

May 21, 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

On April 1, 2026, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") for approval of the costs associated with various Information Systems assets and the proposed treatment of those costs ("Application").

The Application addresses the appropriate regulatory treatment of certain Information Systems ("IS") assets following the amalgamation of Nalcor and Hydro, including the integration of those assets into Hydro's regulated framework and the treatment of associated historical and ongoing costs. Hydro proposes that these assets, which support regulated operations but are shared across business segments, should be treated in a manner consistent with established cost allocation practices, prior Board decisions, and the principle that only costs related to regulated service are recoverable from customers.

Party Comments

Newfoundland Power Inc. ("Newfoundland Power") advised that it does not object to Hydro's Application. Newfoundland Power indicated that technology modernization, upgrades, and maintenance support a utility's ability to provide least-cost, reliable service by meeting customer and business requirements, improving operational efficiency, and mitigating cybersecurity and other risks.

Newfoundland Power also noted that Hydro's proposed cost recovery approach is consistent with section 80 of the *Public Utilities Act* and aligns with previous Board approvals related to deferred cost recovery.

The Consumer Advocate also provided submissions regarding the Application. The Consumer Advocate noted that Hydro's assessment of project benefits is largely qualitative and referenced Hydro's statement, in its response to a request for information from the Board, that some benefits are not readily quantifiable.¹ The Consumer Advocate indicated that, while the projects are used and useful in the provision of regulated service, it is difficult to confirm that benefits exceed costs in each instance. The Consumer Advocate ultimately does not oppose the Application provided that the Board is satisfied that the projects are used and useful and meet the prudence test.

¹ Please refer to Hydro's response to PUB-NLH-001 of this proceeding.

No comments were received from any other parties.

Hydro's Reply

Hydro agrees with Newfoundland Power's submission that continued investment in IS assets, including modernization, upgrades, and maintenance, is necessary to support the provision of least-cost, reliable service. As detailed in the Application, the IS assets support critical business functions, including finance, customer service, human resources, and system operations, all of which are required to deliver regulated services.

With respect to the Consumer Advocate's comments, Hydro submits that while certain benefits associated with the noted expenditures cannot readily be quantified, utilities must balance cost, reliability, operational integrity, and long-term system needs. The absence of precise measurement of all project benefits does not, in itself, render an expenditure imprudent.

As detailed in Hydro's application, and in its response to PUB-NLH-001, the costs associated for each of the projects identified in Hydro's Application are justified, appropriate, reasonable, and necessary to maintain safe and reliable utility operations. The IS investments are necessary to ensure system functionality, protect against cybersecurity threats, and reduce the risk of service, disruption, privacy breaches, and financial loss. For example, continued reliance on the legacy Enterprise Resource Planning ("ERP"), replaced by JD Edwards EnterpriseOne ("JDE E1"), would have exposed Hydro to an unacceptable risk of system failure, data loss, and operational disruption, risking Hydro's ability to provide reliable, least cost service. The renewal of the Microsoft Enterprise Agreement provides Hydro with continued licensing for core Microsoft software products and ensures ongoing access to supported versions, including critical security patches and updates. This allows Hydro to avoid the increasing risks associated with unsupported software, including system instability, cybersecurity vulnerabilities, and potential operational disruptions, all of which could result in higher costs and reduced service reliability for customers. Hydro's response to PUB-NLH-001 provides details for each project that demonstrate how they are necessary, and the only viable alternatives, to allow for Hydro's ongoing reliable, efficient, and secure operations to the benefit of customers. This is consistent with prudent utility practice.

The proposed recovery is consistent with prior Board findings regarding system modernization and shared services. The Application reflects the evolution of the Business Systems Transformation Program and responds to earlier Board guidance to provide additional justification for cost recovery in the context of least-cost service. Hydro notes that elements of the ERP and Information Management programs have previously been reviewed and accepted by the Board, including the shared services model and associated cost allocation methodology.

The proposed transfer of assets to the regulated business segment ensures appropriate regulatory oversight of both the assets and the related sustaining capital, while the Intercompany Transaction Costing Guidelines ensure that only costs properly attributable to regulated service are recovered from customers.

Conclusion

Hydro submits that the Application demonstrates that the IS assets are prudent, used and useful in the provision of regulated service, and that the proposed cost recovery and allocation methodologies are consistent with established regulatory principles. Accordingly, Hydro respectfully requests that the Application be approved as submitted.

Mike McNiven
Board of Commissioners of Public Utilities

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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