Office of the Consumer Advocate

November 23, 2026

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

Attention: Mike McNiven, Board Secretary

Dear Mr. McNiven:

Re: Newfoundland and Labrador Hydro - Application for Approval of the Transfer of the Upgrade Collaboration Software Project Costs to the Cloud Cost Deferral Account – Consumer Advocate Comments

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On November 13, 2026 Newfoundland and Labrador Hydro ("Hydro") submitted to the Public Utilities Board (the "Board") an Application for Approval of the Transfer of the Upgrade Collaboration Software Project Costs to the Cloud Cost Deferral Account (the "Application"). In a letter dated November 18, 2026, the Board requested comments from the parties on the Application by November 25, 2026. This document conveys the comments of the Consumer Advocate.

Summary of Hydro UCS Application

Hydro seeks approval to transfer the operating costs related to the implementation of the Upgrade Collaboration Software project (the "UCS Project") to the Cloud Cost Deferral Account (the "CCDA"), which the Board approved in Order No. P.U. 35(2025), effective January 1, 2025 (Application, para. 5). Hydro requests that the Board (Application, para. 17):

> *...make an Order approving the transfer of the operating costs for the implementation of the upgrade to its collaboration software to the Deferral Account to be treated as defined in that account and included in the rate base.*

Hydro's existing collaboration software is a web-based platform used for storing documents, sharing information and collaborating across the organization, and has been in use for more than 15 years (Application, Schedule 1, Sections 1.0 and 4.2, pp. 1 and 4). In 2024, Hydro identified that the current

version would reach end of life in 2026. The upgrade was initially included in Hydro's Perform Software Upgrades and Minor Enhancements – Information Technology (2024–2026) Program, with a budget of $400,000. In 2025, Hydro issued a request for proposals with the intent of upgrading to another on-premises solution. During the procurement process, it was determined that the solution would be cloud-based, as the vendor has announced it will no longer support on-premises solutions. The project was removed from the program scope, and the procurement process indicated that the cloud-based solution would cost approximately $1.4 million (Application, Schedule 1, Section 2.0, p. 2).

Hydro evaluated three alternatives: deferral, like-for-like replacement and upgrade life extension. Hydro concluded that deferral was not viable given the security risks and operational challenges of unsupported software, and that a like-for-like replacement from an alternative vendor was not viable because the alternative platform did not integrate with Hydro's core technologies (Application, Schedule 1, Sections 5.1.1 and 5.1.2, p. 5). Hydro states that "*a least-cost evaluation was therefore not applicable*" (Application, Schedule 1, Section 5.2, p. 6). Hydro proceeded with implementation of the cloud-based solution in April 2026, with full implementation expected to be completed in June 2027 (Application, para. 13).

Hydro proposes to allocate the UCS Project costs using its Intercompany Transactions Guidelines under the IS Administrative Fee based on average users, with approximately 57% of the total cost allocated to the regulated business segment (Application, Schedule 1, Section 6.1, p. 7).

The Consumer Advocate's Position

Given the practical considerations associated with the nature of the UCS expenditures, consistency with the intent of the CCDA, and relative immateriality of the associated expenditures, the Consumer Advocate does not oppose this Application. However, Hydro should be required to file future applications with respect to information technology projects in advance of incurring significant implementation expenditures. There should be sufficient time in the process to allow for RFIs (or some form of information provision process) if necessary and time to appropriately consider alternatives and risks in advance.

The Consumer Advocate notes that the proposed 57% allocation to the regulated business segment is based on the average users allocator proposed by Hydro in its 2026 General Rate Application ("GRA"). The Revenue Requirement Evidence of D. Rainkie filed in the 2026 GRA recommends a 44% allocation to the regulated business segment. The Consumer Advocate's position on this Application should not be taken as acceptance of the proposed allocation, which should follow the Board's determination of this issue in the 2026 GRA.

Consistency with the Intent of the CCDA

The transfer of the UCS Project costs to the CCDA is consistent with the intent of the CCDA and generally accepted regulatory principles. IFRS financial reporting standards do not allow for the capitalization of implementation expenditures related to cloud-based solutions (Application, para. 6, footnote 1; Schedule 1, Section 2.0, p. 2, footnote 5), even though these expenditures provide ratepayers with a period of benefit

similar to expenditures for on-premises solutions. Transferring the UCS Project costs to the CCDA would allow them to be amortized into rates over a period of 7 to 10 years, depending on how they are classified under Hydro's most recent depreciation study. This treatment is consistent with the intent of the CCDA, the regulatory principle of intergenerational equity, and the recovery of costs from ratepayers over the reasonable period of benefit associated with the expenditures.

The UCS Expenditures are Relatively Immaterial

The estimated $1.4 million cost of the UCS Project is relatively immaterial when considered against Hydro's overall revenue requirement, which is in the order of $800 million after rate mitigation and $1.3 billion before rate mitigation, particularly as these costs will be amortized into rates over 7 to 10 years. The concerns outlined below are less acute at this magnitude than they would be for a materially larger expenditure.

Hydro Proceeded with Implementation and Substantial Expenditures Before Seeking Board Approval

Hydro began implementation of the UCS Project in April 2026, seven months before it filed the Application and in advance of receiving approval from the Board. Hydro projects that it will have incurred $873,100, or approximately 62% of the total estimated project cost of $1,401,700, by the end of 2026 (Application, Schedule 1, Section 6.1, Table 2, p. 7). The change in the project's scope and cost, from a $400,000 on-premises upgrade within an existing program to a $1.4 million cloud-based implementation, was identified during the procurement process, before implementation began in April 2026 (Application, Schedule 1, Section 2.0, pp. 2 to 3). That was the appropriate point for Hydro to bring the project before the Board.

The Application Does Not Adequately Consider Alternatives

The Application's evaluation of alternatives appears to be narrow and does not consider possible options that could have addressed the end of life of the existing software. The Application does not, for example, address whether third-party vendors, whose business models include supporting software after the original vendor has discontinued support, could have provided a lower cost alternative.

Regulatory applications that proceed from a default position that the status quo is not an option, supported by weak or no alternatives, do not serve the public interest and do not foster public confidence in the prudence review of utility expenditures. Combined with the timing of the Application, these circumstances leave the Board with a difficult binary choice: approve the Application, or disallow costs that have already been spent, with no other alternatives available.

Concluding Comments

On balance in this particular instance, the practical considerations outweigh the principled concerns associated with the timing, circumstances, and lack of viable alternatives in the Application. The Consumer Advocate therefore does not oppose the Application.

However, those principled concerns should nonetheless be addressed going forward. The Consumer Advocate requests that the Board, in its decision on the Application, direct Hydro to file future applications with respect to information technology projects in advance of incurring significant implementation expenditures, such that the Board has sufficient time to collect further information, and consider alternatives and their associated risks before rendering its decision.

Please contact the undersigned if you have any questions relating to this submission.



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