beginning in 2024, in error.
[9] This project has been carried into 2026 to accommodate a required software upgrade.

Table 3: Project Schedule

Activity	Start Date	End Date
Procurement:		
Issue and award RFP.	September 2022	November 2023
Planning and Design:		
Confirm scope requirements, schedule, and plan.	February 2024	June 2024
Construction:		
Configure software solution.	February 2025	January 2026
Testing and training.	February 2026	April 2026
Implementation:		
Go live with solution.	May 2026	September 2026
Closeout:		
Complete closeout documentation.	September 2026	October 2026

6.0 Conclusion

Hydro must ensure accurate, efficient and secure delivery of its AP activities. Manual processes to approve, review and pay invoices lead to delays and errors that pose unacceptable risk to Hydro, while potentially increasing costs to customers. Hydro relies on its suppliers to provide them with the materials and equipment needed to maintain the province's electricity grid. Late or incorrect payments could lead to delays in shipment or procurement of critical infrastructure necessary to provide safe, reliable, least-cost electricity service.

Hydro's current ERP system, JDE, does not possess the functionality to automatically capture and process invoice data or to support an integrated workflow for invoice tracking and approval. Consequently, these activities are performed manually outside of the core system, resulting in increased administrative burden, diminished process efficiency, and a higher potential for processing delays.

It was determined that the implementation of an automated solution for AP activities, which will be integrated with Hydro's ERP system, JDE, will result in a more efficient process and reduced risk by improving visibility of the status of invoices and decreasing the average duration of the procure-to-pay cycle.

Appendix B

Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026)

Contents

Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026)

Location: Various

Investment Classification: General Plant

Asset Category: Information Systems ("IS")

Cost: 1,055,700

1.0 Introduction

This program[1] focuses on the modernization and enhancement of Newfoundland and Labrador Hydro's ("Hydro") Information Technology ("IT") software applications.[2] These applications are essential to the ongoing delivery of Hydro's core business functions.

Hydro's IT assets include software, hardware, and data systems that support a broad range of internal operations. These systems are fundamental to functions such as:

- Health and safety compliance;
- Financial management and accounting;
- Human resources and workforce administration;
- Customer service and billing;
- Supply chain and procurement operations;
- Facilities and asset management;
- Engineering and project execution;

[1] Following the receipt of the 2025 Capital Budget Application ("CBA") Board of Commissioners of Public Utilities ("Board") Order No. P.U. 28(2024), Hydro conducted a review of the classification of its programs within the 2025 CBA and determined that, due to the nature of the assets being replaced, the scope of work contained in the Perform Software Upgrades and Minor Enhancements - Information Technology (2024–2026) proposal was more appropriately defined as a project and, as such, in its 2026 CBA, Hydro put forward its proposals for software upgrades and minor enhancements as a project and included information as required by the provisional CBA Guidelines relating to projects. Given the timing of these expenditures contained within was before this change was made, this document aligns with the information required by the provisional CBA Guidelines relating to programs.

[2] Hydro maintains a separate Operational Technology ("OT") Program for software upgrades and minor enhancements for OT and infrastructure, specifically to manage the province's electrical grid.

- Environmental monitoring and compliance;
- Legal and regulatory affairs;
- Strategic planning and risk management;
- Corporate communications and stakeholder relations;
- Administrative services;
- Document control; and
- IT.

In June 2021, the Government of Newfoundland and Labrador made an announcement resulting in the move of Nalcor Energy's ("Nalcor") operations under Hydro.[3] At that time, the changes were operational in nature, and the companies began to operate as an integrated organization ("Organization").[4] The Nalcor legal entity structure and all of its subsidiaries remained unchanged until January 1, 2025, when the *Hydro Corporation Act, 2024* served to finalize the legal merger of Nalcor and Hydro. As a result of the amalgamation, Nalcor and Hydro's assets, liabilities, obligations and agreements continue under the amalgamated Hydro.

Any IS assets that were previously that of Nalcor are now assets of Hydro. Any future capital expenditures related to these assets are subject to review and approval by the Board.

As of amalgamation, there were IS projects that were ongoing and had been approved and initiated by Nalcor, for which procurement commitments had been made; Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026) was one of these projects.[5] As a result of

[3] Government of Newfoundland and Labrador, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro," June 23, 2021, https://www.gov.nl.ca/releases/2021/exec/0623n04.
[4] For clarity, within this evidence the use of Nalcor is in reference to the Nalcor legal entity.
[5] Hydro notes that in the "Report on Amalgamation Activities," Newfoundland and Labrador Hydro, rev. April 17, 2025 (originally filed April 15, 2025) ("Amalgamation Report"), the SharePoint upgrade was reported as having completed procurement prior to amalgamation in error. Hydro issued a Request for Proposals ("RFP") in 2025 for the SharePoint upgrade scope, which was awarded in February 2026. This scope was initially included under the Perform Software Upgrades and Minor Enhancements - Information Technology (2024–2026) Program; however, it was removed upon determining that the proposed solution will be cloud-based. As such, Hydro will be making a separate application to the Board to include implementation costs associated with the SharePoint upgrade in the Cloud Cost Deferral Account. As such, costs associated with the SharePoint upgrade are not included in this application.

amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025 and proceeded with the execution of capital work related to these projects accordingly.

2.0 Program Description and Justification

Hydro relies on software applications to support its core business functions. As technology advances and business requirements become increasingly complex, this project allows Hydro to modernize and strengthen its IS software environment to keep pace with evolving system and operational demands. These enhancements improve system functionality, ensure seamless integration with other platforms, and reduce the risk of service disruptions. The enhancements will also strengthen Hydro's cybersecurity and help mitigate the risk of privacy breaches. By investing in the modernization of its software systems, Hydro is reinforcing operational continuity and ensuring its readiness to meet future demands.

Hydro proposes to complete the following work as part of this multi-year program:

Security Management Systems Upgrades

Hydro must ensure that physical access to its sites are restricted to authorized individuals in order to secure equipment and infrastructure, prevent theft, and create safe workplaces for its employees and contractors. Hydro's security and access solutions require regular updates to ensure optimal system performance and prevent cybersecurity risks. Prior to 2024, the latest upgrade was implemented in 2019.

Geographic Information System Upgrades

The ArcGIS system allows for real-time mapping, information reporting and data collection, which requires regular updates to ensure in-field employees can avail of the necessary tools to complete their work in maintaining the province's electricity grid. Upgrades are necessary to ensure optimal display, collection and sharing of data, as well as ensuring connectivity for employees requiring access to maps and other real-time information. Prior to 2024, the latest upgrade was implemented in 2020.

Document Control Upgrades

Hydro utilizes the Content Manager system for document control, which requires regular upgrades. As the software involves handling and storage of documents within the Organization, the upgrades will allow Hydro to maintain system stability, data integrity, and compliance with privacy and information security standards. Upgrading will ensure optimal functionality, secure and reliable connections with

integrated software, and up-to-date security features. Without these upgrades, Hydro will be unable to receive critical patches and vendor assistance, increasing operational and cybersecurity risks. This initiative aligns with Hydro's commitment to risk mitigation, information governance, and modernization of digital infrastructure, ensuring efficient and secure document management.

Ad Hoc Requests

As part of this program, Hydro will also accommodate unforeseen but justifiable upgrade and enhancement requests received in 2024 and 2025, within the approved budget, where possible. Hydro's systems and applications are reviewed regularly to effectively plan necessary upgrades and enhancements; however, unforeseen requests for upgrades and enhancements may be received as business and technical needs change or security protocols require.

3.0 Asset Overview

3.1 Asset Background

Hydro's software systems and applications support core business functions and are used daily by employees to manage the business. These systems are regularly assessed to plan necessary upgrades and enhancements.

The software systems that were planned for installation or upgrade are described herein.

Security Management Systems Upgrades

Hydro's security and access software provides management of employee and visitor access through electronic keycard systems, as well as audiovisual surveillance management and recording. Mandatory upgrades are required to ensure optimal functionality and cybersecurity are maintained.

Geographic Information System Upgrades

ArcGIS is a tool utilized by multiple lines of business which allows users to display and enhance geographic data, including mapping activities and environmental analysis. The software is primarily used for specific field operations and communications, and current data sets are maintained separately by entity and/or business segment. This upgrade is required to maintain data integrity and optimal functionality.

Document Control Upgrades

Content Manager is Hydro's document and records management system, used for information management and governance. It provides Hydro with secure capture, storage, efficient retrieval and disposal of content for regulatory and legal requirements for records management, including those outlined in the *Management of Information Act*. Mandatory upgrades are required to continue to receive sustained vendor support.

3.2 Historical Reliability

The Organization's experience has demonstrated the importance of upgrading software applications to maintain vendor support, mitigate risks, and utilize modern technologies. These practices are essential not only for preventing operational errors and improving efficiency but also for minimizing vulnerabilities that could expose the Organization to cyber threats. Proactively addressing these risks helps ensure software compatibility, system integrity, and business continuity.

3.3 Asset Condition

Software systems managed under this program are in variable condition, with the release of upgrades controlled by the applicable vendors.

The selection of these systems for upgrades and enhancements as part of this program scope, as well as the ad-hoc requests to take place over the course of the program, will ensure the solutions maintain optimal functionality, remain compatible with other systems, receive sustained vendor support, and benefit from comprehensive and up-to-date security features.

3.4 Asset Ages

Software systems managed under this program have variable ages, conditions, and unpredictable lifecycles. Upgrade and enhancement requirements are driven by technology advancements, changes in business requirements, and vendor-released version upgrades.

4.0 Analysis

4.1 Evaluation of Alternatives

The following alternatives were evaluated:[6]

- Upgrade life extension;
- Like-for-like replacement; and
- Pace reduction.

4.1.1 Upgrade Life Extension

Under this alternative, upgrades and enhancements to the identified software systems will be performed by software and infrastructure specialists familiar with the technologies. Failing to upgrade a system can lead to security vulnerabilities, making the Organization more susceptible to cyber threats and data breaches. Outdated systems often experience performance issues, increased downtime, and inefficiencies that hinder productivity and disrupt operations. Over time, compatibility problems will arise, preventing integration with newer technologies and limiting the Organization's ability to adapt to evolving business needs.

Upgrading and enhancing existing systems extends the useful life of previous investments and can be performed at a fraction of the cost of the implementation of a new system. Upgrades will improve system functionality, provide seamless integration with other technology platforms, and reduce the risk of cyber incidents and service disruptions.

4.1.2 Like-for-Like Replacement

Prior to upgrading or enhancing solutions, Hydro considered replacement with an alternative system, and it was determined not to be a viable alternative at that time. The software being upgraded within this program has not reached the end of its useful life. Replacing software applications with new solutions would include engaging vendors through the RFP process. Replacement was not recommended for the applicable pieces of software as the existing software systems are widely used and performing well, and upgrades or minor enhancements will address any issues identified with these

[6] As a result of amalgamation, Hydro is bound by contractual agreements made by Nalcor prior to January 1, 2025, and proceeded with the execution of capital work related to this program accordingly. The evaluation of alternatives in this proposal represents the evaluation which was performed at the time the program was being considered.

systems. Replacement is a generally more expensive, resource-intensive, and time-consuming alternative.

4.1.3 Pace Reduction

Under this alternative, systems would be operated without any upgrades or enhancements, negatively impacting the efficiency and security of Hydro's operations. The release of upgrades is controlled by the applicable vendors. Hydro must review available upgrades, assess associated cybersecurity risks and determine the appropriate timing to implement upgrades for the Organization. As such, it was not considered a viable alternative.

4.2 Least-Cost Evaluation

There were no viable alternatives identified to facilitate a least-cost evaluation.

4.3 Chosen Alternative

It was determined that upgrading and enhancing the identified software systems was the only viable option to address the required changes. Failing to upgrade or enhance software can lead to several significant risks. Security vulnerabilities may remain unpatched, exposing the system to potential cyber threats and data breaches. Performance issues can arise, resulting in slower operations and reduced productivity. Compatibility problems with newer hardware and software can cause integration challenges and operational disruptions. Additionally, outdated software may not comply with current regulatory standards, leading to potential legal and financial repercussions. Overall, neglecting software upgrades and enhancements can compromise the efficiency, security, and reliability of business operations.

4.3.1 Risk of Asset Stranding

There is minimal risk of asset stranding. The software systems proposed to be upgraded or enhanced under this program are widely used in multiple business and functional areas throughout the Organization. In addition, these software systems and applications have large user groups and are well-represented and utilized in the market, with the respective vendors continually implementing vital upgrades.

4.3.2 Risk Mitigation

Hydro assessed the pre- and post-implementation risk of the scope of work for the 2024–2026 program in accordance with Hydro's Capital Risk Assessment process. The outcome of this assessment is provided in Table 1.

Table 1: Risk Scoring Pre- and Post-Implementation

	Impact	Likelihood	Score
Pre-Implementation	4	3	**12**
Post-Implementation	4	2	**8**
		Risk Mitigated	**4**
		Risk Mitigated per $1 Million	**3.8**

5.0 Scope of Work

A preliminary analysis completed by the Organization, which identified the following software systems to be updated or upgraded as part of the 2024–2026 program:

- Upgrades to Security Management Systems;
- Upgrade Geographic Information System;
- Upgrade Document Control System; and
- Ad hoc Request.

All of the hardware and software assets have existing vendor support agreements, and work associated with each upgrade has been sole-sourced to the applicable vendor.[7] The detailed program scope was confirmed during the planning and design stages of the program. The scope of additional unforeseen requests for upgrades and enhancements to meet changing business needs received in 2025 were determined once the request was reviewed and justified for inclusion in the program.

[7] Sole sourcing was completed in 2024 for the Geographic Information System and in 2025 for the Document Control System and Security Systems.

5.1 Program Budget

The estimate for the 2024-2026 program is shown in Table 2.[8]

Table 2: Program Estimate ($000)[9]

Program Cost	2024	2025	Beyond	Total
Material Supply	154.6	138.3	0.0	**292.9**
Labour	86.0	118.5	0.0	**204.5**
Consultant	185.4	274.5	98.4	**558.3**
Contract Work	0.0	0.0	0.0	**0.0**
Other Direct Costs	0.0	0.0	0.0	**0.0**
Interest and Escalation	0.0	0.0	0.0	**0.0**
Contingency	0.0	0.0	0.0	**0.0**
Total	**426.0**	**531.3**	**98.4**	**1,055.7**

5.2 Program Schedule

The schedule for the program is shown in Table 3.

Table 3: Program Schedule

Activity	Start Date	End Date
Planning:		
Preliminary analysis and scope identification.[10]	June 2024	December 2024
Detailed scope definition and review schedule.	January 2025	June 2025
Design:		
Complete detailed design and create a program plan.	February 2025	July 2025
Procurement:		
Award request for proposals (if required) and secure resources.	February 2025	August 2025
Construction:		
Build software enhancements.	May 2025	November 2026
Commissioning:		
Go live with enhancements.	June 2025	December 2026
Closeout:		
Complete closeout documentation.	November 2025	December 2026

[8] Program expenditures in 2026 reflect carryover associated with the scope remaining for Geographic Information System and Security System upgrades.

[9] The project estimate is consistent with the most current forecast. The original budget for this project, as reported in the Amalgamation Report, is $1.2 million.

[10] Sole sourcing was completed in 2024 for the Geographic Information System.

6.0 Conclusion

Hydro maintains many software systems and applications to support its business processes. Upgrades and enhancements maintain and improve the functionality and security of these systems and applications. This program includes planned upgrades and enhancements and allows Hydro to respond to additional unforeseen requests for system improvements that cannot be deferred to a subsequent year.

Appendix C

Renew Microsoft Enterprise Agreement (2025–2028)

Contents

Renew Microsoft Enterprise Agreement (2025–2028)

Location: Various

Investment Classification: General Plant

Asset Category: Information Systems ("IS")

Cost: $1,279,900

1.0 Introduction

Newfoundland and Labrador Hydro ("Hydro") utilizes Microsoft systems and software for an array of business needs, and it is essential that these systems remain secure, updated, and available. The Microsoft Enterprise Agreement for the continued installation and upgrades of Microsoft Operating Systems and related software expired in 2025 and was renewed for an additional three-year term.[1]

In June 2021, the Government of Newfoundland and Labrador made an announcement to move Nalcor Energy's ("Nalcor") operations under Hydro.[2] At that time, the changes were operational in nature, and the companies began to operate as an integrated organization ("Organization").[3] The Nalcor legal entity structure and all of its subsidiaries remained unchanged until January 1, 2025, when the *Hydro Corporation Act, 2024* served to finalize the legal merger of Nalcor and Hydro. As a result of the amalgamation, Nalcor and Hydro's assets, liabilities, obligations and agreements continue under the amalgamated Hydro.

Any assets that were previously that of Nalcor, the costs of which were not recovered from customers, are now assets of Hydro. Any future capital expenditures related to these assets are subject to scrutiny and approval by the Board of Commissioners of Public Utilities ("Board").

[1] The Microsoft Enterprise Agreement renewal was included within the "Report on Amalgamation Activities," Newfoundland and Labrador Hydro, rev. April 17, 2025 (originally filed April 15, 2025) as having been renewed for three years in 2024 in error. The contract was renewed in May 2025.
[2] Government of Newfoundland and Labrador, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro," June 23, 2021, https://www.gov.nl.ca/releases/2021/exec/0623n04.
[3] For clarity, within this evidence, the use of Nalcor is in reference to the Nalcor legal entity.

As of amalgamation, there were a number of IS projects in varying stages of the execution process, having all been planned before amalgamation was finalized. Prior to the amalgamation legislation coming into effect, IS projects were internally reviewed by the Organization; as Nalcor would be completing the procurement, they would not have been subject to application to the Board at that time.

2.0 Project Description and Justification

The agreement includes the purchase of Microsoft software products and provides access to the latest versions of each product purchased under the agreement. This allows Hydro to avail of Microsoft upgrades, security patches, and new features.

Software licensed under this agreement includes the Windows Server operating systems for each Company Server, Microsoft SQL Database Server, Windows Remote Desktop, Windows Software Deployment tools and SharePoint. This software is required to operate systems used by employees to deliver safe and reliable service to customers. While the current agreement with Microsoft is for three years, Hydro pays a fixed price each year based on the number of employees or systems in use within the company.

3.0 Asset Overview

3.1 Asset Background

Microsoft Windows Server, workstation and database servers are the industry-standard for many general business-related computational tasks.

3.2 Historical Reliability

Historical Reliability has been optimal, as Microsoft has an immense security and support infrastructure. There is a risk associated with migrating from Microsoft, as reliability could be compromised.

3.3 Asset Condition

Hydro receives access to the latest versions of each product purchased under the agreement. This allows Hydro to avail of Microsoft upgrades, security patches, and new features.

4.0 Analysis

4.1 Evaluation of Alternatives

The following alternatives were evaluated:

- Deferral;
- Migration to alternative suppliers; and
- Renew agreement.

4.1.1 Deferral

Under this alternative, the Microsoft Enterprise Agreement would expire, negatively impacting the efficiency and security of Hydro's operations. This alternative was not considered to be viable, as the risk associated with potential cybersecurity issues, loss of functionality, and lack of support was deemed to be unacceptable.

4.1.2 Migration to Alternative Suppliers

Hydro considered migration to an alternative supplier, which was determined not to be a viable alternative at this time. There is a risk associated with migrating from Microsoft, as reliability could be compromised. As this is a core IS software which has widespread usage in virtually every area of Hydro's business, there are also considerable "hidden" costs associated with upgrading all systems within the broader IS asset portfolio which integrate with Microsoft. Continuing to renew Microsoft's enterprise software licensing agreement provides the utility with a stable, secure, and well-supported technology environment. Historical reliability has been optimal, as Microsoft has an immense security and support infrastructure. Microsoft's platforms are widely adopted across the utility sector, offer mature cybersecurity and compliance capabilities, and integrate seamlessly with existing operational, financial, and regulatory systems. Renewing the agreement reduces vendor-transition risk, avoids disruption to core business processes, and minimizes hidden costs associated with system migration, retraining, and compatibility issues.

4.1.3 Renew Agreement

Under this alternative, the Organization continues its use of the Microsoft systems and software by entering a three-year agreement with fixed pricing based on usage. Hydro believes this to be the only

viable alternative to maintain the security and availability of these systems, which are required for a multitude of business needs.

4.2 Least-Cost Evaluation

There were no viable alternatives identified to facilitate a least-cost evaluation.

4.3 Chosen Alternative

The Organization proceeded with the renewal of the Microsoft Enterprise Agreement and entered into a three-year contract agreement in 2025.

4.3.1 Risk of Asset Stranding

There is minimal risk for asset stranding; Microsoft Enterprise is the industry standard and market leader for the related operating systems and software.

4.3.2 Risk Mitigation

Hydro assessed the pre- and post-implementation risk of the scope of work in accordance with Hydro's Capital Risk Assessment process. The outcome of this assessment is provided in Table 1.

Table 1: Risk Scoring Pre- and Post-Implementation

	Impact	Likelihood	Score
Pre-Implementation	4	5	**20**
Post-Implementation	4	1	**4**
		Risk Mitigated	**16**
		Risk Mitigated per $1 Million	**12.6**

5.0 Scope of Work

The scope of work for this project includes the procurement and implementation of the three-year contract agreement with Microsoft Enterprise.

5.1 Project Budget

The estimate for the project is shown in Table 2.

Table 2: Project Estimate ($000)[4]

Project Cost	2025	2026	Beyond	Total
Material Supply	426.6	426.6	426.6	**1,279.9**
Labour	0.0	0.0	0.0	**0.0**
Consultant	0.0	0.0	0.0	**0.0**
Contract Work	0.0	0.0	0.0	**0.0**
Other Direct Costs	0.0	0.0	0.0	**0.0**
Interest and Escalation	0.0	0.0	0.0	**0.0**
Contingency	0.0	0.0	0.0	**0.0**
Total	**426.6**	**426.6**	**426.6**	**1,279.9**

5.2 Project Schedule

The schedule for the project is shown in Table 3.

Table 3: Project Schedule

Activity	Start Date	End Date
Planning:		
Define scope and review schedule.	January 2025	March 2025
Design:		
Complete detailed design and create a project plan.	March 2025	April 2025
Procurement:		
Award request for proposals (if required) and secure resources.	February 2025	July 2025
Construction:		
Build software enhancements.	June 2025	November 2025
Commissioning:		
Go live with enhancements.	July 2025	November 2025
Closeout:		
Complete closeout documentation.	November 2025	December 2025

6.0 Conclusion

Employees throughout Hydro utilize Microsoft software and operating systems for an array of business needs. To maintain the security and availability of these systems, the Organization approved proceeding with the renewal of the agreement for Microsoft Enterprise use and entered into a three-year agreement in mid-2025.

[4] Numbers made not add due to rounding.

Appendix D

Enterprise Resource Planning Additional Functionalities

Contents

1.0 Introduction

Organizations such as Newfoundland and Labrador Hydro ("Hydro") rely on an Enterprise Resource Planning ("ERP") system in order to manage key functions of the organization in a singular, fully-integrated platform. An integrated ERP solution supports the existing organizational structure and its shared services model. The Board of Commissioners of Public Utilities ("Board") previously accepted that a high level of integration in these systems may be appropriate.[1]

In 2015, as part of the former Business Systems Transformation ("BST") Program, Nalcor Energy ("Nalcor") began replacement activities for software solutions relating to ERP needs for the organization and subsidiaries, including Hydro,[2] as its existing system, JD Edwards ("JDE") World, lacked data standardization and integration with third-party solutions, which impacted the availability of quality, reliable data required to inform decision-making and necessary equipment maintenance activities. The BST Program further identified the need for greater automation to enhance productivity, improve reliability, and customer service, and achieve long-term reductions in operating and administrative costs.

Since that time, software solutions have been implemented to fulfill the needs as determined by the program. JDE EnterpriseOne ("JDE E1") was Hydro's selected ERP system and was implemented in 2018, with additional functionalities added in more recent years. The purpose of this document is to provide the justification for the implementation of additional functionalities and the benefits of various enhancements to Hydro's business and its customers.

[1] Board Order No. P.U. 23(2019), p. 6/28–29.
[2] Government of Newfoundland and Labrador, "Premier Furey and Minister Parsons Announce Nalcor Operations Moving Under Newfoundland and Labrador Hydro," June 23, 2021, https://www.gov.nl.ca/releases/2021/exec/0623n04.

2.0 Background

2.1 Approval of the JDE E1 ERP System

In June 2022, Hydro applied for cost recovery relating to the like-for-like implementation of its ERP system JDE E1, along with Information Management ("IM") document management system implementation, as was being conducted through the BST Program.[3] The application excluded costs associated with the JDE E1 additional functionalities, which Hydro indicated would be the subject of a future application to the Board. In Board Order No. P.U. 27(2022), the Board approved $6.7 million of costs associated with the implementation of Hydro's ERP system and IM for recovery from customers and outlined that "…future applications for cost recovery of Enterprise Resource Planning functionality enhancements should demonstrate how the benefits to customers of the enhancement outweighs the associated costs."

With the conclusion of the BST Program, implementation costs are now known. Hydro therefore submits that continued deferral of the costs associated with certain components of the BST Program is no longer appropriate. Existing customers are currently benefiting from the JDE E1 system, and accordingly, it is reasonable from an intergenerational equity perspective to commence recovery of the associated costs.

As these assets are used and useful in the provision of regulated services, Hydro submits that it is prudent to address the costs related to these assets that have been deferred since 2018 and to seek recovery.[4] A portion of the deferred costs has not yet been approved by the Board for recovery and relates to additional JDE E1 functionalities implemented since the JDE like-for-like implementation in 2018. Hydro has provided information and supporting justification for these costs below.

2.2 Implementation Background

As outlined in the 2022 BST Program Application, the integrated organization ("Organization") took a phased approach to the JDE E1 system implementation. Release 1.1 was the migration to the JDE E1 equivalent of the existing ERP that included foundational functionality, data cleansing, enhanced security model and improvements within each module, as well as the migration of the legacy customer service solution to its successor Utiligy360[5] (i.e., the "like-for-like" implementation). Subsequent planned releases included ERP additional functionality enhancements as well as new modules (i.e., the

[3] "Business Systems Transformation Program Application," Newfoundland and Labrador Hydro, May 25, 2022.
[4] Consistent with Board Orders Nos. P.U. 23(2019) and P.U. 27(2022).
[5] Utiligy360 was the Customer Information System chosen for implementation as part of the E1 portion of the BST Program.

"functionality enhancements") that would build upon the improvements available in the new software. The like-for-like migration to JDE E1 from JDE World occurred in 2018. The original timeline for the complete implementation of the JDE E1 system, including functionality enhancements, was initially forecast to conclude in 2020.

Recognizing that the benefits from investment in any technology change are incumbent upon the speed of adoption, usage rates and user proficiency,[6] the Organization weighed the risk of proceeding with further technology changes before stability had been reached with the ERP like-for-like implementation, while maintaining the continuity of quality to customers. It was determined to be appropriate to delay implementation of the additional enhancements to ensure critical stabilization occurred with the ERP like-for-like implementation in 2018. This delay gave users the time they required to become proficient with JDE E1 before introducing additional changes. In 2019, the Organization completed a scope and prioritization review for JDE E1, which led to a change in project scope and execution approach for future modules.

As a result of the scope review, the Organization prioritized the implementation of additional functionalities of the Online Requisition System and Crew Scheduler functionalities in 2020; followed by Automated Work Order functionality in Utiligy360 and Employee Self-Service functionality in 2021.

The timeline for completion of any further ERP functionality enhancements was impacted by organizational priorities, as at the time of the BST Program Application in 2022, Hydro had not yet determined its path forward on the TM1 budgeting and forecasting software, and was exploring the advancement of the accounts payable automation project, which would require a high level of enterprise change management to complete successfully. It was subsequently determined that any remaining in-scope projects associated with the BST Program would be approved as stand along project pending a review of business priorities and project justification.

As noted in Schedule 1 to this application, Hydro is proposing to transfer the existing IS assets, which were in service upon amalgamation of Nalcor and Hydro on January 1, 2025, from its non-regulated business segment to its regulated business segment. This transfer includes JDE E1 additional functionalities described in this proposal, along with the JDE E1 ERP system itself. Future sustaining

[6] Prosci,"3 Factors of Change Which Define or Constrain Project ROI," August 11, 2025, https://blog.prosci.com/three-factors-of-change-which-define-or-constrain-project-roi.

capital associated with these assets and related infrastructure will require Board approval and will be recorded in the regulated business segment, and therefore, Hydro is proposing to transfer the existing IS assets so that the original asset and its sustaining capital are recorded in the same business segment. The omission of these assets from Hydro's regulated business presents issues in achieving fulsome and consistent application of regulatory processes; without the transfer, Hydro would be proposing future capital projects for sustaining capital on assets for which the costs and justification was never reviewed and approved by the Board. The transfer is proposed to be effective December 31, 2026, at the assets' Net Book Value ("NBV").

In addition to the transfer of the assets, Hydro is proposing to recover any costs associated with JDE E1 additional functionalities which have been deferred or are forecast to be deferred to December 31, 2026, in Hydro's BST Program Deferral Account. As these assets are used and useful in the provision of regulated services, Hydro submits that it is prudent to address the costs and related cost recovery.

The following sections provide information on and justification of the JDE E1 additional functionality projects which were completed subsequent to the implementation of JDE E1 in 2018—Online Requisition System, Crew Scheduler, Employee Self-Service, and the Utiligy360 Automated Work Order functionality.

3.0 Justification

The JDE E1 system utilized by Hydro has integrated modules including Finance, Supply Chain, Project Management, Human Resources and Capital Asset Management. To meet business requirements, a high level of integration is required between all components to ensure coordination of operational efforts, procedures and tasks, sharing of appropriate and meaningful data, and informed, real-time decision-making capabilities.

JDE E1 provides pre-built integrations and integrity processes, access to information from a single source, enhanced process controls, and a reduction of integration issues caused through the use of multiple systems. This approach supports the existing organizational structure of Hydro, cross-functional business process integration, as well as the shared services model of IS assets between regulated and non-regulated business segments.

All modules within JDE E1 provide benefits that were not available in its predecessor, JDE World. JDE E1 provides enhanced reporting options, including an embedded query tool and the ability to export data to other formats (e.g., Excel). To take full advantage of these features, and in line with *Good Utility Practice*, Hydro has leveraged several functionality enhancements to improve its service delivery for customers, mitigate risk within critical business processes and reduce administrative duplication and costs.

Since the JDE like-for-like implementation in 2018, Hydro has put a total of four assets in service relating to additional functionalities, as described below.

3.1 Additional Functionalities

3.1.1 Online Requisition System

The online requisition system within the Supply Chain Management module of JDE E1 was implemented in January 2020. The online requisition system was introduced with the goal of mitigating risk within critical business processes, increasing organizational efficiency and controls, and reducing reliance on paper and manual intervention within procurement processes. The online system is used to facilitate approvals to procure goods and services.

Prior to its implementation, Hydro's procurement activities relied significantly on manual processes with a high-volume of requisitions requiring approval from personnel geographically dispersed across the province to enter, review, and approve requisitions. The process exposed Hydro to risks and operational issues that would be mitigated with the implementation of online requisition process technology. Hydro conducts business with suppliers and contractors for an array of business needs across the organization. Hydro must ensure accurate, efficient execution of its procurement activities in accordance with the *Public Procurement Act* to reduce control risks, maintain vendor relationships, and to reduce the risk associated with delayed processing, such as late payments and later shipments of goods and reputational harm with suppliers caused by inefficient procurement methods.

The online requisition system enables a standardized process which eliminates the use of paper requisitions, instead circulating approvals electronically via workflow. These automated workflows ensure that purchases are approved by authorized persons only. In addition, the online requisition process also provides a greater degree of visibility on the approval route, enabling improvement in processing times and avoiding delays in approvals. This mitigates risk relating to delayed payments.

3.1.1 Crew Scheduling

In January 2020, Hydro implemented Crew Scheduler within the JDE E1 environment, a maintenance scheduling application which replaced Work Scheduler, Hydro's legacy maintenance scheduling application. This additional functionality enhancement within the Capital Asset Management module was completed with the goal of providing productivity-building metrics in both planning and scheduling, and work measurement to help Hydro obtain efficiencies in work planning and management.

The Work Schedule Generator was an external application to the previous JDE World system. It was custom-built for Hydro, but there was limited interaction and functionality with JDE World. There were several issues identified with the software that contributed to its candidacy for replacement, including that it did not provide real-time work order information, the availability of data outside of labour hours was limited, and it did not reliably generate metrics that could be leveraged for improved management of weekly scheduling processes.

Its replacement, the Crew Scheduler, is an application internal to the JDE E1 environment that is fully integrated with other components of the work management system, thereby strengthening maintenance planning and scheduling systems. This enables planning and scheduling staff, as well as operational personnel, to view and update data in real time, including full visibility to work order information, such as dates and parts status.

Scheduling staff also have access to the preventative maintenance system to review both future scheduled and unscheduled preventative maintenance services, as well as previous schedules, allowing easier transition of work between scheduling periods.

The Crew Scheduler is supported by a suite of integrated reporting tools that facilitate improved management of scheduling performance. It will assist Hydro to compile more robust data analysis and metrics to help drive cost management and productivity within its work planning and scheduling, and other work management activities, such as those identified by the Liberty Consulting Group.[7]

Productivity improvements that Hydro has experienced since the implementation of the Crew Scheduler are as follows:

[7] "Final Report on Phase One of Muskrat Falls Project Potential Rate Mitigation Opportunities," The Liberty Consulting Group, December 31, 2018, p. 7.

- Improved clustering of work packages based on geographical areas, common equipment condition requirements, and labour plans, to optimize crew utilization and equipment availability;

- Auto-scheduling feature within the module eliminates the manual effort required to pull work orders from the system; and

- Rationale and tracking of work order schedule completions, which allows Hydro to identify trends, risks, and opportunities for planning and scheduling optimization.

3.1.2 Employee Self Service

In 2021, Hydro completed the implementation of the Employee Self Service portal within JDE E1. This portal provides employees with single point access to important employment information, including pay stubs, employee profile details, benefits summary and employee T4 information. It enables employees to make updates to information such as home address, phone number and emergency contact as well as allows them to make requests such as employment verification letters. These functions enable timely update of important employee information as well as reduced manual intervention by the Human Resources department and enables a transition away from traditional paper and mail-based T4 and pay stub distribution.

3.1.3 Automated Work Orders – Customer Service

In mid-2018, Hydro implemented Utiligy360, a customer-service system which has vendor-provided integration capabilities with JDE E1. Utility360 is integrated with the accounts receivable, work order management, asset management and general ledger system components in JDE E1, providing for a more robust billing system. The Board had previously indicated it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems in Board Order No. P.U. 23(2019).

To maximize the capabilities of Utiligy360, Hydro implemented an automated work order tool specifically for customer service functions during the fall of 2021. Previously, customer service staff would need to generate two work orders for work performed outside of the department—one for customer service, and a maintenance work order for field personnel that required them to manually re-enter information and determine the proper assignment for the work based on a number of factors such as meter ratings. This manual process had potential for errors, delays, and risks relating to safety and operations if work was not assigned properly.

The automated work order functionality generates maintenance work orders using a one-time input from customer service staff. This increases the efficiency and accuracy with which work orders are issued to field personnel for customer resolution and creates one view of the work order in the system, so customer service personnel can provide an immediate update on the status of a work request to a customer if an inquiry arises.

The automated system allows for immediate communication of work order needs and assigns qualified personnel to the work order (i.e., based on meter rating requirements), protecting the safety of staff and customers alike. This improves service delivery for customers and eliminates the need for redeployment of staff due to incorrect work assignments.

4.0 Alternatives

Hydro's options were as follows:

- Deferral of ERP additional functionalities; and
- Execute upgrades.

4.1 Deferral of ERP Additional Functionalities

The deferral of ERP additional functionalities was not considered to be a viable alternative, given the safety and business risks associated with continued execution of manual processes. Further, streamlining field work assignments, improving task visibility within procurement and customer service processes, and reducing duplication of work within Hydro's processes was required to modernize Hydro's service delivery for customers in line with *Good Utility Practice*.

By participating in the BST Program, Hydro was able to leverage economies of scale and reduce costs for its customers by incurring only a portion of the cost. In Board Order No P.U. 23(2019), the Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems.[8]

4.2 Execute Upgrades

There were a number of key drivers to the decision to proceed with the JDE E1 additional functionality enhancements:

[8] Board Order No. P.U. 23(2019), pp. 5–6/44–2.

- Focus on removing business and safety risk from critical business processes;
- Focus on modernizing the delivery of service for customers; and
- Enhancing employee productivity and removing duplication.

The first driver of the JDE E1 additional functionalities was the mitigation of risk in critical activities, such as safety risk associated with metering replacements or financial and schedule risk within project execution, as a result of an inefficient procurement process.

The second driver for the JDE E1 additional functionalities enabled the modernization of service delivery for customers in line with good utility practice—streamlining field work assignments and improving work order visibility, which led to improvements in Hydro's customer service and experience.

Finally, the ERP's additional functionality enhancements ensured Hydro was leveraging the technology of the new ERP system, JDE E1. By transitioning manual processes to electronic formats and removing duplication across the business, Hydro improved employee productivity by allowing employees to adopt more value-added work and reducing administrative burden within core business processes.

At that time, Hydro pursued these upgrades to participate in a shared services offering with its parent, Nalcor, rather than electing to execute the upgrade independently. In Board Order No. P.U. 27(2022), the Board indicated that it was satisfied that the shared-services approach for the ERP system was reasonable and consistent with the provision of least-cost service.

4.2.1 Execute Upgrades Independently ("Hydro-Only" Approach)

As Hydro shares an integrated ERP system with its affiliate companies, this is not considered a viable alternative. Hydro utilizes a shared services model[9] for corporate services, including IS and others of a transactional nature, such as payroll, benefits administration, and supply chain. The alternative to the shared services approach would be for Hydro to duplicate these services by recruiting and training its

[9] The shared services approach is inclusive of the Information Systems ("IS") Administration Fee, part of the Administration Fee structure, whereby Hydro is charged a portion of the costs for services provided to all lines of business. During Hydro's 2013 General Rate Application ("GRA"), the allocation methods for the IS and Administration Fees were reviewed by the Board's expert, Brad Rolph from Doane Grant Thornton LLP, and Deloitte LLP, who all found the methods reasonable. The methodology has not materially changed since the 2013 GRA. The Intercompany Transactions Costing Guidelines ("Intercompany Guidelines") were updated in 2026 and reviewed by KPMG LLP ("KPMG"), a third-party expert, who determined them to be reasonable.

own personnel in these functions, and source, implement, maintain and support an entire information system infrastructure, including a separate ERP system, independently.

4.2.2 Participate in Shared Services Offering

An integrated solution such as the JDE E1 additional functionalities supports the existing organizational structure and its shared services model. The Board had previously accepted that a high level of integration in these systems may be appropriate.[10] Given the complex nature of Hydro's business, its integrated ERP system, which is a shared system, and Hydro's legislative mandate to provide service at the lowest possible cost consistent with reliability, participation in a shared-service offering was the only reasonable option. When assessing other components of the BST Program, in Board Order No. P.U. 27(2022), the Board indicated that it was satisfied that the shared-services approach is reasonable and consistent with the provision of least-cost service.

5.0 Selected Alternative

In light of the risks associated with deferral, implementation of the projects to enhance its ERP system and take advantage of the increased functionality available within JDE E1 was the only viable alternative for Hydro. Due to the integration of the ERP system, implementing the enhanced functionality by participation in the shared service offering versus independently was the least-cost alternative. By participating in the BST Program, Hydro was able to avail of economies of scale and reduce costs for its customers by incurring only a portion of the overall cost.

As discussed in Section 3.2, Hydro asserts that by implementing its JDE E1 additional functionality enhancements, it has provided substantial tangible and intangible benefits to its customers, including:

- Reducing business risks associated with the procurement cycle;
- Improving the safety of personnel and customers when completing customer-related field work;
- Improving service delivery to customers on the status of work order requests; and
- Enabling organizational efficiencies by reducing duplication of effort and administrative burden caused by manual process.

[10] Board Order No. P.U. 23(2019) p. 6/28–29.

6.0 Cost Allocation Methodology

Acquisition and implementation costs related to the ERP's additional functionalities have all been incurred by Nalcor. Hydro's portion of costs are charged through the BST Administration Fee ("BST Admin Fee"), as operating costs. In line with Board direction, Hydro has deferred these costs in its BST Program Deferral Account.

The BST Admin Fee cost allocation methodology is provided in Schedule 2. The allocator used for the BST Admin Fee is a modification of the average user based on the relevant components of the BST Program (i.e., the average of (a) number of full-time equivalents and (b) JDE E1 users).

In Board Order No. P.U. 27(2022), the Board accepted that the cost allocation methodology used in calculating Hydro's costs was reasonable in the circumstances of the ERP like-for-like and IM Program cost recovery.[11] The Business Systems Fee cost methodology has not materially changed since that time, and there has been no material change in the percentage allocation to Hydro's regulated business segment.

Hydro's Intercompany Guidelines ensure cost segregation between business segments, which were updated in 2026 and reviewed by KPMG. KPMG concluded that the Intercompany Guidelines are reasonable.[12] All costs associated with servicing the non-regulated business segments will be recovered from those business segments, including return on rate base.[13] Hydro's Intercompany Guidelines and the administration fee process ensure that regulated customers will not pay for non-regulated costs.

[11] Board Order No. P.U. 27(2022), p. 8/17–18.
[12] For further information, please refer to "Review of Newfoundland and Labrador Hydro's Intercompany Transaction Costing Guidelines," Newfoundland and Labrador Hydro, March 30, 2026, att. 2.
[13] In accordance with Order in Council OC2013–343, Hydro is required to pay all costs related to the Lower Churchill Project. Therefore, the costs of the BST Program allocated to affiliates for recovery through the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement will be included in the charges paid by Hydro's Island Interconnected customers.

7.0 Costs

7.1 Implementation Costs

The planned project activities for JDE E1 additional functionalities were successfully completed in 2021 at a total cost of $1.7 million, of which Hydro's regulated business segment share is estimated to be $1.2 million, including $0.5 million for Customer Service module enhancements that are 100% charged to regulated Hydro. Excluding dedicated costs, Hydro's share of the JDE E1 additional functionalities is approximately 56%. To date, costs have been allocated to Hydro in accordance with the methodology outlined in Schedule 2 to this application. JDE E1 additional functionalities costs by category are outlined in Table 1.

Table 1: Summary of JDE E1 Additional Functionalities Costs by Category ($ Millions)

Cost Category	Total Costs Incurred as of December 2026
Capital	1.7
Operating	-
Program Management	-
Total	**1.7**

7.2 Proposed Asset Transfer Effective December 31, 2026

Hydro is proposing to transfer the JDE E1 assets, effective December 31, 2026, including the additional functionalities, to the regulated business segment for inclusion in the rate base at the remaining NBV of $0.7 million.

A breakdown of the JDE E1 additional functionalities is included in Table 2 including gross capital cost, proposed transfer value, being the NBV as of December 31, 2026, and an estimate of the portion of the remaining NBV which will be allocated to the regulated business segment through the administration fees.

Table 2: Summary of Capital Cost and NBV – JDE E1 Additional Functionalities ($ Millions)[14]

Component	Total Gross Capital Costs as of December 31, 2026	Forecast NBV as of December 31, 2026	Regulated Hydro's Estimated Share of Remaining NBV[15] (%)
Online Requisitions	0.3	0.1	57
Employee Self Service	0.7	0.3	57
Automated Work Orders – Customer Service[16]	0.5	0.3	100
Crew Scheduler	0.2	0.1	57
Total	**1.7**	**0.7**	**271**

Upon the proposed transfer date of December 31, 2026, of the total $1.7 million gross capital costs incurred, $1.0 million will be depreciated and already allocated to Hydro's business segments via the BST and IS Administration Fees in accordance with Hydro's Intercompany Guidelines. The portion related to the regulated business segment has been deferred in Hydro's BST Program Deferral Account, as discussed in Schedule 1.

The remaining $0.7 million will be depreciated over the assets' remaining useful life, and costs will be allocated accordingly to the other business segments by Hydro in accordance with the Intercompany Guidelines. Cost recovery from each entity will also include the recovery of the rate of return on the portion of the asset value which has been allocated to each business segment.

8.0 Conclusion

Hydro continues to benefit from the implementation of JDE E1, which offered a suite of increased, more modern features above its predecessor, JDE World. To take advantage of these features and in line with *Good Utility Practice*, Hydro has leveraged several functionality enhancements to improve its service delivery for customers, mitigate risk within critical business processes and reduce administrative duplication and costs.

[14] Numbers may not add due to rounding.
[15] Includes an estimate of remaining capital costs to be allocated to the regulated business segment under the BST and IS Administration Fees, as applicable. Excludes costs that will be allocated to the Lower Churchill entities and ultimately recovered from the regulated business segment through payments for power purchases. Also excludes the impact of return on rate base.
[16] Hydro is assigned 100% of the cost associated with the Customer Service module enhancements.

Hydro's participation in a shared services offering with Nalcor to enhance the functionality of its ERP was the only reasonable alternative and the least-cost option within the context of Hydro's existing operations and organizational structure. The sharing of these resources supports Hydro's mandate of providing the least-cost reliable service to customers, as it reduces duplication of efforts between both Organizations and reduces Hydro's costs.

Costs associated with ERP additional functionalities implementation are allocated to Hydro in the same manner that the Board accepted was reasonable in the circumstances of the ERP like-for-like, and IM Program cost recovery.[17] The implementation of additional functionalities within JDE E1 has enabled Hydro to achieve intangible and tangible benefits for its customers. As these assets are both used and useful to the regulated business segment, Hydro is proposing the recovery of actual and forecast deferred costs to December 31, 2026, associated with the ERP additional functionalities implementation of $0.7 million, with disposition to be established at its next GRA as outlined in Schedule 1.

Hydro is also proposing to transfer existing IS assets that were in service at the time of the amalgamation of Nalcor and Hydro on January 1, 2025, from the non-regulated business segment to the regulated business segment. These assets include the JDE E1 ERP system and the associated JDE E1 additional functionalities described in this proposal. Future sustaining capital related to these assets and their supporting infrastructure will require Board approval and will be recorded in the regulated business segment. Accordingly, Hydro is proposing to transfer the existing IS assets so that both the original assets and all future sustaining capital investments are recorded within the same business segment. The continued exclusion of these assets from the regulated business segment creates challenges in achieving a fulsome and consistent application of regulatory processes. Absent the transfer, Hydro would be required to seek approval for sustaining capital investments on assets whose original costs and business justification were not reviewed or approved by the Board. The proposed transfer would be effective December 31, 2026, at the assets' forecast NBV of $0.7 million.

[17] Board Order No. P.U. 27(2022), p. 8/17–18.

Appendix E

TM1 Capital Depreciation and Budgeting Software

Contents

List of Attachments

1.0 Introduction

Newfoundland and Labrador Hydro ("Hydro") began its participation in the corporate Business System Transformation ("BST") Program in 2015 as part of a shared services offering led by Nalcor Energy ("Nalcor"). The purpose of the BST Program was to address technical and functional concerns with the integrated organization's ("Organization") existing systems.

The Organization's legacy budgeting tools prevented the integration of capital and operating budgeting and forecasting processes. Hydro's capital budgeting software had reached its end of service life, was no longer supported by the vendor and was in need of replacement. Ultimately, it was determined that a more robust system was required.

During the planning process, the Organization gathered requirements for the system in consultation with the key functional areas in the business, including Finance, Human Resources, and Capital Asset Management. The team also reviewed existing systems and processes to gather these requirements. Requirements were gathered for the income statement, balance sheet, capital projects, as well as labour and related benefits, which were then validated with the business and information systems ("IS") to determine priority.

The solution chosen was Cognos TM1 ("TM1"), which would effectively replace Hydro's legacy capital and operating budget tools, Capital Asset Projection Module ("CAPM") and Clarity software. Implementation began in 2018 and was scheduled to be completed in 2019. This solution was also intended to provide the additional benefit of integration with JD Edwards ("JDE") EnterpriseOne ("JDE E1") resulting in the standardization of data and reporting structures across systems. Such an integrated solution would support the existing organizational structure and its shared services model.

The implementation plan for TM1 included three releases, as shown in Appendix E, Attachment 1— Releases 1.1 and 1.2 would effectively replace Hydro's CAPM software and supporting activities; Release 1.3 would ultimately replace the Clarity software. Release 1.3 has not been completed. The purpose of this document is to provide the justification for the implementation of TM1 Release 1.1 and 1.2 and the benefits to Hydro's business and its customers.

2.0 Background

2.1 TM1 Approval History

In June 2022, Hydro applied for cost recovery relating to the like-for-like implementation of its Enterprise Resource Planning ("ERP") system JDE E1, along with Information Management ("IM") implementation, as was being conducted through the BST Program.[1]

At the time of the 2022 BST Application, Hydro did not request approval for recovery of any costs associated with TM1, including those that had already been deferred by Hydro, given the uncertainty regarding scope and future costs associated with TM1 implementation, as discussed in Section 2.2. Hydro noted the TM1 costs would be the subject of a future application. Since that time, Hydro has continued to defer TM1 costs in accordance with the Board of Commissioners of Public Utilities ("Board") Order No. P.U. 23(2019).

Since the 2022 BST Application, Hydro has re-evaluated the appropriate implementation chronology of IS projects and, in the third quarter of 2024, Hydro discontinued the BST Program and determined that any remaining in-scope projects would be approved as stand-alone projects pending a review of business priorities and project justification.[2] With the conclusion of the BST Program, Hydro believes it is also timely to propose the approval and recovery of the remaining BST Program deferred costs for assets that are currently in service that were excluded from the 2022 BST Application, including TM1.

Hydro does not believe continued deferral of the costs associated with these portions of the BST Program to be appropriate, as existing customers are benefitting from the TM1 assets in-service, and therefore it is reasonable from an intergenerational equity perspective to begin recovery of the associated costs.

As noted in Schedule 1 to this application, Hydro is proposing to transfer the existing IS assets which were in service upon amalgamation of Nalcor and Hydro on January 1, 2025 from its non-regulated business segment to its regulated business segment, including the TM1 in-service assets (Release 1.1 and 1.2), at their Net Book Value ("NBV") as at December 31, 2026. Future sustaining capital associated with these assets and related infrastructure will require Board approval and will be recorded in the

[1] "Business Systems Transformation Program Application," Newfoundland and Labrador Hydro, May 25, 2022 ("2022 BST Application").
[2] Remaining in-scope projects at that time included projects such as Accounts Payable ("AP") Automation and replacement of Clarity, Hydro's budgeting and forecasting software.

regulated business segment and therefore Hydro is proposing to transfer the existing IS assets so that the original asset and its sustaining capital are recorded in the same business segment. The omission of these assets from Hydro's regulated business presents issues in achieving fulsome and consistent application of regulatory processes; without the transfer, Hydro would be proposing future capital projects for sustaining capital on assets for which the costs and justification was never reviewed and approved by the Board.

In accordance with Board Order No. P.U. 23(2019), this evidence provides:

- Justification for replacing its existing business systems based on its business requirements;
- Alternatives evaluated by Hydro in its decision to proceed with a shared services offering with Nalcor;
- Justification of Hydro's chosen approach as both the least cost and the only reasonable alternative within the context of Hydro's existing operations and the overall organizational structure;
- The current implementation status and cost incurred to date;
- Costs and scope related to TM1 implementation; and
- Further information related to Hydro's share of costs associated with TM1 implementation, proposed for recovery with the amortization period for recovery to be determined in Hydro's next GRA.

2.2 Implementation Status

Like the ERP system implementation, the Organization took a multi-year, phased approach to the TM1 system implementation. Release 1.1 related to depreciation functionality and included foundational functionality, data cleansing, enhanced security model and improvements. Release 1.2 included capital budgeting functionality. Together, Release 1.1 and 1.2 replaced the functionality historically provided by CAPM and manual budgeting processes.

Release 1.3 was intended to replace the existing operating, budgeting and forecasting software, Clarity. Each release would build upon the last, cumulating in a comprehensive budgeting and forecasting system that would fully integrate with the JDE E1 ERP system.

Release 1.1 and 1.2 were completed in 2018 and 2019, respectively; however, work on Release 1.3 was paused in 2020 as a result of material shifts in timelines, costs, and contractual issues with the vendor selected to implement the software. As of the time of submission of this application, the replacement of Clarity remains paused, as discussed in Section 2.3.

Since its in-service date in 2019, Hydro has been utilizing TM1 Release 1.1. and 1.2 to perform its capital budgeting work in support of its annual capital program and supplemental capital applications.

2.3 Status of Budgeting and Forecasting Replacement

The timeline for the replacement of budgeting and forecasting software remains heavily impacted by organizational priorities. Hydro continues to use its current budgeting and forecasting software, Clarity, and other supporting software technologies. However, this is not sustainable in the long term as the Clarity software is approaching the end of life.

As at the time of the 2022 BST Application, Hydro had not yet determined its path forward on Release 1.3 of the TM1 budgeting and forecasting software. Since the 2022 BST Application, Hydro has prioritized the advancement of the AP Automation Project. Further, Hydro has decided to conclude the BST Program and execute any future projects related to its ERP, IM and the budgeting and forecasting system as separate capital projects.

Hydro is not requesting the recovery of any costs associated with TM1 Release 1.3 and is not proposing to transfer any of the assets which are not currently in service to the regulated business segment in this application.[3] Hydro has not yet determined its solution to replace Clarity, its current budgeting and forecasting software; however, its replacement will be the subject of a future capital budget application before the Board.

3.0 Justification

Within the TM1 implementation, Release 1.1 related to depreciation functionality and Release 1.2 included capital budgeting functionality. Together, Release 1.1 and 1.2 replaced the functionality historically provided by CAPM, Hydro's legacy capital budgeting software, and manual budgeting processes.

[3] A total of $3.2 million of expenditures related to Release 1.3 remains within Hydro's non-regulated entity.

Hydro's previous budgeting and forecasting and capital depreciation systems, some implemented more than 20 years ago, no longer adequately addressed the business and environment within which Hydro operated. CAPM was a highly customized software which was implemented in 2000, with subsequent enhancements in 2007 and 2008 and did not evolve with the changing needs of the business. CAPM did not provide flexibility to make changes to budgets or forecasts or to perform scenario analysis, thus limiting the ability to efficiently evaluate projects and infrastructure investments. In 2016, CAPM had reached its end of service life, was no longer supported by the vendor and needed replacement. Prior to the implementation of TM1, individual projects were populated within CAPM; however, the full annual capital budget was compiled manually via Excel spreadsheets with manual calculations for interest during construction, escalation and contingency, all of which are now completed within TM1. This manual process increased the risk of calculation errors, version control issues, and inconsistencies in the application of assumptions across projects, and relied heavily on individual judgment and manual intervention. With the implementation of TM1, these calculations are now performed within an integrated system, reducing these risks and improving consistency, transparency, and overall control over the capital budgeting process.

4.0 Alternatives

Hydro's options were as follows:

- Deferral; and
- Execute business system upgrades.

4.1 Deferral

In 2016, CAPM reached its end-of-service life, was no longer supported by the vendor and needed replacement. Therefore, its replacement was required for Hydro to meet its mandate of least-cost reliable service in the future, and deferral was not a viable option. In Board Order No. P.U. 23(2019), the Board agreed that it was reasonable for Hydro to consider upgrading or replacing its existing business and IM systems.[4]

[4] Board Order No. P.U. 23(2019), pp. 5–6/44–2.

4.2 Execute Business System Upgrades

As CAPM has reached the end of its service life, a replacement for the system was required. Legacy budgeting tools prevented the integration of capital and operating budgeting and forecasting processes, and the lack of interconnectivity created an elevated risk related to capital expenditure planning and decision-making.

At that time, Hydro pursued these upgrades and participated in a shared services offering with its parent, Nalcor, rather than electing to execute the upgrade independently. The Board had previously indicated in Board Order No. P.U. 27(2022) that it was satisfied that the shared-services approach is reasonable and consistent with the provision of least-cost service in the circumstances of other components of the BST Program, including IM and JDE like-for-like implementation. Hydro believes that it is also true for the execution of the broader BST Program, including the implementation of TM1.

4.2.1 Execute Upgrades Independently ("Hydro-Only" Approach)

Hydro did not consider execution of upgrades independent from Nalcor to be a viable alternative, as Hydro utilizes a shared services model[5] for corporate services including budgeting, forecasting and financial reporting, which requires financial data sharing across business segments, as well as integration with its ERP system, JDE E1. In Board Order No. P.U. 23(2019), the Board accepted that a high level of integration may be required in the circumstances.[6]

Hydro's capital depreciation, budgeting and forecasting system needs were the same or similar to those of Nalcor; therefore, assuming Hydro had chosen to execute a stand-alone approach, it is reasonable to conclude that a product similar to Nalcor's would have been required.

It is also reasonable to assume that the vendor information obtained through Nalcor's evaluation process for new software prior to the Request for Proposal process at the time would be representative of the costs associated with Hydro implementing the same system on its own compared to the shared services approach. Therefore, consistent with Hydro's conclusion on the other components of the BST

[5] The shared services approach is inclusive of the Information Systems ("IS") Administration Fee, part of the Administration Fee structure, whereby Hydro is charged a portion of the costs for services provided to all lines of business. During Hydro's 2013 General Rate Application ("GRA"), the allocation methods for the IS and Administration Fees were reviewed by the Board's expert, Brad Rolph from Doane Grant Thornton LLP, and Deloitte LLP, who all found the methods reasonable. The methodology has not materially changed since the 2013 GRA. The Intercompany Transactions Costing Guidelines ("Intercompany Guidelines") were updated in 2026 and reviewed by KPMG LLP ("KPMG"), a third-party expert, who determined them to be reasonable.
[6] Board Order No. P.U. 23(2019), p. 6/28–29.

Program, a Hydro-only option would have resulted in Hydro assuming all of the preliminary assessment and implementation costs for the same solution that it is receiving through the shared services approach, and at a greater cost.

In addition to the risk of system incompatibility with the rest of the Organization with which all of Hydro's operations were fully integrated, the increased costs associated with providing all of the currently shared services would be counter to Hydro's legislative obligation to provide service at the lowest possible cost consistent with reliable service. Ultimately, a Hydro-only model was screened out from in-depth evaluation at that time as it was not considered to be a viable or prudent option.

4.2.2 Participate in Shared Services Offering

An integrated solution, such as TM1 supports the existing organizational structure and its shared services model. The Board had previously accepted that a high level of integration in these systems may be appropriate.[7] Given the complex nature of Hydro's business, its integrated financial reporting systems, and its legislative mandate to provide service at the lowest possible cost consistent with reliability, participation in a shared-service offering was the only reasonable option. When assessing other components of the BST Program, in Board Order No. P.U. 27(2022), the Board indicated that it was satisfied that the shared-services approach is reasonable and consistent with the provision of least-cost service.

5.0 Selected Alternative

Given the cost and other challenges associated with a Hydro-only option in light of the integration of the companies and the risks associated with deferral, participation in the shared service offering was the only reasonable option for Hydro to replace its budgeting, forecasting and depreciation systems.

The shared services model and sharing of these common service costs among entities within the Organization has existed for an extended period of time and has been reflected in Hydro's 2015 and 2019 Test Years.[8] The sharing of these resources supports Hydro's mandate of providing the least-cost reliable service to customers, as it reduces duplication of efforts within the Organization and reduces Hydro's costs.

[7] Board Order No. P.U. 23(2019) p. 6/28–29.
[8] Board Order No. P.U. 49(2016) and Board Order No. P.U. 16(2019).

By participating in the BST Program, Hydro was able to avail of economies of scale and reduce costs for its customers by incurring only a portion of the overall cost of the establishment and implementation of the TM1 software, as well as the preliminary assessment, which were not charged to Hydro. Based on the conclusion that Hydro likely would have adopted a similar solution and product as Nalcor, the shared services approach was also the least-cost alternative for Hydro.

6.0 Cost Allocation Methodology

Acquisition and implementation costs related to the TM1 Release 1.1. and 1.2 implementation have all been incurred by Nalcor. Hydro's portion of costs are charged through the BST Administration Fee ("BST Admin Fee") as operating costs. In line with Board direction, Hydro has deferred these costs in its BST Program Deferral Account.

The BST Admin Fee cost allocation methodology is provided in Schedule 2. The allocator used for the BST Admin Fee is a modification of the average users based on the relevant components of the BST Program (i.e., the average of a) number of full-time equivalents and b) JDE E1 users). In Board Order No. P.U. 27(2022), the Board accepted that the cost allocation methodology used in calculating Hydro's costs was reasonable in the circumstances of the ERP like-for-like and IM Program cost recovery.[9] The BST Admin Fee cost methodology has not materially changed since that time, and there has been no material change in the percentage allocation to Hydro's regulated business segment.
Sustaining capital costs associated with TM1 implementation are allocated via the IS Administration Fee, as detailed in Hydro's Intercompany Guidelines, provided as Attachment 1 to Schedule 1.

Hydro's Intercompany Guidelines ensure cost segregation between business segments, which were updated in 2026 and reviewed by KPMG. KPMG concluded that the Intercompany Guidelines are reasonable.[10] All costs associated with servicing the non-regulated business segments will be recovered from those business segments, including return on rate base.[11] Said another way, Hydro's Intercompany

[9] Board Order No. P.U. 27(2022), p. 8/17–18.
[10] For further information, please refer to "Review of Newfoundland and Labrador Hydro's Intercompany Transaction Costing Guidelines," Newfoundland and Labrador Hydro, March 30, 2026, att. 2.
[11] In accordance with Order in Council OC2013-343, Hydro is required to pay all costs related to the Lower Churchill Project. Therefore, the costs of the BST Program allocated to affiliates for recovery through the Muskrat Falls Power Purchase Agreement and the Transmission Funding Agreement will be included in the charges paid by Hydro's Island Interconnected customers.

Guidelines and the administration fee process ensure that regulated customers will not pay for non-regulated costs.

7.0 Cost

7.1 Implementation Cost

The planned project activities for Release 1.1 and Release 1.2 were successfully completed in 2018 and 2019, respectively, at a total cost of $4.5 million,[12] of which Hydro's regulated business segment share is $2.4 million. Costs were allocated to Hydro in accordance with the methodology outlined in Schedule 2 to this application. TM1 Release 1.1 and 1.2 costs by category are outlined in Table 1.

Table 1: Summary of TM1 Release 1.1 and 1.2 Costs by Category ($ Millions)

Cost Category	Total Costs Incurred as of December 2026
Capital	3.4
Operating	0.8
Program Management	0.3
Total	**4.5**

7.2 Proposed Asset Transfer effective December 31, 2026

Hydro is proposing to transfer TM1 Releases 1.1 and 1.2 and subsequent sustaining capital-related expenditures (i.e., the portion of TM1 assets that are currently in-service) to the regulated business segment for inclusion in rate base at the remaining NBV as at December 31, 2026, of $0.7 million.

A breakdown of the capital expenditures related to TM1 is included in Table 2 including gross capital cost, proposed transfer value being the NBV as of December 31, 2026 and an estimate of the portion of the remaining NBV, which will be allocated to the regulated business segment through the admin fees.

[12] Excluding preliminary assessment costs not charged to Hydro, and costs incurred which were expensed by Hydro prior to the approval to defer costs in Board Order No. P.U. 16(2019).

Table 2: Summary of Asset Cost and NBV – TM1 Asset Category ($ Millions)

	Forecast Total Gross Capital Costs as of December 31, 2026	Forecast NBV as of December 31, 2026	Regulated Hydro's Estimated Share of Remaining NBV[13] (%)
TM1 Release 1.1 and 1.2 (BST Program)	3.4	0.6	5.0
Sustaining Capital	0.2	0.1	57
Total	**3.6**	**0.7**	

Upon the proposed transfer date of December 31, 2026, $3.6 million gross capital costs incurred on TM1 Release 1.1 and 1.2 and subsequent sustaining capital costs, $2.9 million will be depreciated and already allocated to Hydro's business segments via the BST and IS Administration Fees in accordance with Hydro's Intercompany Guidelines. The portion related to Hydro's regulated business segment, which was incurred as part of the BST Program, has been deferred in Hydro's BST Program Deferral Account, as discussed in Schedule 1.

The remaining $0.7 million will be depreciated over the assets' remaining useful life, and costs will be allocated accordingly to the other business segments by Hydro in accordance with the Intercompany Guidelines. Cost recovery from each entity will also include the recovery of the rate of return on the portion of the asset value which has been allocated to each business segment.

8.0 Conclusion

To ensure business continuity and legislative compliance, Hydro advanced the replacement of its business and IM systems through the BST Program, including the implementation of TM1 software. Hydro's approach focused on identifying its business requirements and cost-effectively implementing technology to modernize its outdated system and manual processes.

Hydro's participation in a shared services offering with Nalcor to implement TM1 and replace its legacy depreciation software CAPM, was both the only reasonable alternative and the least-cost option within the context of Hydro's existing operations and organizational structure. The sharing of these resources

[13] Includes an estimate of costs to be allocated to the regulated business segment under the BST and IS Administration Fees, as applicable. Excludes costs that will be allocated to the entities associated with the assets and ultimately recovered from the regulated business segment through payments for power purchases. Also excludes the impact of return on rate base.

supports Hydro's mandate of providing the least-cost reliable service to customers, as it reduces duplication of efforts between both Organizations and reduces Hydro's costs.

Costs associated with TM1 Release 1.1. and 1.2 implementation are allocated to Hydro in the same manner that the Board accepted was reasonable in the circumstances of the ERP like-for-like, and IM Program cost recovery.[14] The implementation of TM1 Release 1.1 and 1.2 has enabled Hydro to achieve intangible and tangible benefits for its customers. As these assets are both used and useful to the regulated business segment, Hydro is proposing the recovery of actual and forecast deferred costs to December 31, 2026, of $2.0 million, with disposition to be established at its next GRA as outlined in Schedule 1.

Hydro is also proposing to transfer existing IS assets that were in service at the time of the amalgamation of Nalcor and Hydro on January 1, 2025, from the non-regulated business segment to the regulated business segment. These assets include TM1 Release 1.1 and 1.2, described in this proposal. Future sustaining capital related to these assets and their supporting infrastructure will require Board approval and will be recorded in the regulated business segment. Accordingly, Hydro is proposing to transfer the existing IS assets so that both the original assets and all future sustaining capital investments are recorded within the same business segment. The continued exclusion of these assets from the regulated business segment creates challenges in achieving a fulsome and consistent application of regulatory processes. Absent the transfer, Hydro would be required to seek approval for sustaining capital investments on assets whose original costs and business justification were not reviewed or approved by the Board. The proposed transfer would be effective December 31, 2026, at the assets' forecast NBV of $0.7 million.

[14] Board Order No. P.U. 27(2022), p. 8/17–18.

Appendix E, Attachment 1

TM1 Release Schedule and Functionality Overview

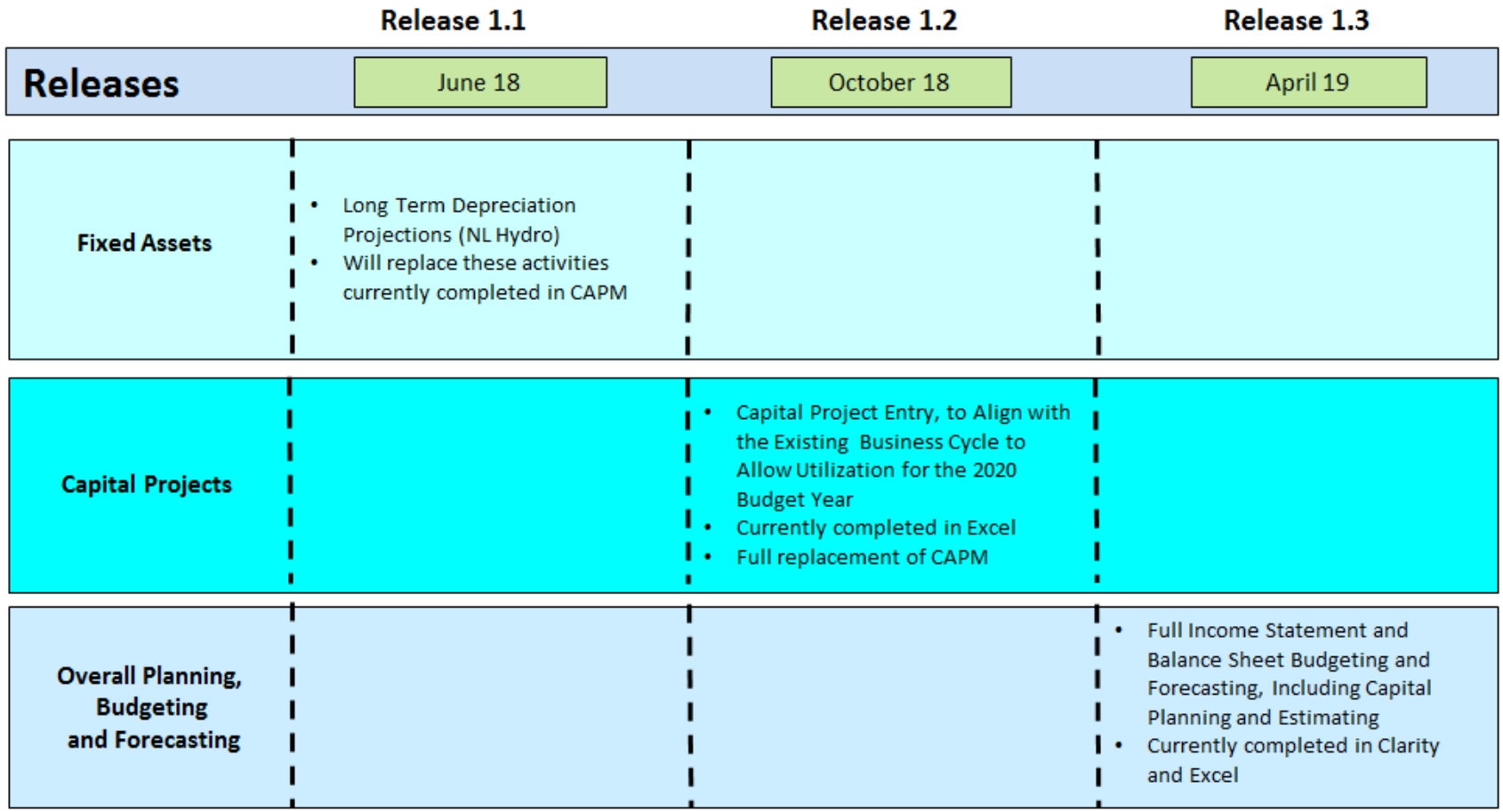

Chart 1: Planning, Budgeting, and Forecasting Release Schedule and Functionality Review

Attachment 1

Intercompany Transactions Costing Guidelines

Newfoundland and Labrador Hydro

Intercompany Transactions Costing Guidelines

2026 Update

March 30, 2026

A report to the Board of Commissioners of Public Utilities

Contents

List of Appendices

1.0 Purpose

This document is intended to outline the guidelines for charging costs across the lines of business within Newfoundland and Labrador Hydro ("Hydro" or "Company").

2.0 Introduction

Hydro is a regulated utility owned by the people of Newfoundland and Labrador and subject to the *Public Utilities Act* and the *Electrical Power and Control Act, 1994*. The former Nalcor Energy ("Nalcor") legal entity was a Crown corporation that was established in 2007 as part of one of the key initiatives of Newfoundland and Labrador's Energy Plan. Effective January 1, 2025, Hydro and Nalcor legally amalgamated, resulting in the establishment of Hydro as the parent corporation. The legal entity structure is outlined in Figure 1.

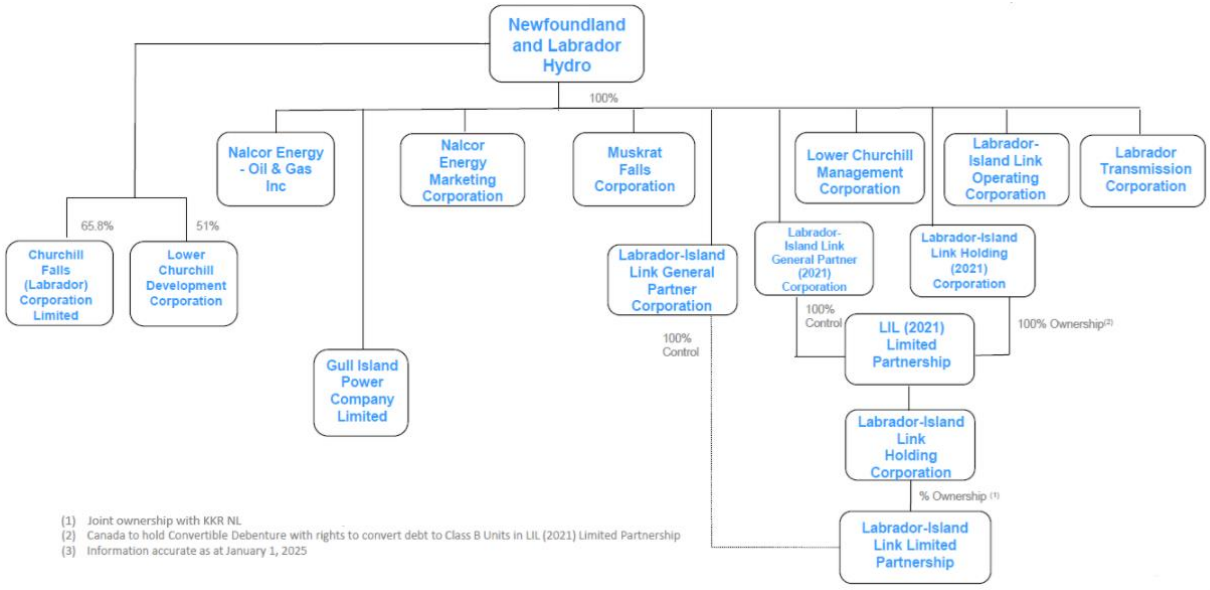

Figure 1: Legal Entity Structure

Hydro's business includes the development, generation, transmission, distribution and sale of electricity, including energy marketing and the development, production and sale of oil and gas. These Intercompany Transactions Costing Guidelines apply to both intra-company and intercompany transactions. The Hydro legal entity includes both regulated and non-regulated business segments. Hydro's activities are regulated by the provincial utility regulator (the Board of Commissioners of Public Utilities). Hydro's non-regulated business segment includes activities that had been included in the former Nalcor legal entity, as well as activities that were excluded from recovery from customers

through electricity rates. For purposes of this report, "regulated" and "non-regulated" are considered lines of business.

The guidelines are based on the principle of cost-based recovery. There is no profit component, and employees track time worked for other lines of business and recoverable entities using a weekly time sheet. This results in a labour recharge, which is also used in the calculation of net full-time equivalents ("FTE"). Costs associated with the operations of certain departments are allocated through an Administration Fee as outlined in this document. Administration Fee business units are based in both regulated and non-regulated business segments.

3.0 Costing Methods

The costing framework used includes three primary means of charging costs among lines of business at Hydro.

- Type 1 – Administration Fee costs;
- Type 2 – Costs related to the provision of Corporate Services; and
- Type 3 – Cost Recovery business units.

3.1 Type 1 – Administration Fee Costs

Certain functions provide common services to various lines of business and recoverable entities, and the nature of that work is performed in the general interest of the organization, providing equitable benefit across all lines of business and recoverable entities. Costs are recovered through an Administration Fee as described below. FTEs in Administration Fee business units are counted in the entity in which they are based; however, their costs are allocated through an Administration Fee. For the purpose of allocating Administration Fees, FTEs within Administration Fee business units are excluded from the calculation for the applicable line of business. Time should be tracked in the Administration Fee business unit for allocation amongst all lines of business and recoverable entity, unless a project or scope of work incorporates a significant portion of an individual's working hours within a year and is identified to be for the benefit of a particular line(s) of business or recoverable entities (e.g., negotiation of major commercial or labour contract). Table 1 outlines Hydro's Administration Fees.

Table 1: Administration Fees

Department	Allocation Basis	Home Business Unit (Regulated vs. Non-Regulated)
Human Resources ("HR")	FTEs	Non-Regulated[1]
Safety and Health	Hybrid Allocator[2]	Non-Regulated
Environment	Hybrid Allocator	Non-Regulated
Information Systems ("IS")	Average Users[3]	Non-Regulated[4]
Business System Transformation ("BST") Fees	Average Users[5]	Non-Regulated
Hydro Place Office Space and Related Costs	Square Footage	Regulated
Network Services Costs	Average Users	Regulated
Accounts Payable ("AP")	Number of Invoices	Non-Regulated
General Ledger	Average number of Journal Entries, Accounts Receivable ("AR") Invoices and Cash Receipts	Non-Regulated
Procurement	Number of Purchase Orders	Regulated
Executive	Hybrid Allocator	Non-Regulated
Corporate Secretary	Hybrid Allocator	Non-Regulated
Culture (Internal Communications)	Hybrid Allocator	Non-Regulated[6]
Employee Engagement	FTEs	Non-Regulated

3.1.1 Human Resources

HR provides shared service to all lines of business and recoverable entities in the areas of:

- Payroll;
- HR systems;
- Pension administration;
- Administration of the performance management system;
- Workforce planning;

[1] Administration Fee business units exist in both regulated and non-regulated business segments for this common service.
[2] The Hybrid Allocator uses the line of business total gross capital assets and total operating and maintenance costs, both weighted at 50%, to calculate the allocation of costs.
[3] Average users for the IS fee is defined as the average of the number of FTEs and contractors, email inboxes, number of computers and JD Edwards ("JDE") users.
[4] *Supra*, f.n. 1.
[5] Average users for the BST fee is defined as the average of FTEs and JDE users.
[6] *Supra*, f.n. 1.

- Employee development; and
- Maintenance of the HR database.

Operating costs incurred in providing HR services in the Administration Fee business unit are allocated to the lines of business and recoverable entities on an FTE basis.

3.1.2 Safety, Health and Environment

Hydro's Safety, Health and Environment department provides guidance on corporate safety, health and environment initiatives and oversight on internal policy, procedures and legislation; coordinates corporate efforts with regard to environmental stewardship; and Occupational Health services, including coordinating corporate efforts with regard to employee safety and wellness. Operating costs incurred in providing safety and health services are allocated to the lines of business and recoverable entities using a Hybrid Allocator.

3.1.3 Information Systems (Regulated and Non-Regulated)

IS provides assistance and support in the areas of software applications, planning and integration, and business solutions. This department is also responsible for the Company's information management programming, as well as maintenance and administration of the company-wide computer infrastructure and provides technical support. Operating costs incurred in providing IS services are allocated to the lines of business and recoverable entities on an average user basis. Depreciation expenses and a return on rate base at the weighted average cost of capital ("WACC") for costs certain capitalized are allocated to each line of business on an average user basis.[7] Costs that are incurred solely for a particular line of business, rather than shared among the lines of business and recoverable entities, are charged to that line of business and are excluded from the determination of shared costs.

3.1.4 Business Systems Transformation

Separate from the IS fee is the BST fee, which is made up of three components: capital costs, non-capital costs and program management costs. The BST fee allocator is the average of two ratios: the percentage share of overall users and the percentage share of overall FTEs in relation to Hydro and its subsidiaries.

[7] Return on rate base is applicable to regulated assets only.

Costs that were incurred for the benefit of a specific line of business are excluded from the common service cost allocation.

3.1.5 Office Space

Each line of business and recoverable entity occupying floor space at Hydro Place is charged a rental charge for floor space. The square footage rental rate reflects the average annual capital and operating cost for Hydro Place as determined by the following formula:

$$\frac{\text{Hydro Place Operating Costs + Return on Rate Base + Annual Depreciation}}{\text{Hydro Place Total Square Footage}}$$

3.1.6 Network Services Costs

All lines of business and recoverable entities are charged their share of costs relating to network services, including maintenance of the LAN[8] and phone networks, internet connectivity and cell phone administration costs. Operating costs incurred in providing network services are allocated to the lines of business and recoverable entities on an average user basis.

3.1.7 Executive Costs

The Executive team provides leadership, strategic oversight and decision-making. Certain executive roles, namely the Chief Executive Officer, General Counsel, and the Vice Presidents responsible for Finance and HR and their support staff, provide executive services that benefit all lines of business and recoverable entities, and accordingly, operating costs associated with these services are allocated using a Hybrid Allocator.

3.1.8 Culture (Internal Communications)

Hydro's Culture team provides support to the organization and its customers through management of internal company communications, management of Hydro's website and social media channels, and is responsible for Hydro's corporate brand and customer education materials. As the work of this department benefits the organization as a whole and is generally not linked to one particular line of business, operating costs incurred in providing communications services (excluding non-regulated

[8] Local Area Network ("LAN").

advertising costs unrelated to matters relating to conservation, safety and consumer information) are allocated to each line of business and recoverable entity using a Hybrid Allocator.

3.1.9 Employee Engagement

Hydro's Employee Engagement team provides guidance on corporate engagement and inclusion, diversity, equity and accessibility initiatives and oversight on internal policy, procedures and legislation, including:

- Diversity, Equity and Inclusion Programming;
- Employee Recognition Programs;
- Employee Onboarding; and
- Employee Engagement Initiatives.

As the work of this department benefits the organization as a whole and is generally not linked to one particular line of business, operating costs incurred in providing employee engagement services are allocated to each line of business and recoverable entity on an FTE basis.

3.1.10 Corporate Secretary

The Corporate Secretary team provides support to Hydro's Board of Directors, as well as fulfills Hydro's governance and legislative responsibilities. As the work within this department benefits the organization as a whole and is generally not linked to one particular line of business, operating costs incurred in providing legal and corporate secretary services are allocated to each line of business and recoverable entity using a Hybrid Allocator.

3.1.11 Accounts Payable

The AP team within the Finance division provides invoice processing services to all lines of business and recoverable entities. Operating costs incurred to provide this service are allocated to the lines of business based on the percentage of invoices processed per line of business.

3.1.12 General Ledger

The General Ledger team within the Finance division provides general ledger management services for miscellaneous AR, journal entry processing and recording cash receipts for all lines of business and

recoverable entities. Operating costs incurred in providing the General Ledger services are allocated based on the proportion of the average of AR invoices, journal entries and cash receipts recorded.

3.1.13 Supply Chain

The Supply Chain team provides services to all lines of business, primarily related to management of the procurement process, including tendering, contract management, creation and management of purchase orders and change requests. Operating costs incurred to provide the procurement services are allocated to the lines of business and recoverable entities based on the number of purchase orders issued per line of business.

3.2 Type 2 – Corporate Costs and Services Provided Across Lines of Business

Certain departments provide corporate services (or shared services) to other lines of business and recoverable entities within Hydro, which can be assigned to one or more specific lines of business and recoverable entities. These services include management, treasury, legal, labour relations, recruitment, engineering services and administration. Transactions associated with these services are governed by these guidelines. Intercompany transactions operate on the premise that all transactions are billed at cost. Corporate costs incurred within various lines of business and recoverable entities are charged to the appropriate line of business as described below.

Employees hired within departments providing corporate services for both regulated and non-regulated functions are assigned a home business unit based on their role and primary responsibilities. Where an employee is expected to provide equal services to the regulated and non-regulated business, the default is a non-regulated business unit.

Operational departments within a particular line of business may be required to provide services to other lines of business and recoverable entities. This may occur for reasons such as geographic location, identified efficiencies in work execution, or circumstances where additional support is required (i.e., adverse weather response, emergency repairs, extended outages, etc.). Transactions associated with these services are governed by these guidelines. Intercompany transactions operate on the premise that all transactions are billed at cost.

3.2.1 Employee Labour Costs

All employees of Hydro are required to charge time by completing time sheets, which allocate labour to work orders based on activity. The guiding principle is that where an employee spends time on specific tasks and work activities for another entity or line of business, time is to be charged at cost. Cost, or the bill rate, is defined as labour costs, fringe benefits (including time off) and other direct costs. Please refer to Appendix A for a detailed listing of the components of the bill rate. The operating bill rates are reviewed annually and updated as required. Labour hours that are recharged through this process are used in the calculation of net FTEs.

3.2.2 Overtime

Overtime will be charged as incurred in accordance with the overtime policy, and no additional markup or fixed charge is applied.

3.2.3 Time Sheets

All employees are required to complete weekly time sheets. All work hours must be coded to work orders in order to adequately track hours to the appropriate business unit. Time is coded in 30-minute increments.

3.2.4 Corporate Services[9]

The most common functions and departments that may share services across entities and charge time for services to individual lines of business and recoverable entities include:

1) **Leadership Team**

   Executive and director roles providing strategic oversight and general management that are not included in the Executive common service business unit.

2) **Legal**

   Legal Counsel's responsibilities include the provision of legal services.

3) **Internal Audit**

   The Internal Audit department provides auditing services as determined in audit plans and engagements.

[9] Corporate Services costs exclude the Type 1 costs mentioned above that are allocated through an Administration Fee.

4) Engineering Services

Engineering Services provide expertise and guidance in all engineering disciplines and cover such items as:

- **i.** Design, construction and project management;
- **ii.** Engineering studies, technical specifications and construction coordination;
- **iii.** Tender preparation and analysis, including interaction with consultants; and
- **iv.** Review and resolution of maintenance problems.

5) Environmental Services

The Environmental Services department's activities include auditing for compliance with government regulations and corporate policy, obtaining permits and approvals for proposed programs and advising on environmental matters.

6) Financial Planning

The Financial Planning department provides services to facilitate the production, review and distribution of annual long-term financial plans. As well, they provide financial planning and analyses for various activities and scenarios.

7) Insurance

The Insurance department provides services related to the placement, policy and claims administration of the corporate insurance program.

8) Other Financial Services

The Finance division also provides capital accounting, technical accounting, consolidated and entity-specific budgeting and forecasting, financial systems, treasury, tax, and divisional financial reporting services for each line of business.

9) Major Projects and Asset Management

This division provides guidance and oversight on asset management policy and procedures, as well as project engineering and execution services to capital projects over a prescribed threshold.

10) Public Affairs and Stakeholder Relations

This division provides guidance and oversight on Hydro's stakeholder relations as well as external public affairs.

11) Strategic Planning and Risk Management

Hydro's Strategic Planning and Risk Management department provides guidance and monitoring on corporate strategic initiatives and corporate Risk Management guidance, including support to Hydro's Board of Directors.

3.2.5 Fixed Charge

In addition to labour costs, a fixed rate will be applied to each hour of regular labour charged to lines of business and recoverable entities. The fixed charge accounts for the additional cost, beyond basic salary and benefit costs, of having an employee available to provide service. The fixed charge recovers costs originally charged in the Administration Fee as well as other employee-related costs, including:

- Telephone and fax;
- Books and subscriptions;
- Membership fees and dues;
- Conferences;
- Training; and
- Employee expenses (e.g., overtime meal allowance).

While most employees who provide intercompany services are located in Hydro Place, this rate will also be used as a proxy for employees working from other locations.

The fixed charge rate is reviewed annually and updated accordingly.

3.2.6 Materials Costs

Materials issued from inventory will be charged at cost to the applicable line of business.

3.2.7 Vehicle and Other Equipment Costs

Vehicles utilized across lines of business and recoverable entities will be charged a rental rate which is based upon the type of vehicle utilized. The rental charge is calculated by multiplying the usage time by the daily or hourly rental rate for the applicable vehicle. The rental rates are updated annually.

3.2.8 Computers

Computer purchases are charged directly to the applicable line of business.

3.3 Type 3 – Cost Recovery Business Units

Certain functions incur costs on a cost recovery basis. In these cases, all costs associated with the activity are charged in accordance with the applicable cost recovery arrangements.

4.0 Billing and Collection

Invoices for the recovery of intercompany transactions are to be issued on a monthly basis. Billings to and from related entities shall be undertaken within 30 days of the end of the month in which the service, resource or asset is provided. Receivables between related companies are paid upon invoice receipt from a related entity. If the invoice is not paid in full within 30 days from the date of the invoice, interest charges may apply. Finance charges are calculated by applying a rate to the intercompany balance(s) that is equal to the cost of short-term financing for the company to which the balance is owed. If the company to which the balance is owed is Hydro, then the rate applied to such balances is the last approved WACC. In certain cases, where it is advantageous for Hydro, settlement terms may differ from the process noted above.

Appendix A

Operating Bill Rate Components

Operating Bill Rate Components

Components of the operating bill rate are as follows:

- Salary Cost Components:
  - Salaries and Temporary Salaries, including the payroll code for Easeback/Return to Work
  - Other Salary Costs – Retroactive Pay
- Mark Up Components:
  - Fringe Benefit Costs
    - Canada Pension Plan
    - Employment Insurance
    - Public Service Pension Plan ("PSPP")
    - Group Money Purchase Plan
    - Prior Service Matched PSPP
    - Workplace Health Safety and Compensation Premiums
- Insurances:
  - Life Insurances
  - Accidental Death and Dismemberment Insurance
  - Medical Insurance
  - Dental Insurance
- Company Costs:
  - Employee Future Benefits Expense
  - Payroll Taxes
  - Other Salary Costs - Bonus, Performance Contracts and Signing Bonus
- Leave:
  - All paid leave types

Attachment 2

IS Asset List

Table 1: Listing of IS Assets In-Service Prior to January 1, 2025 and Forecasted Net Book Value as of Decemeber 31, 2026

Asset Category	Capital Expenditure Type	Description	In-Service Date	Capital Cost ($000)	Net Book Value ($000)
TM1	BST Program	BUDGET & FORECASTING R1.1	8/1/2018	1,239	199
TM1	BST Program	BUDGET & FORECASTING R 1.2	1/21/2019	1,756	355
TM1	BST Program	TM1 APRIL FIXES	4/5/2019	159	36
TM1	BST Program	TM1 MAY ENHANCEMENTS	7/12/2019	208	52
TM1	BST Program	TM1 MAY ENHANCEMENTS	7/12/2019	23	6
TM1	Sustaining Capital	ELG ENHANCEMENTS (TM1)	12/9/2019	17	5
TM1	Sustaining Capital	TM1 UPGRADE 2019 (LICENSES)	12/11/2019	53	16
TM1	Sustaining Capital	2020 TM1 1.1 GRA ENHANCEMENTS	11/30/2020	47	18
TM1	Sustaining Capital	IBM BAE TM1 LICENSING	12/5/2023	51	38
TM1	Sustaining Capital	B&F R1.2 2023 ENHANCEMENTS	1/12/2024	6	4
SUBTOTAL TM1				**3,560**	**728**
JDE	BST Program	JD Edwards Enterprise One	5/1/2018	32	9
JDE	BST Program	UTILIGY 360	5/1/2018	245	72
JDE	BST Program	JDE REPORTING	12/31/2019	52	3
JDE	BST Program (JDE Additional Functionalities)	CREW SCHEDULING - CAPM	12/17/2019	266	79
JDE	BST Program (JDE Additional Functionalities)	ONLINE REQUISITON	12/17/2019	14	5
JDE	BST Program (JDE Additional Functionalities)	EMPLOYEE SELF SERVICE	11/30/2020	14	1
JDE	BST Program (JDE Additional Functionalities)	JDE EMPLOYEE SELF SERVICE	9/23/2021	246	80
JDE	BST Program (JDE Additional Functionalities)	CS WO AUTOMATION	12/31/2021	117	45
JDE	Sustaining Capital	PERFORMANCE TESTING FOR E1	7/28/2017	15,513	2,088
JDE	Sustaining Capital	Q SOFTWARE - SECURITY FOR E1	6/12/2017	2,697	365
JDE	Sustaining Capital	JDE E1 SHOWCASE REPORTING	1/9/2020	666	317
JDE	Sustaining Capital	2019 JDE E1 TOOLS UPGRADE	4/15/2020	514	254
JDE	Sustaining Capital	2020 JDE LICENSES	11/30/2020	10	3
JDE	Sustaining Capital	2021 TOOLS UPGRADE	5/31/2021	317	138
JDE	Sustaining Capital	JDE ENHANCED AUDITING	10/24/2022	55	32
JDE	Sustaining Capital	JDE TOOLS UPGRADE 2023	11/24/2023	578	396
JDE	Sustaining Capital	QSOFT UPGRADE 2024	12/3/2024	3	2
SUBTOTAL JDE				**21,340**	**3,890**
IM	BST Program	HP Content Manager	12/12/2018	49	10
IM	BST Program	HP Content Manager DataSet	11/25/2019	165	47
IM	Sustaining Capital	HUMAN RESOURCE DATASET	11/23/2020	49	19
IM	Sustaining Capital	SUPPLY CHAIN DATASET	11/23/2020	58	23
IM	Sustaining Capital	ATIPP OFFICE DATASET	11/23/2020	42	16
IM	Sustaining Capital	2021 SAFETY DATA SHEETS	12/31/2021	52	26
IM	Sustaining Capital	HP CONTENT MGR SAFETY & HEALTH	12/31/2021	56	28
IM	Sustaining Capital	HP CONTENT MGR INFORMATION SYS	12/31/2021	40	20
IM	Sustaining Capital	CONTENT MANAGER UPGRADE 2022	9/12/2022	129	73
IM	Sustaining Capital	CONTENT MANAGER DATASET	12/31/2022	21	12
IM	Sustaining Capital	CONTENT MANAGER DATASET	12/31/2022	35	21
IM	Sustaining Capital	CONTENT MANAGER DATASET	12/31/2022	31	19
IM	Sustaining Capital	CORPORATE PLANNING DATASET	12/31/2023	30	21
IM	Sustaining Capital	FORMS DATABASE	11/13/2024	17	13
IM	Sustaining Capital	SUSTAINABILITY FRAMEWORK	11/13/2024	5	4
IM	Sustaining Capital	ITWN	9/30/2024	5	4
IM	Sustaining Capital	HYDRO POLICY	11/30/2024	23	18
SUBTOTAL IM				**806**	**371**
TOTAL EXISTING ASSETS				**25,705**	**4,989**

Schedule 2

Cost Allocation Methodology

Contents

1.0 Business Systems Transformation Fee

1.1 Capital Costs

Business System Transformation ("BST") Program costs meeting capitalization criteria, including internal labour, professional services, and hardware and software costs, were recorded in separately identifiable capital project accounts in Nalcor Energy's ("Nalcor") financial records.[1] Under the BST Program, Nalcor would incur all costs for the capital projects associated with the BST Program while projects are in progress. When implementation was complete, Nalcor would create new asset accounts and transfer the program costs to these assets. With the assets in service, the full cost of each asset would be depreciated over the course of its useful life.[2] On a monthly basis, a fee is charged to each line of business for its share of the depreciation costs related to the assets on a *pro-rata* basis through the Intercompany Administration Fee.[3]

The Business System Fee allocator used to charge each line of business annually is the average of two ratios: (i) share of overall JD Edwards users and (ii) share of overall full-time equivalents in relation to the parent company and its subsidiaries.

The only exception to the *pro-rata* process is when a capital cost is incurred for the benefit of a specific line of business. In these instances, 100% of the depreciation charge is allocated to the specific line of business. For example, the implementation of the customer service module, Utiligy360, as part of the JD Edwards EnterpriseOne Project is for use by Hydro's regulated business segment only and is therefore charged solely to that business segment.

1.2 Non-Capital Costs

Project costs incurred within the BST Program that were ineligible for capitalization but not related to ongoing operations (i.e., upfront requirements gathering, project training, software support and

[1] In June 2021, the Government of Newfoundland and Labrador made an announcement to move Nalcor operations under Newfoundland and Labrador Hydro ("Hydro"). At that time, the changes were operational in nature; however, the companies began to operate as an integrated organization. The Nalcor legal entity structure and all of its subsidiaries remained unchanged until January 1, 2025, when the *Hydro Corporation Act, 2024,* served to finalize the legal amalgamation of Nalcor and Hydro.
[2] As a result of the amalgamation under the *Hydro Corporation Act, 2024*, Nalcor and Hydro's assets, liabilities, obligations and agreements continued under the amalgamated Hydro, and all Nalcor subsidiaries are now Hydro subsidiaries. These subsidiaries will continue to operate as they did prior to amalgamation.
[3] Since January 1, 2025, the Business System Fee is charged by Hydro's non-regulated business segment to the applicable entities.

maintenance, etc.) are allocated based on the same methodology as that used for the allocation of capital costs.

1.3 Program Management Costs

Costs related to the overall management, oversight and administration of the BST Program are recovered from the lines of business in the year in which they are incurred, using the following methodology:

- Approximately 50% of these costs were designated as shareable costs and were charged to Hydro and the other lines of business utilizing the same methodology as the capital and non-capital costs discussed above.
- The remaining 50% of the costs were allocated on a fixed fee basis among the number of companies using the system, less a fixed fee for inactive companies.

$$\frac{\text{(Total Program Management Costs x 50\%) - \$50,000}}{\text{Number of Companies}}$$

Affidavit

IN THE MATTER OF the *Electrical Power Control Act, 1994,* SNL 1994, Chapter E-5.1 ("*EPCA*") and the *Public Utilities Act*, RSNL 1990, Chapter P-47 ("*Act*"), and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro ("Hydro") for an Order relating to the treatment and approval of the costs associated with various Information Systems ("IS") Assets, pursuant to the *Act.*

AFFIDAVIT

I, Lisa Hutchens, of St. John's in the province of Newfoundland and Labrador, make oath and say as follows:

1) I am VP, Chief Financial Officer, Newfoundland and Labrador Hydro, the applicant named in the attached application.
2) I have read and understand the foregoing application.
3) To the best of my knowledge, information, and belief, all of the matters, facts, and things set out in this application are true.

SWORN at St. John's in the province of Newfoundland and Labrador this 31st day of March 2026, before me:

Commissioner for Oaths, Newfoundland and Labrador

Lisa Hutchens