NLH 2026 General Rate Application
**Information Item - #5**
Filed: 2026-09-03 Board Secretary: MM

# Independent Expert Report

## Assessment of the Reasonableness of Certain Proposed Changes to Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines

***Prepared for the Board of Commissioners of Public Utilities of Newfoundland and Labrador***

**August 28, 2026**

# Contents


1 Introduction ........ 1
2 Background ........ 3
3 Changes to 2026 Guidelines ........ 6
4 Evaluation Framework ........ 15
5 Evaluation of the Hybrid Allocator ........ 19
6 Evaluation of the Transition from Partial Two-Step Allocation to One-Step Allocation ........ 26
7 Evaluation of the Removal of Administrative Business Unit Components ........ 30
8 Materiality Assessment ........ 35
9 Conclusions and Opinions ........ 36
Abbreviations ........ 38
Appendix A : Summary of the Board's Terms of Reference Relating to Doane Grant Thornton's Review 39
Appendix B : Summary of Mr. Kurjanowicz's Qualifications ........ 41
Appendix C : Comprehensive Listing of Information Considered in Doane Grant Thornton's Review ...... 46
Appendix D : Description of the Principal Steps in Connection with Doane Grant Thornton's Review ..... 50
Appendix E : Hybrid Allocator Calculation ........ 51
Appendix F : Two-Step Versus One-Step Calculation ........ 57
Appendix G : Incremental Impact of the Administrative Business Unit Removal ........ 62

# 1 Introduction

## 1.1 Engagement mandate

Doane Grant Thornton LLP ("Doane Grant Thornton," "we," "us," or "our") was retained by the Board of Commissioners of Public Utilities of Newfoundland and Labrador (the "Board") to provide an independent expert report regarding Newfoundland and Labrador Hydro's ("Hydro") 2026 Intercompany Transactions Costing Guidelines (the "2026 Guidelines").

Hydro filed the 2026 Guidelines with the Board on March 30, 2026, together with the Intercompany Transactions Costing Guidelines Review Report prepared by KPMG LLP ("KPMG"), (the "KPMG report"). Hydro advised that the 2026 Guidelines reflected the first comprehensive review of its intercompany transaction costing framework since Hydro's 2013 General Rate Application. The 2026 Guidelines incorporate several proposed changes to the underlying cost allocation methodologies in response to the passage of time and corporate structure changes arising from the amalgamation of Hydro and its parent company, Nalcor Energy ("Nalcor"), on January 1, 2025.

Pursuant to the Board's Terms of Reference, our mandate was to assess the following proposed methodology changes and whether they result in fair and reasonable outcomes for ratepayers:

- The introduction of a "Hybrid Allocator" for allocating service costs of the Executive, Corporate Secretary, Communications, Safety, Health and Environment functions;
- The transition from a partial two-step allocation approach to a one-step allocation approach; and
- The removal of administration or administrative business unit ("Admin BU") components from allocator calculations.

Refer to **Appendix A** for a summary of the Board's Terms of Reference relating to Doane Grant Thornton's review.

## 1.2 Independence and Qualifications

Doane Grant Thornton carried out this engagement as an independent expert to the Board. The opinions expressed in this report reflect our independent professional judgment based on the information made available to us and the procedures performed within the scope of our engagement.

Our review was led by Mr. Peter Kurjanowicz, CFA, Partner and National Transfer Pricing Leader of Doane Grant Thornton LLP. Mr. Kurjanowicz has extensive experience advising on transfer pricing, intercompany transactions, cost allocation methodologies, and shared service arrangements.

Refer to **Appendix B** for a summary of Mr. Kurjanowicz's qualifications.

## 1.3 Information Relied Upon

In preparing this report, we relied upon documents, data, and information provided by Hydro management and gathered from public sources, as cited throughout this report. This information included Hydro's 2026 Guidelines, Hydro's March 30, 2026 filing with the Board, the accompanying KPMG report, historical materials relating to Hydro's intercompany transaction costing framework, supplemental data, schedules, and qualitative information relating to the 2026 Guidelines that were requested by us during our review, and independent research materials.

Refer to **Appendix C** for a comprehensive listing of information considered in our review.

Except where otherwise noted, we have relied upon this information as provided by Hydro management. We have not independently audited or verified the accuracy or completeness of the information.

## 1.4 Review Procedure

Our review was conducted using a process designed to obtain a comprehensive understanding of the three proposed methodology changes, their context, and their reasonableness and fairness to ratepayers. This process included multiple information request procedures, detailed reviews of supporting documentation and calculations, discussions with Hydro management, independent research, and consideration of relevant regulatory guidance.

A description of the principal steps in connection with our review is provided in **Appendix D**.

## 1.5 Limitations

This report has been prepared solely for the purposes set out in the Board's Terms of Reference. Our review was limited to the proposed methodology changes identified therein and the extent to which those changes are reasonable and result in fair and reasonable outcomes for ratepayers.

We were not engaged to assess the prudence, necessity, or market reasonableness of the underlying costs being allocated, nor were we engaged to evaluate the overall level of Hydro's shared service costs, nor benchmark those costs against other utilities. The opinions expressed in this report relate solely to the methodologies under review.

# 2 Background

## 2.1 Hydro’s Regulated and Non-Regulated Operations

Hydro is a utility whose business includes the development, generation, transmission, distribution and sale of electricity, as well as energy marketing and the development, production and sale of oil and gas. As a regulated utility, Hydro is subject to the oversight of the Board. However, Hydro's operations include both regulated and non-regulated activities, which are organized and accounted for as separate ‘lines of business’.

These regulated and non-regulated activities are supported by a range of centralized corporate, administrative, operational, and back-office functions, including executive oversight, finance, human resources, information systems, procurement, safety, health and environmental services, corporate communications, governance, facilities, and related corporate services. Because many of these functions support more than one line of business, the costs associated with providing such services must be attributed to the regulated and non-regulated operations that receive the benefit of those services.

The need for cost allocation arises from the fact that certain costs can be directly attributed to a particular line of business, while other costs relate to services that support multiple lines of business. Hydro has therefore developed policies and methodologies to identify, allocate, and recover the costs in such cases.

## 2.2 Regulatory Context

The allocation of shared service costs is of particular significance in a regulated utility context because costs assigned to regulated operations may ultimately be recovered from customers through electricity rates. The Board therefore has an interest in understanding how shared service costs are identified and allocated among Hydro's regulated and non-regulated activities. The 2026 Guidelines provide the framework used by Hydro for this purpose.

Hydro's approach to shared service cost allocations was last reviewed comprehensively during Hydro's 2013 General Rate Application. At that time, the allocation methodologies for shared services were reviewed by independent experts retained by the Board and by Hydro, each of whom concluded that the methodologies under review were reasonable. The review considered a framework based on cost recovery, direct assignment where practical, and the use of allocation methodologies. That framework subsequently formed the basis of Hydro's approach to cost allocations for subsequent years.

Hydro then filed updated guidelines as part of its 2017 General Rate Application; however, those guidelines were not subject to the same level of detailed review as undertaken during the

2013 proceeding. As a result, prior to the development of the 2026 Guidelines, the 2013 review remained the most recent detailed assessment of Hydro's cost allocation methodologies.

## 2.3 Review and Update of the Guidelines

A significant organizational change occurred during the intervening period. Effective January 1, 2025, Hydro and Nalcor were amalgamated into a single legal entity. The corporate services and other functions formerly held within Nalcor were brought together within the amalgamated Hydro entity, while functions previously conducted on a non-regulated basis continued to be carried on within Hydro's non-regulated business segments. The key corporate service functions from Nalcor that were merged into Hydro included: Information Systems, Human Resources, Finance, Safety, Health and Environment, and Public Affairs and Stakeholder Relations. The amalgamation was largely administrative in its effect on the organization of Hydro's operations. It did not alter the underlying distinction between Hydro's regulated and non-regulated activities, which continued to be organized and accounted for as separate lines of business, and shared service costs continued to be allocated under the existing costing guidelines.

The integration of previously separate corporate functions, together with the passage of time since the 2013 review and Hydro's preparation for an upcoming General Rate Application, prompted Hydro to undertake a detailed review of its cost allocation framework. Hydro engaged KPMG to review the existing framework and to evaluate potential updates, culminating in the filing of the 2026 Guidelines and accompanying KPMG report with the Board on March 30, 2026.

Hydro and KPMG’s review was conducted through a structured governance process. A working group drawn from Hydro's Finance and Regulatory Affairs teams performed the underlying analysis and developed the recommendations, in consultation with KPMG, and those recommendations were reviewed with the executives responsible for People and Corporate Services, Finance, and Regulatory Affairs before implementation. Ongoing oversight of Hydro's intercompany cost allocations is now provided through management review processes, quarterly regulatory filings to the Board, annual inter-affiliate transaction reporting, and the annual review of Hydro's financial return by the Board's consultant.

## 2.4 Overview of the 2026 Guidelines Updates

The Hydro and KPMG review led to several proposed updates to Hydro's cost allocation methodologies. In undertaking it, Hydro considered whether its existing allocation methodologies continued to reflect the nature of the services being provided and the organizational groups receiving the benefit of those services following the organizational changes described above.

KPMG’s involvement was broad in scope. In addition to considering relevant regulatory guidance, KPMG examined allocation approaches used by comparator Canadian utilities, evaluated supporting allocation models and cost flows, and conducted interviews with personnel responsible for several of the shared service functions. KPMG’s work was directed toward assessing whether Hydro's overall framework remained consistent with accepted regulatory principles, including transparency, cost causation, objectivity, and the direct assignment of costs where practical.

In their final report, KPMG observed that the 2026 Guidelines generally retain the same underlying principles that have historically governed Hydro's cost allocation framework, including the use of direct charging where costs can be specifically attributed to a line of business and the use of allocators where services are shared among multiple beneficiaries. However, the 2026 Guidelines introduced a number of refinements intended to reflect organizational changes, improve administrative efficiency, and enhance the operation of the allocation framework. Those refinements included changes to the treatment of certain shared service functions, revisions to selected allocators, and modifications to the overall administration fee methodology.

Among those refinements, KPMG identified three changes as the most notable:

1. The introduction of a Hybrid Allocator for allocating service costs of the Executive, Corporate Secretary, Communications, Safety, Health and Environment functions;

2. The transition from a partial two-step allocation approach to a one-step allocation approach; and

3. The removal of Admin BU components from allocator calculations.

Those proposed methodology changes form the focus of the present report and are the subjects of the Board’s Terms of Reference for Doane Grant Thornton’s engagement.

# 3 Changes to 2026 Guidelines

## 3.1 Overview of the Methodology Changes

The three changes that are the subject of this report each operate within Hydro's "Administration Fee" methodology, one component of the 2026 Guidelines. The Administration Fee is the mechanism by which Hydro recovers the cost of certain shared corporate and administrative functions that support multiple lines of business and cannot be charged directly to a single beneficiary. Examples of corporate functions whose costs are recovered under the Administration Fee methodology include Human Resources, Information Systems, and Finance (among others).

The costs of each such function are accumulated in a corresponding 'Admin BU' and then distributed among Hydro's regulated and non-regulated lines of business using an allocator: a measure, such as full-time equivalent ("FTE") personnel head count, purchase orders, or information systems users, intended to approximate the extent to which each line of business uses or benefits from the function. The Administration Fee methodology therefore has three sub-components: the cost pools being allocated, the allocators used to distribute them, and the sequence in which the allocation is performed.

## 3.2 Introduction of the Hybrid Allocator

The first methodology change within the scope of our review is Hydro's proposed introduction of the Hybrid Allocator for certain administrative functions. Where a shared service can be associated with the operational measures that drive its cost, such as employee headcount, system usage, or transaction volumes, Hydro has historically allocated the related costs using an allocator based on that measure.

Certain functions, however, support the organization as a whole and are not readily tied to any single operational driver or line of business. For these functions, a single-factor allocator such as FTE may capture only one dimension of the relativity of each line of business. The Hybrid Allocator is intended to address this by combining multiple measures of relativity into a single composite allocation factor, to improve accuracy.

### 3.2.1 Historical Methodology

Prior to the 2026 Guidelines, the functions now proposed to be allocated using the Hybrid Allocator were treated in different ways:

- *Executive costs* were historically recovered through a combination of methods. Certain executive roles allocated their time using timesheets, allowing effort to be charged to the relevant lines of business. In 2025, following the amalgamation, selected executive roles and support staff were assigned to a non-regulated administrative business unit in Hydro, and the related costs were allocated using a FTE allocator.

- *Corporate Secretary costs* were historically charged using timesheets, under which members of the Corporate Secretary team recorded time to the applicable line of business. Hydro indicated that, in practice, it was difficult to distinguish time between regulated and non-regulated activities using this approach.

- *Communications (Culture) costs* were also historically charged using timesheets, under which members of the Communications (Culture) team recorded time to the applicable line of business. Hydro indicated that, in practice, it was difficult to distinguish time between regulated and non-regulated activities using this approach.

- *Safety, Health and Environment* costs were historically allocated using an FTE-based allocator, under which costs were distributed among lines of business in proportion to full-time equivalent employees.

Table 3-1 summarizes the historical and proposed treatment of each function:

**Table 3-1**
**Historical and Proposed Treatment of Each Function**
**Updated on March 30, 2026**

| Function | Historical Methodology | Proposed Methodology |
|---|---|---|
| Executive | Timesheets; FTE allocation (from 2025) | Hybrid Allocator |
| Corporate Secretary | Timesheets | Hybrid Allocator |
| Communications / Culture | Timesheets | Hybrid Allocator |
| Safety, Health and Environment | FTE allocator | Hybrid Allocator |

*Source: Newfoundland and Labrador Hydro.*

### 3.2.2 Proposed Methodology

Under the 2026 Guidelines, Hydro proposes to allocate the costs of the Executive, Corporate Secretary, Communications (Culture), and Safety, Health and Environment functions using a Hybrid Allocator. The Hybrid Allocator is a composite allocation factor calculated using two equally weighted measures:

- Each line of business's ("LoB") proportion of gross property, plant and equipment ("PP&E"), excluding certain assets, and

- Each LoB's proportion of operations and maintenance ("O&M") costs.

The Hybrid Allocator is calculated using the following formula:

$$\text{LoB Allocation \%} = 50\% \times \frac{\text{LoB Gross PP\&E}}{\text{Total Gross PP\&E}} + 50\% \times \frac{\text{LoB O\&M Cost}}{\text{Total O\&M Cost}}$$

In applying this formula, Hydro's calculation of gross PP&E excludes intangible assets, Maritime Link assets, and oil and gas assets, and its calculation of O&M excludes Maritime Link O&M and an oil and gas management fee, with joint-venture operations included at Hydro's full ownership share where the operation is fully managed by Hydro. Based on Hydro's proposed calculation, the Hybrid Allocator assigns approximately 30.0% of the relevant costs to 'Hydro Regulated' and approximately 70.0% to 'Other Lines of Business', i.e., non-regulated lines of business.

The 2026 forecast cost pools proposed to be allocated using the Hybrid Allocator are shown in Table 3-2.

**Table 3-2**
**Proposed Allocation Using Hybrid Allocator to 2026 Forecast Cost Pools**
**Updated on March 30, 2026**
**CAD**

| Function | 2026 Forecast Cost Pool | Hydro Regulated Share (30%) | Other Lines of Business Share (70%) |
|---|---|---|---|
| Executive | $1,709,650 | $513,066 | $1,196,584 |
| Corporate Secretary | $380,592 | $114,216 | $266,377 |
| Communications / Culture | $1,140,450 | $342,249 | $798,201 |
| Safety, Health and Environment | $916,759 | $275,119 | $641,640 |
| **Total** | **$4,147,452** | **$1,244,650** | **$2,902,801** |

*Source: Newfoundland and Labrador Hydro.*
*Note: Figures may not appear to sum precisely due to rounding.*

Applying the Hybrid Allocator's approximate 30/70 split, approximately $1.24m of the total 2026 forecast cost pool is allocated to Hydro Regulated and approximately $2.9m to Other Lines of Business.

Refer to **Appendix E** for details relating to Hydro's Hybrid Allocator computation.

### 3.2.3 Hydro's Stated Rationale for the Change

Hydro described the Executive, Corporate Secretary, Communications (Culture), and Safety, Health and Environment functions as providing services that generally support the organization as a whole and that are not readily linked to any single line of business. On that basis, Hydro proposed to allocate the related administration fee costs using a broader measure intended to reflect the relative scale and activity of Hydro's regulated and non-regulated lines of business.

- *With respect to Executive costs,* Hydro stated that FTEs provide only one measure of the scale of a line of business, whereas the Hybrid Allocator's use of both O&M costs and gross PP&E is intended to better reflect scale, complexity, and the amount of attention spent by the executive team.

- *With respect to Corporate Secretary costs,* Hydro stated that it has been difficult to distinguish time between regulated and non-regulated activities and that transitioning the function to the Hybrid Allocator would provide a more practical basis for recovering these costs.

- *With respect to Communications (Culture) costs,* Hydro stated that the function's activities – including internal communications, management of Hydro's website and social media channels, corporate brand matters, and customer education materials – benefit the organization as a whole and are generally not linked to any particular line of business. A Hybrid Allocator would better capture the relative scale of the demands upon the department by each line of business.

- *With respect to Safety, Health and Environment costs,* Hydro stated that the Hybrid Allocator's use of gross PP&E and O&M costs also better reflects the scale and intensity of operations and the demand placed on safety and environmental management systems than does an FTE-based allocator.

In selecting gross PP&E and O&M costs as the two factors, Hydro confirmed that it considered and set aside several alternatives. Hydro indicated that a labour-based measure was not adopted because it captures only headcount and not the scale of the assets served; and that a revenue factor was not adopted because Hydro's revenue is affected by the unique nature of the Churchill Falls power contract and by intercompany revenue flows associated with the Muskrat Falls and Labrador-Island Link operations, which would distort a revenue-based allocator. Hydro, with input from KPMG, also determined that an equally weighted composite of gross PP&E and O&M was the most appropriate basis in its circumstances, in the absence of evidence to the contrary.

## 3.3 Transition from Partial Two-Step Allocation to One-Step Allocation

The second methodology change within the scope of our review is Hydro's proposed transition from a partial two-step allocation methodology to a one-step allocation methodology for Administration Fee costs. As noted previously, Administration Fee costs are accumulated within several Admin BUs and then allocated to Hydro's lines of business. However, these administrative functions also provide services to one another. For example, Human Resources supports the staff of other administrative departments, and Information Systems supports their own systems. As a result, a methodology is required to determine whether the cost of one administrative function should first be allocated to the other administrative functions it supports before the total is allocated to the regulated and non-regulated lines of business.

The distinction between a two-step and a one-step approach reflects two different ways of addressing this issue: the two-step approach allocates certain administrative costs among Admin BUs before allocating to the lines of business, whereas the one-step approach allocates all administrative costs directly to the lines of business in a single step.

### 3.3.1 Historical Methodology

Under Hydro's historical approach, Administration Fee costs were allocated using a partial two-step methodology. Under this methodology, the costs of certain Administration Fee business units were allocated in an initial step before the costs of other Administration Fee business units were allocated in a second step.

The cost centres allocated in the first step included: Network Services, Hydro Place, Procurement, Information Systems, Human Resources, Environment and Safety, and Business Systems Transformation. In the second step, the remaining Administration Fees cost centres were allocated to Hydro's lines of business, both regulated and unregulated. The cost centres allocated in the second step were: Accounts Payable, General Ledger, and Executive.

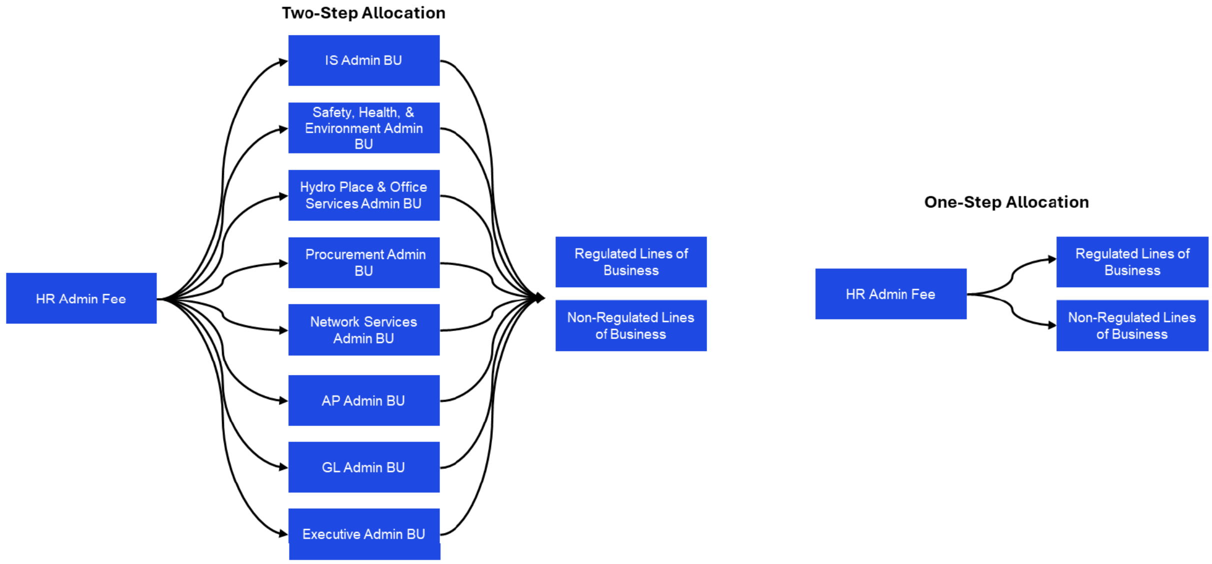
As a result of this sequencing, certain Administration Fee business units received allocations of cost from other Administration Fee business units before their own accumulated costs were allocated to the ultimate lines of business. The effect was that a portion of shared service costs flowed through the intermediate allocation step, and therefore were ultimately subject to the mechanism of the second step allocation.

### 3.3.2 Proposed Methodology

Under the 2026 Guidelines, Hydro proposes to allocate all Administration Fees to its lines of business in a single step. Under the proposed one-step methodology, the intermediate step, in which certain Administration Fee costs are first allocated to other Administration Fee business units before being reallocated, is removed.

The difference between the partial two-step allocation methodology and the proposed one-step allocation methodology is depicted in Exhibit 3-1.

**Exhibit 3-1**
**Conceptual View of Partial Two-Step and One-Step Allocation Applied on HR Admin Fee**




*Note: The conceptual view of partial two-step and one-step allocation applied on HR Admin Fee is extracted from Intercompany Transactions Costing Guidelines Review (2026) report prepared by KPMG.*

### 3.3.3 Hydro's Stated Rationale

Hydro stated that the one-step approach provides greater simplicity and improved traceability of costs from the originating Administration Fee business unit to the final line of business. Hydro also stated that the choice between the partial two-step approach and the one-step approach has a negligible effect on the amounts of Administration Fee costs ultimately allocated Hydro's regulated business.

To support this position, Hydro provided an analysis prepared using 2025 budget information, isolating the effect of the sequencing change by holding the treatment of Admin BU components constant. Only three Administration Fees components: Accounts Payable, General Ledger, and Executive, are affected by the change in sequencing. Hydro management's estimate of the effect of moving from the partial two step to one-step allocation is illustrated in Table 3-3.

**Table 3-3**
**Management's Estimate of Effect of Changing from Partial Two-Step to One-Step Allocation**
**CAD, thousands**

| Recipient business units | Budget 2025 | Proportion | Budget 2025 using one-step allocation | Proportion | Absolute difference |
|---|---|---|---|---|---|
| Regulated | 16,079 | 55.4% | 15,860 | 54.7% | (219) |
| Non-regulated | 12,920 | 44.6% | 13,140 | 45.3% | 219 |
| Total | 29,000 | 100.0% | 29,000 | 100.0% | – |

*Source: Hydro management's calculations.*

According to Hydro management's estimates, the change would be expected to move approximately $0.2 million of costs from Hydro Regulated to Other Lines of Business, a shift of less than one percentage point of the total shared service costs of approximately $29 million (based on 2025 Budget figures).

Hydro further indicated that retaining a two-step methodology would require estimated allocations, periodic variance assessments, and true-ups, and that the incremental administrative effort was not justified given the negligible effect of the change on the resulting allocation.

Refer to **Appendix F** for calculation details.

## 3.4 Removal of Administrative Business Unit Components from Allocators

The third methodology change within the scope of our review is Hydro's proposed removal of Admin BU components from certain allocator calculations. Administration Fee costs are allocated to Hydro's lines of business using allocators built from operational measures such as full-time equivalents, purchase orders, and information systems users. Because the administrative functions themselves also generate these same measures — for example, the employees working within the Human Resources or Information Systems departments are themselves FTEs and system users — the staff and activity of the Admin BUs can be captured within the very allocators used to distribute Administration Fee costs. As each Admin BU is assigned to a regulated or non-regulated home business unit, the inclusion of these administrative components can influence the resulting split of costs between Hydro Regulated and Other Lines of Business.

### 3.4.1 Historical Methodology

The Administration Fee framework encompasses a range of shared service functions, including Human Resources, Safety and Health, Environment, Information Systems, Network Services, Accounts Payable, General Ledger, Corporate Secretary, Supply Chain, Culture / Internal Communications, Employee Engagement, Executive, and costs associated with Hydro Place.

Under Hydro's historical approach, the components attributable to each of these functions were included in the relevant allocator calculations according to the function's home business unit. For example, Information Systems FTEs assigned to a non-regulated home business unit were counted in the non-regulated proportion of FTEs, while Procurement FTEs assigned to a regulated home business unit were counted in the regulated proportion.

### 3.4.2 Proposed Methodology

Under the 2026 Guidelines, Hydro proposes to exclude the allocator components associated with Admin BUs from the calculation of the allocators. Hydro confirmed that this exclusion would be applied consistently across the affected allocators and that there are no exceptions or partial applications. Under the proposed methodology, the allocators are calculated without reference to the usage or amount of the total allocator relating to administrative activity.

Table 3-4 illustrates Hydro's calculations of the effect of excluding the Admin BU component from the calculation of the allocation key for the FTE allocator, as one example. As summarized, in this instance, the methodology change results in an increase of the allocator to the Regulated line of business from 55.6% to 57.7%.

**Table 3-4**
**Example of Effect of Excluding Administrative Business Unit Components**
**Full Time Equivalent Personnel Headcount Allocator**
**CAD, thousands**

| | Total 2025 FTE | Less 2025 FTE performing Admin Fee Activities | Revised Total 2025 FTE for Allocation Purposes |
|---|---|---|---|
| Regulated | 871.8 | (30.5) | 841.3 |
| Regulated proportion | **55.6%** | | **57.7%** |
| Non-regulated | 697.5 | (81.0) | 616.5 |
| Non-regulated proportion | **44.4%** | | **42.3%** |
| Total FTE | 1,569.3 | (111.5) | 1,457.8 |

*Source: Hydro management's calculations.*

## 3.4.3 Hydro's Stated Rationale and Quantitative Impact

Hydro stated that the purpose of removing Admin BU components from the allocators is to remove the bias resulting from the inclusion of administrative functions in the allocators, particularly where the home business unit designation of an Admin BU may influence whether the relevant allocator input is treated as regulated or non-regulated. Hydro confirmed, and KPMG concurred, that the exclusion is methodologically sound as a means of eliminating this self-allocation bias.

Based on an analysis prepared by Hydro using Budget 2025 information, isolating the effect of the Admin BU component removal, the methodology change increases the allocation to Hydro Regulated by approximately $617,000. An excerpt of Hydro management's calculations of the estimated effect of the Admin BU change to the calculation of the allocators, based upon Budget 2025 data, is illustrated in Table 3-5.

**Table 3-5**
**Hydro's Estimate of Effect of Removing Administrative Business Units from the Allocator Calculations**
**Based Upon 2025 Budget**
**CAD, thousands**

| | | Budget 2025 | | Budget 2025 with Admin BU Adjustment | | | |
|---|---|---|---|---|---|---|---|
| **Admin. Fee Component** | **Total Costs for Allocation** | **Reg. Allocation** | **Non-Reg. Allocation** | **Reg. Allocation** | **Non-Reg. Allocation** | **Reg. Change** | **Non-Reg. Change** |
| HR | $1,295 | $719 | $575 | $747 | $548 | $28 | $(28) |
| Information Systems | $12,876 | $7,246 | $5,630 | $7,508 | $5,368 | $262 | $(262) |
| SH&E | $869 | $483 | $386 | $501 | $367 | $19 | $(19) |
| Hydro Place | $4,150 | $2,192 | $1,958 | $2,389 | $1,761 | $197 | $(197) |
| Procurement | $1,847 | $907 | $940 | $906 | $940 | $(0) | $0 |
| Network | $1,321 | $743 | $577 | $770 | $551 | $27 | $(27) |
| A/P | $1,304 | Allocator not affected by Admin BU adjustment | | | | | |
| G/L | $961 | Allocator not affected by Admin BU adjustment | | | | | |
| Executive | $1,641 | $911 | $729 | $947 | $694 | $35 | $(35) |
| BST | $2,385 | $1,326 | $1,059 | $1,375 | $1,010 | $49 | $(49) |
| BST - Hydro direct | $351 | Allocator not affected by Admin BU adjustment | | | | | |
| Total | $29,000 | $14,528 | $11,855 | $15,145 | $11,238 | $617 | $(617) |

*Source: Hydro management's calculations.*

Refer to **Appendix G** for calculation details.

In aggregate, if Admin BU components were to be included in the allocators, Hydro Regulated would be allocated approximately $14.5 million (approximately 55.1%) and Other Lines of Business approximately $11.9 million (approximately 44.9%), based on 2025 Budget. If Admin BU components were excluded, Hydro Regulated would be allocated approximately $15.1 million (approximately 57.4%) and Other Lines of Business approximately $11.2 million (approximately 42.6%). Hydro explained that the shift arises because a greater proportion of the Administration Fee business units are assigned to non-regulated home business units. This causes their removal to shift the allocation outcome to Hydro Regulated.

# 4 Evaluation Framework

## 4.1 Overview

This section sets out the framework we have applied in assessing the three proposed methodology changes. The framework is grounded in established cost allocation principles applicable to a regulated utility and is directed, consistent with the Board's Terms of Reference, to whether the proposed changes are reasonable and result in fair outcomes for ratepayers. The principles and criteria described below are applied consistently in our evaluation of each of the three changes reviewed in Sections 5 through 7 and the review of materiality in Section 8.

In conducting our assessment, we have not sought to determine the most precise approach that could theoretically be devised. Cost allocation necessarily involves judgment, and more than one methodology may be reasonable in a given circumstance. The relevant question is whether the methodology Hydro has selected is reasonable in the circumstances and results in fair outcomes to ratepayers, having regard to the nature of the services being allocated, the beneficiaries of those services, the reliability of the available data, and the resulting impact.

## 4.2 Cost Allocation Principles

The purpose of cost allocation is to assign shared service costs in a manner that reflects the services provided, the benefits received, and the activities that cause the costs to be incurred. Where costs cannot be directly assigned, they may be accumulated in cost pools and allocated to service recipients using allocation factors intended to approximate cost causation or benefits received.

For the purposes of our review, we considered five general principles:

- ✓ **Cost causation and direct assignment**

  The foundational principle is cost causation. Where costs can be directly identified with a particular line of business, activity, or entity, direct assignment is generally preferred because it provides the clearest link between the cost incurred and the beneficiary of the service. Where direct assignment is not practical, the allocation methodology should use a cost driver or reasonable proxy that reflects the underlying cause of the cost or the benefit received. The selection of the cost driver is the principal area of judgment, because once the driver is selected the allocation calculation is generally mechanical.

- ✓ **Fairness and avoidance of cross-subsidization**

  A cost allocation methodology should be fair and reasonable. Fairness does not require mathematical precision, but it does require that costs be assigned in a manner that reasonably reflects the services provided, the benefits received, and the cost responsibility of each line of business. This consideration is particularly important where costs are allocated between regulated and non-regulated operations, because an inappropriate allocation may result in regulated customers bearing costs properly attributable to non-regulated operations or other beneficiaries. Fairness therefore requires consideration not only of whether the methodology is internally logical, but also whether the resulting allocation reasonably protects ratepayers from cross-subsidizing non-regulated activities.

✓ **Transparency and traceability**

A methodology should be transparent and traceable, allowing the Board, parties to the proceeding, and interested members of the public to understand how costs move from the initial cost pool to the final line of business. Supporting documentation should identify the services being provided, the costs being allocated, the allocation factors used, and the basis for selecting those factors. Traceability also allows the allocation to be reviewed, tested, and reproduced, which is particularly important where the resulting costs are recovered through regulated rates.

✓ **Administrative practicality**

Simplicity and administrative practicality are relevant when selecting among reasonable methodologies. A theoretically more precise approach may not be appropriate if it requires excessive judgment, unreliable data, or administrative effort disproportionate to any improvement in accuracy. Cost drivers should generally be understandable, obtainable at reasonable effort, objectively verifiable, and capable of being updated consistently. Administrative practicality is not a substitute for cost causation, but it is an important consideration where competing methodologies are otherwise reasonable.

✓ **Consistency and adaptability**

Similar costs should generally be treated consistently unless there is a reasonable basis for a different approach. Consistency supports comparability over time, reduces the risk of arbitrary outcomes, and allows changes in allocation results to be understood. Consistency does not, however, require that historical methods remain unchanged indefinitely. Where organizational structures, service delivery models, or available data have changed, it may be appropriate to revise a methodology so that it better reflects how services are now provided and benefits received.

Finally, in some cases, no single cost driver will adequately reflect the cause of a cost or the benefit received. In those circumstances, a blended or multi-factor allocator may be appropriate where the selected factors together provide a reasonable measure of relative scale, benefit, or cost responsibility. The use of a blended allocator should nonetheless be supported by an explanation of why the selected factors are relevant to the services being allocated and why the resulting methodology is reasonable in the circumstances.

## 4.3 Regulatory and Industry Context

The principles described above are consistent with regulatory guidance and industry practice for utilities that allocate shared service costs between regulated and non-regulated operations. The utility bears the responsibility of demonstrating that affiliate transactions are prudent and transactions should not disadvantage the interests of ratepayers.

Comparator Canadian utility practice indicates that shared corporate and support service costs are commonly allocated using cost drivers selected according to the nature of the service. Where costs cannot be directly attributed to a single business unit, the methodology should identify an objectively measurable variable that is causally related to the incurrence of the cost or the value it creates. Canadian utility applications to regulators generally distinguish between costs that can be directly charged and indirect shared service costs that require allocation using function-specific, multi-factor, or other supportable measures, and they recognize that the appropriate allocator may vary by function depending on the service, the available data, and whether the cost is more directly tied to labour, transactions, assets, or operational scale. This precedent supports a framework in which the appropriateness of a methodology depends on the specific cost pool, the services provided, the reliability of the data, and the relationship between the allocator and the beneficiaries.

Similar concepts are also reflected, in this context on an informative basis, in consensus international taxation guidance relating to cross-border related-party service arrangements. The Organisation for Economic Co-operation and Development's ("OECD") Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (the "OECD Guidelines") recognize that, while direct charging is preferable where specific services can be identified, indirect-charge methods using cost allocation and apportionment may be appropriate where services are provided to multiple recipients, provided that the allocation reflects the value of the services to recipients, follows sound accounting principles, and produces results commensurate with the expected benefits. It also provides that allocation keys should be selected having regard to the nature of the service and applied consistently for the same category of services absent a justified reason for change. Although developed for cross-border tax purposes and not determinative for a regulated utility cost allocation matter, this guidance is consistent with the cost allocation principles described above; in particular, the preference for direct charging, the use of benefit-based allocation keys where direct charging is impractical, and the consistent application of those keys.

## 4.4 Assessment Criteria

Our assessment places particular emphasis on the ratepayer perspective. It considers that a methodology need not represent the theoretically optimal approach to be acceptable; but rather, it must be supportable, transparent, and consistent with a fair allocation of costs that does not adversely affect ratepayers. Where a proposed change increases the costs allocated to regulated operations, we consider whether that outcome is supported by the services received, the benefits obtained, and the underlying cost drivers.

On this basis, in evaluating each of the three proposed methodology changes, we determine whether:

- The proposed methodology reflects the underlying cost drivers or benefits received;
- Costs are directly assigned where practical;
- Any allocator used provides a reasonable proxy for cost causation, service usage, or benefit received;
- The methodology reasonably allocates costs among the beneficiaries of the relevant services;
- The methodology avoids undue cross-subsidization between regulated and non-regulated operations;
- The methodology is transparent, reproducible, and based on reliable data;
- The methodology is administratively practical given the nature and materiality of the costs being allocated; and
- Given the resulting allocation outcome, the methodology is reasonable from a ratepayer perspective.

Applying these considerations, our assessment of each of the three proposed methodology changes is set out in Sections 5 through 7, and the materiality of the changes from a ratepayer perspective is addressed in Section 8. Our final opinion is summarized in Section 9.

# 5 Evaluation of the Hybrid Allocator

## 5.1 Overview

The introduction of the Hybrid Allocator raises three distinct review questions:

a) The first is whether a blended, scale-based measure is a reasonable basis for allocating costs that support the organization as a whole and that cannot readily be assigned to a single line of business.

b) The second is whether the Hybrid Allocator has been appropriately constructed, i.e., whether gross PP&E and O&M costs are appropriate factors to blend, and whether the equal weighting of those factors is supportable.

c) The third is whether it is reasonable to apply that allocator to the four specific functions Hydro has identified, each of which was previously allocated or charged on a different basis.

We address each of these questions in turn.

## 5.2 Suitability of a Blended Measure

The functions to which a blended measure would appropriately apply share a common characteristic: they provide broad support to the organization as a whole and are not readily associated with a single operational driver such as headcount, transaction volume, or system usage. As discussed in Section 4, where no single cost driver adequately reflects the cause of a cost or the benefit received, a blended or multi-factor allocator may be reasonable, provided the selected factors together offer a supportable measure of relative scale, benefit, or cost responsibility.

In our view, the use of a blended measure for this category of cost is reasonable. Certain functions are not caused by, and do not benefit, any single line of business in proportion to a single readily identifiable operational metric. A measure that approximates the relativity of each line of business based on multiple factors is a reasonable basis on which to allocate costs of this nature, and this is consistent with comparator utility practice, which supports the use of scale-based multi-factor allocators for broad corporate support costs where direct attribution is not practical.

The Hybrid Allocator pursues this approach by combining two measures of scale: each line of business's share of gross PP&E and its share of O&M costs. Whether those two factors are an appropriate basis for the allocator, and whether they are appropriately weighted, is considered below.

## 5.3 Construction of the Hybrid Allocator

The reasonableness of the Hybrid Allocator depends on how it is constructed — specifically, on whether gross PP&E and O&M costs appropriately represent the relative benefit each line of business derives from the functions being allocated, and on how those factors are weighted. We evaluate the selection of the factors first, then their weighting, and finally the transparency and practicality of the resulting methodology.

### 5.3.1 Factor Selection

Our evaluation indicates that there is a reasonable basis for selecting gross PP&E and O&M costs. For functions that support the organization as a whole, relative scale is a defensible proxy for the relative demand each line of business places on those functions. Each captures a different dimension of the relative scale of a line of business: gross PP&E reflects the size of the capital base it operates, while O&M costs reflect the scale of its ongoing operational activity.

#### 5.3.1.1 Gross PP&E and O&M Costs

It is noted that the gross PP&E factor exhibits some sensitivity to the age of the capital projects owned and operated by a business unit. Older capital projects tend to exhibit lower gross PP&E than newer projects because of inflation, as older projects are recorded in the allocator at historical gross value. In contrast, O&M costs represent recent or current expenditures to operate and maintain those assets. However, Hydro management noted that the connection between the level of O&M costs and the age of capital projects is indeterminate: older projects may carry higher maintenance costs, while newer projects may involve heightened O&M costs in their early years.

Hydro did observe a trend when retroactively calculating the Hybrid Allocator for prior periods, for sensitivity-checking purposes. Specifically, based on a Hybrid Allocator, the resulting allocation to Hydro Regulated would have declined over the 2019 to 2024 period, from approximately 37.5% in 2019 to approximately 30.0% in 2024, as set out in Table 5-1.

| Table 5-1<br>Hybrid Allocator Result by Year (2019-2024)<br>Updated on March 30, 2026 | | |
|---|---|---|
| **Year** | **Hydro Regulated[1]** | **Other Lines of Business[1]** |
| 2019 | 37.5% | 62.5% |
| 2020 | 38.7% | 61.3% |
| 2021 | 36.2% | 63.8% |
| 2022 | 34.7% | 65.3% |
| 2023 | 32.9% | 67.1% |
| 2024 | 30.0% | 70.0% |
| 2025 Budget (2024 proxy)[2] | 30.0% | 70.0% |
| 2026 Forecast (2024 proxy)[2] | 30.0% | 70.0% |

*Source: Hydro Hybrid Allocator calculation (Table 9) of Intercompany Transactions Costing Guidelines Review prepared by KPMG.*
*Note 1: Figures are rounded and may not sum precisely to 100% due to rounding.*
*Note 2: The 2025 budget and 2026 forecast apply the 2024 actual result as a proxy.*

Based on the information available, the relationship between O&M costs and asset age does not appear to be systematic or predictable. While older assets may require greater maintenance expenditures, newer assets may also be associated with elevated O&M activity in their early years of operation. Using both gross PP&E and O&M costs together, rather than either measure on a standalone basis, therefore reduces the risk that the allocator is unduly influenced by any single characteristic of a line of business.

In addition, retrospective calculations indicate that the allocation to Hydro Regulated would have declined from approximately 37.5% in 2019 to approximately 30.0% in 2024. While this trend does not establish the absence of bias, it provides some comfort that the methodology is not inherently predisposed to increase the share of costs allocated to regulated operations over time.

#### 5.3.1.2 Consideration of alternatives

Hydro's selection of the gross PP&E and O&M costs factors was the product of an analysis of alternatives. Hydro considered, and set aside, a labour-based measure, a revenue-based measure, and a combined depreciation-and-O&M cost measure, determining, with input from KPMG, that gross PP&E and O&M cost was the most appropriate basis in its circumstances. Comparator utility practice supports the reasonableness of this approach, as hybrid or multi-factor allocators incorporating measures of asset and operational scale are present at other major Canadian utilities, including BC Hydro, Manitoba Hydro, and Ontario Power Generation.

Based on industry precedent, revenue represents the most common additional component in composite allocators of this kind. It therefore warrants specific consideration. In our view, its exclusion in Hydro's circumstances is reasonable. Revenue reflects the financial results of a line of business rather than the demand it places on corporate support functions, and a revenue-weighted allocator can produce allocations that move with pricing and market conditions rather than with the underlying use of the supported services. This concern is particularly relevant for Hydro, whose revenue is materially affected by the unique nature of the Churchill Falls power contract and by intercompany revenue flows associated with the Muskrat Falls and Labrador-Island Link operations, each of which, in Hydro management's view, would significantly distort a revenue-based allocator. For enterprise support functions such as those at issue here, a measure based on operational and capital scale is at least as defensible a proxy for benefit received as one incorporating revenue, and in Hydro's circumstances reasonably more so.

### 5.3.2 Weighting of the Factors

Hydro proposes to apply the Hybrid Allocator by assigning equal weight to the two factors. Equal weighting has the advantage of simplicity and transparency, and results in neither gross PP&E nor O&M costs predominating in the calculation. While any weighting necessarily involves judgment, an equal weighting provides a neutral and readily understandable means of combining the two measures in the absence of evidence supporting a greater emphasis on one factor over the other.

We have examined the sensitivity of the resulting allocation to the weighting applied. On the 2024 data underlying the proposed allocator, the regulated share would be approximately 19.7% if gross PP&E alone were used and approximately 40.4% if O&M costs alone were used, with the equally weighted composite producing approximately 30.0%. The Hybrid Allocator is therefore sensitive to the weighting to a significant degree. This underscores the importance of selecting a supportable weighting methodology. However, neither Hydro nor KPMG identified evidence indicating that either gross PP&E or O&M costs bear a demonstrably stronger relationship to the services provided by the affected functions. A weighting that placed greater emphasis on one factor would necessarily involve a judgment that either capital scale or operational activity is the more important driver of those costs. Based on the information available, we did not identify a reasonable basis for making such a judgment. In those circumstances, equal weighting provides a neutral, transparent, and readily reproducible means of combining the two factors.

We also note the regulated share produced under any weighting of these two factors would be well below the approximately 55% regulated share produced by the FTE-based measure previously used for the Executive and Safety, Health and Environment functions. For those functions, the transition to the Hybrid Allocator reduces the allocation to regulated operations under any weighting, and the choice of an equal weighting does not operate to the disadvantage of ratepayers.

### 5.3.3 Transparency, Objectivity and Administrative Practicality

On balance, the Hybrid Allocator performs well against the transparency, objectivity, and administrative practicality considerations. Gross PP&E and O&M costs are drawn from Hydro's financial records, are objectively measurable, and can be reproduced and tested from source data. The allocator is therefore based on inputs that are readily verifiable by Hydro, the Board, and other interested parties. In our view, the use of objective historical information enhances the transparency and reproducibility of the methodology and provides a reasonable basis on which to allocate the relevant costs.

We also note that Hydro's calculation of the factors is well documented and applies consistent, stated exclusions (intangible assets, Maritime Link assets and O&M, and oil and gas assets and management fees, with joint-venture operations included at Hydro's full ownership share where fully managed by Hydro). The calculation is entirely mechanical once the inputs are determined, and the allocator can be reproduced and updated on a consistent basis in future periods.

## 5.4 Application to the Affected Functions

While the Hybrid Allocator is reasonable in design, its appropriateness for each function depends on whether that function genuinely supports the enterprise as a whole and whether a scale-based measure reasonably reflects the benefit each line of business receives. We consider each function below.

### 5.4.1 Executive

Executive costs comprise senior leadership and oversight functions that, by their nature, support the entire organization rather than any single line of business. The transition to the Hybrid Allocator moves these costs from a combination of timesheet-based charging and, from 2025, an FTE-based allocator. In our view, allocating executive oversight costs using a scale-based measure is reasonable. Executive effort is difficult to associate with specific lines of business through direct measurement, and headcount captures only one dimension of the demand each line of business places on executive attention. A measure incorporating both capital and operational scale is a defensible proxy for the relative need for executive oversight, and we therefore consider its application to this function to be reasonable.

### 5.4.2 Corporate Secretary

Corporate Secretary costs relate to governance, board support, and corporate compliance activities that serve the organization as a whole rather than any particular line of business. Under the prior timesheet approach, Hydro found it difficult in practice to distinguish Corporate Secretary time between regulated and non-regulated activities, which limited the reliability of a direct-charge basis for these costs. In our view, allocating these costs using a scale-based measure is reasonable. Governance and corporate secretarial activities support the enterprise generally, and their relative benefit is reasonably approximated by the overall scale of each line of business rather than by a single operational driver.

### 5.4.3 Communications (Culture)

Communications (Culture) activities include internal communications, management of Hydro's website and social media channels, stewardship of Hydro's corporate brand, and development of customer education materials. These activities provide broad organizational benefits and support Hydro's overall corporate presence, employee communications, and stakeholder engagement objectives. As the level of communication and stakeholder support required by the organization is generally related to the scale of the operations being supported, a scale-based allocator provides a reasonable proxy for the relative consumption of these services across lines of business.

### 5.4.4 Safety, Health and Environment

Hydro proposes to move Safety, Health and Environment ("SH&E") from an FTE-based allocator to the Hybrid Allocator, on the basis that gross PP&E and O&M costs better reflect the scale and intensity of operations and the demand placed on safety and environmental management systems. We consider this to represent a reasonable approach. SH&E oversight is influenced by several factors, including the scale of physical assets, the nature and extent of field operations, and the operational activities undertaken across the organization. Gross PP&E and O&M costs provide one reasonable proxy for those characteristics and may therefore serve as an indicator of the relative demands placed on SH&E functions. While an FTE-based measure also has conceptual merit, particularly insofar as it reflects workforce size, we do not consider the existence of alternative reasonable allocation approaches to render Hydro's proposed methodology unreasonable.

## 5.5 Impact on the Allocation to Regulated Operations

The reasonableness of the Hybrid Allocator from a ratepayer perspective depends not only on its design but also on the allocation outcome it produces. Based on Hydro's proposed calculation, the Hybrid Allocator assigns approximately 30.0% of the relevant costs to Hydro Regulated. Applied to the approximately $4.15 million forecast cost pool for the four affected functions, this results in approximately $1.24 million being allocated to regulated operations.

The direction of the change can be measured only for the functions previously allocated on an FTE basis. The Executive and SH&E functions were previously allocated using an FTE measure that produced an approximately 55% regulated share, materially higher than the approximately 30% share produced by the Hybrid Allocator. For those functions, the change reduces the amount allocated to regulated operations. The remaining functions, Corporate Secretary and Communications (Culture), were previously charged on a timesheet basis, which does not provide a comparable datapoint against which the direction of the change can be measured. For those functions, our assessment rests on the reasonableness of the methodology rather than on the direction of any change in the allocation.

## 5.6 Conclusion

The use of a blended, scale-based measure is a reasonable basis for allocating the costs of functions that support the organization as a whole and that cannot practically be assigned directly to individual lines of business. The selection of gross PP&E and O&M costs is supportable, reflects a considered assessment of alternatives, and provides a transparent, objective, and reproducible methodology. The application of the allocator to the Executive, Corporate Secretary, Communications (Culture), and SH&E functions is reasonable, having regard to the enterprise-wide nature of the services those functions provide. From a ratepayer outcome perspective, the resulting allocation also raises no concerns. For the functions previously allocated on an FTE basis, it produces a lower allocation to regulated operations, and for the remaining functions it provides a reasonable allocation of costs that support the enterprise as a whole.

# 6 Evaluation of the Transition from Partial Two-Step Allocation to One-Step Allocation

## 6.1 Overview

As described in Section 3, Hydro proposes to move from a partial two-step allocation, in which certain Administration Fee costs are first allocated among administrative business units before being allocated to the lines of business, to a one-step allocation in which all Administration Fee costs are allocated directly to the lines of business.

As a conceptual matter, a one-step allocation is generally most appropriate where shared service departments have no other business activities, while a two-step allocation can be suited to circumstances in which departments perform their own operating activities alongside shared services, or support other departments that in turn serve recipients. A one-step allocation can nonetheless be reasonably applied in the latter circumstance, if constructed appropriately.

Our evaluation focuses on three questions:

a) Whether the one-step approach continues to result in fully-burdened cost pooling when costs reach the recipient lines of business;

b) Whether the change has a material effect on the allocation between Hydro Regulated and Other Lines of Business; and

c) Whether the resulting gains in transparency, traceability, and administrative practicality support the change.

We address each in turn. For clarity, this section evaluates the change in isolation from the removal of Admin BU components, which is a separate change evaluated in Section 7. The comparison presented here holds the treatment of Admin BU components constant, comparing the two-step and one-step approaches on a like-for-like basis.

## 6.2 Fully Burdened Cost Pooling

The principal conceptual question raised by the change is whether the one-step approach continues to result in administrative costs being fully burdened when they are allocated to the lines of business. This question is significant because the treatment of inter-administrative cost consumption — the extent to which administrative functions support one another — was considered in the review undertaken in connection with Hydro's 2013 General Rate Application. In that review, the Board's expert observed that the common-service costs recovered through the Administration Fee might not be fully burdened, because Hydro's share of common expenses was not allocated to the common-service departments before their costs were charged out, but concluded that the resulting impact would not be material.

In our view, the critical point is that the one-step approach does not remove any administrative costs from the allocation. Under both approaches, the entire pool of Administration Fee costs is ultimately considered for allocation. No administrative cost is excluded, and the total amount subject to the 2026 Guidelines is unchanged. What the one-step approach removes is the intermediate allocation of costs to the second-stage administrative business units before their costs are allocated to the lines of business. The relevant question is therefore not whether costs are omitted — they are not — but whether the sequencing of the allocation meaningfully changes the proportion of administrative costs borne by each line of business.

Conceptually, the intermediate step affects the final allocation only to the extent that the administrative functions consume one another's services in proportions that differ from the proportions in which the lines of business consume administrative services generally. Where the pattern of inter-administrative consumption is broadly similar to the overall pattern, the intermediate step has little effect on the final result, because allocating costs to the second-stage administrative units before their distribution produces substantially the same outcome as distributing them directly in one step. Where the pattern differs materially, the intermediate step has a greater effect. The magnitude of the effect is therefore an empirical question, which we address in Section 6.3.

## 6.3 Impact on the Allocation to Regulated Operations

The evidence confirms that the sequencing change has a limited effect on the allocation of administrative costs between Hydro Regulated and Other Lines of Business. It also confirms, based on 2025 Budget data, that the limited effect is favourable to ratepayers.

Only three administration cost centres are affected by the change in sequencing: Accounts Payable, General Ledger, and Executive. As described in Section 3, according to the analysis prepared by Hydro based on the 2025 Budget, and holding the treatment of Admin BU components constant, this results in a change to the allocation of $219,000. The change shifts costs that would otherwise be allocated to Hydro Regulated to Other Lines of Business, a shift of less than one percentage point of the approximately $29 million of total costs allocated through the Administration Fee mechanism.

We reviewed Hydro’s analysis and confirmed how the estimated $219,000 reduction arises. Table 6-1 sets out the costs allocated to the AP, GL and Executive cost centres in the first step under the 2025 Budget. A total variance of $412,000 exists between the two-step and one-step approach, comprised of a $165,000 cost pool that would have otherwise been allocated to the AP cost center in the first step, $138,000 to the GL cost center in the first step, and $110,000 to the Executive cost center in the first step. Of that $412,000 variance, Hydro Regulated would ultimately have received $219,000 pursuant to the applicable allocators in the second stage of the two-step approach. The change to a one-step approach eliminated these costs from the allocation. **Appendix F** summarizes the calculations in additional detail.

**Table 6-1**
**Illustration of How Hydro Management Estimated the Effect of Changing from the Partial Two-Step to a One-Step Allocation**
**2025 Budget**
**CAD, thousands**

| | | | | |
|---|---|---|---|---|
| **Costs Allocated to Second Stage Cost Centres in First Step** | | | | |
| | **Accounts Payable** | **General Ledger** | **Executive** | **Total** |
| Hydro Admin fee recovery | 52 | 46 | 67 | 165 |
| Non-Reg Hydro Admin Fee Recovery | 96 | 78 | 38 | 212 |
| BSP Admin Fee Recovery | 16 | 13 | 6 | 35 |
| Total | 165 | 138 | 110 | 412 |
| **Second Step Allocation of the First Step Allocated Costs** | | | | |
| To Hydro Regulated | 101 | 57 | 61 | **219** |
| To Other Lines of Business | 63 | 81 | 49 | 193 |
| Total | 165 | 138 | 110 | 412 |

*Source: Hydro management‘s calculations.*

We considered whether the $412,000 of costs no longer allocated to the AP, GL and Executive cost centres in the first step could, under the one-step approach, be allocated to regulated operations through the allocation mechanisms of their originating cost centres. Hydro advised that this does not occur. We note only that, if any such allocation were to occur, the effect would be to reduce the magnitude of the estimated change. We note that per Table 8 of their report, KPMG estimated the effect to be an increase of approximately 0.1% of the cost budget. While Hydro and KPMG’s estimates differ modestly in magnitude and direction, both indicate that the effect on the allocation of costs to regulated operations is immaterial.

This result corroborates the conceptual analysis in Section 6.2. The limited effect indicates that the pattern of inter-administrative cost consumption does not differ materially from the overall pattern of administrative cost consumption, so that removing the intermediate re-allocation step does not meaningfully change the proportion of administrative cost borne by regulated operations. It confirms, on more recent information, the conclusion reached in the 2013 review that not fully burdening shared service costs with allocations from other administrative departments is not material. Moreover, to the extent the change has any effect on regulated operations, it is favourable to ratepayers based on Hydro’s estimates, since it slightly reduces the proportion of costs allocated to regulated operations.

## 6.4 Transparency, Traceability and Administrative Practicality

Where a methodology change is substantially neutral in its effect on the allocation of costs, the considerations of transparency, traceability, and administrative practicality set out in Section 4 become particularly relevant, as they may provide a reasonable basis for the change notwithstanding the absence of a material change in outcome.

In our view, the one-step approach offers meaningful advantages in these respects. By removing the intermediate re-allocation of costs among administrative business units, it allows administrative costs to be traced more directly from the originating Administration Fee to the final line of business. This makes the flow of costs easier to follow, easier to reproduce from source data, and easier for the Board and other parties to review and test. A more transparent and readily reproducible methodology is a legitimate objective in a regulatory context.

The one-step approach is also administratively simpler, reducing the number of allocation steps required. Hydro has indicated that retaining a two-step methodology would require estimated allocations, periodic variance assessments, and true-ups, and that the incremental administrative effort was not justified given the limited effect of the change on the resulting allocation. Consistent with the principles set out in Section 4, administrative simplicity is an appropriate consideration when choosing among methodologies that are otherwise reasonable, produce comparable outcomes, and do not come at the expense of cost causation.

## 6.5 Conclusion

For the reasons set out above, our assessment is that the transition from the partial two-step allocation methodology to the one-step allocation methodology is reasonable and does not result in an unfair or unreasonable allocation of costs to ratepayers. The one-step approach continues to allocate the full pool of Administration Fee costs to Hydro's lines of business, with only a limited effect on the allocation between regulated and non-regulated operations. Based on Hydro's analysis, any such effect is modestly favourable to ratepayers and, in any event, immaterial. This conclusion is consistent with the findings of the 2013 review. At the same time, the one-step approach improves the transparency, traceability, and administrative simplicity of the allocation process.

# 7 Evaluation of the Removal of Administrative Business Unit Components

## 7.1 Overview

The third change within the scope of our review differs from the other two in one important respect: it produces a material shift in the allocation of costs toward Hydro Regulated. As described in Section 3, based on 2025 budget information and isolating the effect of this change, the removal of Admin BU components from the allocators increases the allocation to Hydro Regulated from approximately 55.1% to approximately 57.4%. As this change increases the costs allocated to regulated operations, it warrants the closest scrutiny from a ratepayer perspective.

The focus of our evaluation is whether this change corrects a genuine distortion in the allocators and thereby produces a more accurate measure of cost causation. If the existing methodology permits factors unrelated to the consumption of administrative services to influence the allocation outcome, the correction of that distortion may justify an increase in the costs allocated to regulated operations. Conversely, if no such distortion exists, an increase in the costs borne by ratepayers would require additional justification.

Our evaluation addresses four questions:

- Whether the inclusion of Admin BU components in the allocators is genuinely distortive;
- Whether the removal of those components produces an allocator that better reflects the consumption of administrative services by the operating lines of business;
- Whether the direction and magnitude of the resulting shift are explained by, and consistent with, the correction of that distortion; and
- Whether the change is fair to ratepayers notwithstanding that it increases the regulated allocation.

Consistent with our approach in Section 6, we evaluate this change on an isolated basis, holding the one-step methodology constant so that its impact is not conflated with the transition evaluated in Section 6.

## 7.2 The Nature of the Potential Distortion

The allocators used to distribute Administration Fee costs are constructed from operational measures such as FTEs, purchase orders, and average Information Systems users. These measures are intended to serve as proxies for the extent to which each line of business consumes, or benefits from, the administrative services being allocated.

The potential distortion arises because the administrative functions themselves generate these same measures. The employees of the Human Resources, Information Systems, Procurement, and other administrative departments are themselves FTEs; the staff of the Information Systems department are themselves system users; and comparable relationships exist across the other administrative functions. Where the components attributable to the administrative functions are included in the allocators, the administrative functions influence the percentages used to allocate their own costs, so that the providers of the administrative services are counted alongside the operating lines of business that consume them.

This feature becomes material because each administrative function is coded to a single regulated or non-regulated home business unit. That coding determines whether the administrative function's components are treated as regulated or non-regulated within the allocator. As a consequence, the home business unit designation of an administrative function, rather than the pattern of consumption by the operating lines of business, influences the allocation of administrative costs between regulated and non-regulated operations.

**Illustrative Example**

The following illustration demonstrates this effect. Consider a Human Resources ("HR") Administration Fee allocated on the basis of FTEs. Assume the operating lines of business comprise 60 regulated FTEs and 40 non-regulated FTEs. Measured by reference to the operating businesses alone, the allocator would assign 60% of HR costs to regulated operations and 40% to non-regulated operations, reflecting the relative size of the businesses that consume HR services.

Assume further that the administrative functions themselves employ 20 FTEs, all of which are coded to a non-regulated home business unit. Under the historical approach, these 20 FTEs are included in the allocator, producing a non-regulated total of 60 FTEs (40 operating plus 20 administrative) and a regulated total of 60 FTEs. The allocator would then assign 50% of HR costs to each of regulated and non-regulated operations.

In this illustration, the inclusion of the administrative FTEs shifts the allocation from 60/40 to 50/50, a movement of ten percentage points away from regulated operations, notwithstanding that the operating businesses' consumption of HR services is unchanged. The shift is attributable solely to the home business unit coding of the administrative functions.

*The figures in this illustration are hypothetical and are provided solely to demonstrate the mechanism; they do not represent Hydro's actual data.*

In our view, this is properly characterized as a distortion of cost causation. The purpose of the allocator is to measure the extent to which the operating lines of business consume administrative services. The administrative functions are the providers of those services, not the operating consumers of them in the relevant sense. The inclusion of the providers' own headcount and activity in the measure of consumption introduces an input that does not reflect the benefit received by the operating lines of business, and permits an internal organizational designation to affect the allocation between regulated and non-regulated operations. Hydro has confirmed that the home business unit designation of an administrative function reflects its organizational placement within Hydro's structure and bears no relation to which operating lines of business consume its services. It is for this reason that permitting that designation to influence the allocator percentages is distortive.

## 7.3 Whether Exclusion Improves Cost Causation

The question that follows is whether the exclusion of the administrative components produces an allocator that better reflects cost causation. In our view, it does.

By excluding the components attributable to the administrative functions, the allocators are calculated by reference to the operating lines of business that consume the administrative services, and not by reference to the administrative functions that provide them. The resulting percentages are determined by the measured consumption of the operating businesses and are no longer influenced by the home business unit designation of the administrative functions. This produces an allocator that more accurately reflects the benefit received by each line of business, consistent with the cost causation principle set out in Section 4. Hydro has confirmed, and KPMG concurred, that the exclusion is methodologically sound as a means of eliminating this self-allocation bias.

We have also confirmed that the exclusion is applied consistently. Hydro has confirmed that the Admin BU components are excluded across each of the affected allocators without exceptions or partial applications, including the FTE, average Information Systems users, purchase orders, and office-space allocators. Consistent application is relevant to the reasonableness of the change, because a selective exclusion could itself introduce inconsistency between cost pools. Hydro's uniform application of the exclusion avoids that concern.

We have considered the counterargument that the exclusion discards relevant information, on the basis that the administrative functions do consume administrative services (for example, HR supports the staff of Information Systems, and Information Systems supports the systems of HR), and that their removal disregards this genuine inter-administrative consumption. In our view, this consideration is more appropriately addressed through the structure of the allocation as a whole than through the retention of the components within the allocators. The costs of inter-administrative support are not eliminated; they remain within the total administrative pool allocated to the operating lines of business. The exclusion removes only the influence of the administrative functions' home business unit designation on the allocator percentages. The relevant question is whether inter-administrative consumption should be captured through an allocator input determined by an internal organizational designation, and in our view it should not.

## 7.4 Impact on the Allocation to Regulated Operations

Based on the analysis prepared using 2025 budget information, and isolating the incremental effect of the removal, the change increases the allocation to Hydro Regulated from approximately $14.5 million (approximately 55.1%) to approximately $15.1 million (approximately 57.4%), a shift of approximately $617,000, with a corresponding reduction to Other Lines of Business.

Hydro has explained that the shift toward regulated operations arises because a greater proportion of the administrative functions' home business unit assignments are situated on the non-regulated side of the business. This indicates that the inclusion of Admin BU components in the allocators had been systematically drawing administrative cost away from regulated operations and toward non-regulated operations. This is not because the regulated operating lines of business consumed a lesser measure of administrative service, but because a greater number of the administrative functions were coded to non-regulated home business units. The increase in the regulated allocation upon removal of the components does not reflect a new burden being placed on regulated operations. Rather, it reflects the correction of a feature that had previously reduced the allocation to regulated operations for reasons unrelated to benefit received.

## 7.5 Ratepayer Fairness

As this change increases the costs allocated to regulated operations, its fairness to ratepayers requires direct consideration. Fairness, as discussed in Section 4, does not require that the allocation to regulated operations be minimized. It requires that regulated operations bear the costs they cause and for which they receive the benefit, and that they not bear costs properly attributable to non-regulated operations or other beneficiaries. A methodology that increases the regulated allocation is therefore not unfair where the increase corrects a prior allocation that had understated the costs properly attributable to regulated operations.

That is the position here. The inclusion of Admin BU components had the effect of shifting administrative cost toward non-regulated operations on the basis of an internal organizational designation unrelated to consumption by the operating lines of business. The removal of those components corrects that effect. The resulting increase in the regulated allocation reflects a more accurate measure of the administrative costs that regulated operations cause, and is therefore consistent with, rather than contrary to, the fair treatment of ratepayers.

## 7.6 Materiality Context

To assist the Board in assessing the significance of this change, it is of assistance to place the shift of approximately $617,000 in context. On the 2025 budget basis, the change represents approximately two percentage points of the administrative cost pool of approximately $29 million allocated between regulated and non-regulated operations.

## 7.7 Conclusion

For the reasons set out above, our assessment is that the removal of Admin BU components from the allocators is reasonable and results in a fair allocation of costs to ratepayers, notwithstanding that it increases the allocation to regulated operations. The inclusion of those components had allowed the home business unit designation assigned to administrative functions, an internal organizational classification unrelated to the consumption of administrative services by the operating lines of business, to influence the allocation of administrative costs between regulated and non-regulated operations. Their removal produces allocators that more accurately reflect the consumption of administrative services by the operating lines of business, consistent with the principle of cost causation, and maintains consistency across the affected allocators.

# 8 Materiality Assessment

## 8.1 Overview

Sections 5 through 7 assess each proposed change individually. This section considers the three changes together and addresses a distinct question: taken as a whole, how material is their combined effect on the allocation of costs to regulated operations, and therefore on ratepayers?

## 8.2 Combined Effect of the Proposed Changes

The two changes affecting the Administration Fee pool of approximately $29 million operate in opposite directions and partially offset. Based on Hydro's calculations, the transition to the one-step methodology moves approximately $219,000 *away* from regulated operations, while the removal of Admin BU components moves approximately $617,000 *toward* regulated operations, producing a net movement of approximately $398,000 toward regulated operations.

The third change, the introduction of the Hybrid Allocator, applies to a separate cost pool of approximately $4.15 million and is assessed on its own basis. As discussed in Section 5, its impact cannot be reliably quantified across all affected functions. While the change reduces the allocation to regulated operations for the functions previously allocated using an FTE-based methodology, no comparable measure exists for the functions previously charged using timesheets. Nevertheless, the Hybrid Allocator applies to a comparatively small cost pool and, based on our review, does not give rise to an indication of a material shift in costs to regulated operations.

## 8.3 Ratepayer Impact in Context

The materiality of these changes is best assessed against the costs ultimately recovered from customers through rates. Hydro has advised that its regulated revenue requirement for the 2027 test year is approximately $798 million net of rate mitigation and approximately $1.3 billion before rate mitigation. Measured against the revenue requirement net of rate mitigation, the net movement of approximately $398,000 toward regulated operations arising from the Administration Fee changes represents approximately 0.05%. Measured against the revenue requirement before rate mitigation, approximately 0.03%. The effect on the amounts recovered from ratepayers is accordingly minimal, and likely lesser still if the effect of the Hybrid Allocator on its separate cost pool were to be taken into account.

# 9 Conclusions and Opinions

## 9.1 Overview

This section sets out our opinions on the three proposed methodology changes within the scope of the Board's Terms of Reference. Each opinion follows from the analysis in Sections 5 through 8 and is expressed by reference to the framework set out in Section 4.

## 9.2 Introduction of the Hybrid Allocator

In our opinion, the Hybrid Allocator is a reasonable methodology for allocating the costs of functions that support the organization as a whole and that cannot practically be assigned directly to individual lines of business, and its application to the Executive, Corporate Secretary, Communications (Culture), and Safety, Health and Environment functions is reasonable. A blended, scale-based measure is appropriate for costs of this nature; the selection of gross PP&E and O&M costs is supportable and reflects a considered assessment of alternatives. Further, the equal weighting of the two factors does not operate to the disadvantage of ratepayers. For the Executive and Safety, Health and Environment functions, previously allocated on an FTE basis, the allocator produces a materially lower regulated share and is favourable to ratepayers. For the Corporate Secretary and Communications (Culture) functions, previously charged on a timesheet basis, the change does not lend itself to a directional comparison, and our opinion rests on the reasonableness of that methodology.

## 9.3 Transition from the Partial Two-Step to the One-Step Allocation Methodology

In our opinion, the transition from the partial two-step to the one-step allocation methodology is reasonable and does not result in an unfair or unreasonable allocation of costs to ratepayers. The entire pool of Administration Fee costs continues to be allocated to the lines of business and remains substantially fully burdened. The effect on the allocation between regulated and non-regulated operations is limited, i.e., according to Hydro a reduction of approximately $219,000 on the 2025 budget basis, and is favourable to ratepayers. Further, the change improves the transparency, traceability, and administrative simplicity of the allocation process.

## 9.4 Removal of Administrative Business Unit Components

In our opinion, the removal of Admin BU components from the allocators is reasonable and results in a fair allocation of costs to ratepayers, notwithstanding that it increases the allocation to regulated operations by approximately $617,000 based on Hydro’s calculations. The inclusion of those components had allowed the home business unit designation assigned to administrative functions, an internal organizational classification unrelated to the consumption of administrative services by the operating lines of business, to influence the allocation of administrative costs between regulated and non-regulated operations. Their removal produces allocators that more accurately reflect the consumption of administrative services by the operating lines of business, consistent with the principle of cost causation, and maintains consistency across the affected allocators.

## 9.5 Overall Conclusion

In our opinion, the three proposed methodology changes, considered individually and as a package, are reasonable and result in a fair and reasonable allocation of costs to ratepayers. The changes largely retain the established structure of Hydro's cost allocation framework while refining specific methodologies. As set out in Section 8, the net effect on regulated operations is modest. It is estimated to be no greater than approximately 0.05% of Hydro's regulated revenue requirement. The net effect reflects the correction of a distortion rather than a shifting onto ratepayers of costs properly attributable to non-regulated operations.

# Abbreviations

| Abbreviation | Definition |
|---|---|
| 2026 Guidelines | Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines |
| Admin BU | Administration (or Administrative) Business Unit |
| Administration Fee | Administration Fee costs under Hydro's Intercompany Transactions Costing Guidelines |
| AP or A/P | Accounts payable |
| BST or BSP (pre-2026) | Business Systems Transformation |
| CAD | Canadian dollars |
| Doane Grant Thornton, us, we, our | Doane Grant Thornton LLP |
| FTE | Full-time equivalent |
| GL | General ledger |
| GRA | General Rate Application |
| HR | Human resources |
| Hydro | Newfoundland and Labrador Hydro |
| IS | Information systems |
| KPMG | KPMG LLP |
| KPMG Report | Intercompany Transactions Costing Guidelines Review Report prepared by KPMG LLP |
| LoB or LOB | Line of business |
| NL | Newfoundland & Labrador |
| O&M | Operations and maintenance |
| OECD | Organisation for Economic Co-operation and Development |
| OECD Transfer Pricing Guidelines | Organisation for Economic Co-operation and Development Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations (2022) |
| PP&E | Property, plant and equipment |
| SH&E | Safety, Health and Environment |
| The Board | Board of Commissioners of Public Utilities of Newfoundland and Labrador |
| Nalcor | Nalcor Energy |

# Appendix A: Summary of the Board's Terms of Reference Relating to Doane Grant Thornton's Review

**RE: Newfoundland and Labrador Hydro - Terms of Reference for the Review of Newfoundland and Labrador Hydro's 2026 Intercompany Transactions Costing Guidelines**

The Board is engaging Doane Grant Thornton LLP to complete a review of Newfoundland and Labrador Hydro's ("Hydro") 2026 Intercompany Transactions Costing Guidelines ("Intercompany Guidelines").

Hydro's Intercompany Guidelines were last reviewed during Hydro's 2013 General Rate Application ("GRA"). Doane Grant Thornton LLP, as an expert of the Board, and Deloitte LLP, Hydro's expert, reviewed the allocation methods for common services and both experts found the methods reasonable.

As a result of the amalgamation of Hydro and Nalcor Energy, effective January 1, 2025, Hydro proceeded to review and update its Intercompany Guidelines in advance of the next GRA. On March 30, 2026, Hydro filed its 2026 Intercompany Transactions Costing Guidelines, along with a report prepared by its third party expert, KPMG LLP ("KPMG") who were engaged to complete a review of the Intercompany Guidelines with respect to the appropriateness of allocators for intercompany charges and administrative fees, appropriateness of guidelines in light of organizational changes due to amalgamation, appropriateness of new administration fees/allocators proposed by Hydro, and consistency with industry practice.

According to KPMG's Executive Summary, there have been several refinements included in Hydro's 2026 Intercompany Transactions Costing Guidelines, mainly related to transitioning select functions from a timesheet-based (Type 1) approach to an allocation-based (Admin Fee or Type 2) approach and changes to allocators used. KPMG indicated that the most notable changes were:

1) Introduction of a Hybrid Allocator to allocate select Executive, Corporate Secretary, Communications, and Safety, Health & Environment costs.

2) Transitioning the allocation approach from a partial two-step to a one-step allocation.

3) Removal of admin fee components in the allocators.

The Board has developed the following Terms of Reference to be incorporated in this review:

1. Review the methodology of the Hybrid Allocator and assess the reasonableness of using this allocator to allocate the costs associated with the Executive, Corporate Secretary, Communications, and Safety, Health & Environment costs, including whether this approach is fair and reasonable for ratepayers.

2. Assess the reasonableness of transitioning the allocation approach from a partial two-step to a one-step allocation and whether this approach is fair and reasonable for ratepayers.

3. Assess the reasonableness of the removal of admin fee components in the allocators and whether this approach is fair and reasonable for ratepayers.

# Appendix B: Summary of Mr. Kurjanowicz's Qualifications

## B.1 Experience

Mr. Kurjanowicz is the National Leader of Transfer Pricing Services at Doane Grant Thornton LLP. He specializes in the design, evaluation, and independent review of transfer pricing and intercompany pricing frameworks, with a particular focus on policy design, cost allocation methodologies, and documentation assessed for economic reasonableness and defensibility under regulatory and audit scrutiny.

Over the course of his career in transfer pricing, Mr. Kurjanowicz has led the design and implementation of intercompany pricing frameworks for dozens of public and private organizations across the globe, including entities operating in highly regulated environments. His experience includes evaluating a broad range of intercompany charging models and providing independent, objective opinions on whether such methodologies are transparent, appropriately designed, aligned with applicable legal requirements, and economically reasonable. His work is focused on principles of cost causality, the use of objective allocators, and consistency with regulatory guidance and established industry practice. He regularly serves as an expert in connection with audits and cross-border disputes involving transfer pricing.

Mr. Kurjanowicz is widely recognized within the Canadian transfer pricing community for his contributions and leadership. Under his leadership, Doane Grant Thornton's transfer pricing practice has been awarded International Tax Review's Transfer Pricing Advisory Practice of the Year in 2014, 2018, 2023, and 2025. In 2025, he was also individually recognized by International Tax Review as North America's Transfer Pricing Practice Leader of the Year. He is a frequent speaker and published thought-leader and is regularly consulted by the media on transfer pricing matters in Canada. Reflecting his profile within the profession, Mr. Kurjanowicz has, for multiple years, served as Chair of Transfer Pricing Minds, the nation's largest industry conference for transfer pricing professionals.

## B.2 Education

- Bachelor of Commerce (Honours) – Queen's University (2007)
- Chartered Financial Analyst (CFA) – CFA Institute (2011)
- Master of Taxation – University of Waterloo (2013)

## B.3 Recent Professional Recognition

- North America Transfer Pricing Practice Leader of the Year – *International Tax Review* (2025)
- Chair of Transfer Pricing Minds Conference (Speaker 2019-2022, Chair 2023–2026)
- Recognized Expert, *Guide to the World's Leading Transfer Pricing Advisors* – World Tax (2021–2026)

## B.4 Recent Speaking Engagements

- **Transfer Pricing Minds Canada and Opening Address ("State of the Global Transfer Pricing Industry"),** Chair
  Informa – TP Minds Series — April 28, 2025
  Delivered opening address and chaired the Transfer Pricing Minds, Canada 2025 conference in Toronto, Canada.

- **Interview with CRA's International and Large Business Directorate,** Lead Interviewer and Presenter
  Informa – TP Minds Series — April 29, 2025
  Hosted the keynote interview with the Canada Revenue Agency's ITD Leader during Day 1 of the TP Minds Canada Conference, 2025

- **Interview with the OECD,** Lead Interviewer and Presenter
  Informa – TP Minds Series — April 29, 2025
  Hosted the keynote interview with the OECD Transfer Pricing Program leader during Day 2 of the TP Minds Canada Conference, 2025

- **What Canadian Businesses Operating Cross-Border Need to Know,** Panelist and Presenter
  *Doane Grant Thornton* Webinar — December 3, 2025
  Discussed key tax, trade, and regulatory considerations for Canadian businesses with cross-border operations, including emerging risks and compliance priorities.

- **Trade in Transition: Insights to Keep Your Business Competitive in 2026,** Panelist and Presenter
  *Doane Grant Thornton* Webinar — March 25, 2026
  Provided insights on evolving Canada–U.S. trade dynamics, tariff developments, and strategic considerations for maintaining competitiveness in 2026.

- **Canadian Competitiveness: How Businesses Can Remain Agile,** Panelist and Presenter
  *Doane Grant Thornton* Webinar — May 29, 2025
  Examined factors affecting Canada's competitive position and practical strategies for businesses to remain agile in a changing economic and regulatory environment.

- **Trump Administration: Impacts of Tariffs on Canadian Businesses Operating Across Borders,** Panelist and Presenter

*Doane Grant Thornton* Webinar — March 5, 2025
Addressed the implications of U.S. tariff policy for Canadian businesses, with a focus on cross-border trade, supply chains, and risk mitigation.

## B.5 Select Thought Leadership and Publications

- **Inside Canada's Most Consequential Transfer Pricing Shift in Decades,** Peter Kurjanowicz, Contributor / Quoted Expert
  *International Tax Review — April 2026*
  Contributed expert commentary to International Tax Review's in-depth analysis of recent legislative and administrative developments reshaping Canada's transfer pricing regime. The article examines significant changes to Canadian transfer pricing rules and enforcement practices, with expert insights on implications for governance, documentation, audit risk, and dispute resolution.

- **Transfer Pricing Governance, Cost Allocation, and CRA Audit Practice**, Peter Kurjanowicz Conference Publications
  *TP Minds Canada (Informa Connect) / Canadian Tax Foundation — 2019–2026*
  Authored and contributed to published conference materials, moderator content, and expert commentary addressing transfer pricing governance, cost allocation frameworks, CRA audit practice, and dispute resolution trends.

- **WORLDWATCH: Transfer Pricing — Canada**, Peter Kurjanowicz, Panel Contributor
  *Financier Worldwide — March 2025*
  Provides expert commentary on Canada's transfer pricing environment as part of a global panel discussion. Addresses the maturity of Canada's legislative framework, the CRA's audit capabilities, increasing emphasis on governance and documentation, and how multinational enterprises manage heightened scrutiny.

- **Global Transfer Pricing Review** (Canada), Peter Kurjanowicz, Panel Contributor
  *Financier Worldwide — 2024*
  Contributes Canadian-specific insights to a global transfer pricing review addressing audit risk, dispute trends, pricing governance, and practical challenges faced by multinational groups in an increasingly transparent and enforcement-focused environment.

- **How to Address Transfer Pricing Challenges,** Peter Kurjanowicz, Author
  *Financier Worldwide — 2024*
  Discusses strategic and practical approaches to managing transfer pricing risk, including policy design, documentation, audit readiness, and dispute response. Emphasizes governance frameworks and proactive risk management in high-scrutiny jurisdictions such as Canada.

- **Transfer Pricing Governance and Risk-Based Compliance**, Peter Kurjanowicz Publications and Conference Material
  *TP Minds Canada / Informa Connect — 2019–2026 (ongoing)*
  Authored and contributed to published conference materials and expert commentary addressing transfer pricing governance, cost allocation frameworks, risk-based compliance, and alignment between economic analysis, legal agreements, and operational reality, with emphasis on defensibility in audit, regulatory, and dispute contexts.

- **Transfer Pricing Guide – Canada**, Peter Kurjanowicz, Author
  *Grant Thornton Global Insights — October 2023*
  Contributes to Grant Thornton's global transfer pricing guide by providing a comprehensive overview of Canada's transfer pricing regime. The guide outlines the legislative framework under section 247 of the Income Tax Act, the role of CRA administrative guidance and jurisprudence, accepted transfer pricing methods, documentation requirements, and audit and penalty considerations. It offers practical insight into how Canadian transfer pricing rules are applied in practice and how they interact with OECD principles in audit and dispute contexts.

- **Trends in Intercompany Debt Pricing**, Peter Kurjanowicz, Co-Author
  *Canadian Tax Focus (Canadian Tax Foundation) — May 2022*
  Examines recent developments in the pricing of intercompany debt, including evolving market conditions, interest rate considerations, and practical challenges in applying arm's-length debt pricing principles. The article discusses implications for transfer pricing policy, documentation, and audit risk management in Canada.

- **Expert Guides – Transfer Pricing (Canada)**, Peter Kurjanowicz Editorial Profile / Contributor
  *Expert Guides / Legal Benchmarking Group — 2022*
  Featured as a Rising Star in transfer pricing, with editorial commentary reflecting experience in transfer pricing disputes, governance, and complex cross-border arrangements.

- **AgraCity Ltd. v. The Queen — Insights from Canada's Most Recent TP Decision (Part 1)**, Peter Kurjanowicz, Author
  *Bloomberg Law / US Law Week — 2021*
  Analyzes the factual background and legal framework of AgraCity Ltd. v. The Queen, with a focus on transaction delineation and the Tax Court of Canada's rejection of the CRA's sham and recharacterization arguments under sections 247(2)(b)/(d). Highlights important limits on recharacterization in Canadian transfer pricing jurisprudence.

- **AgraCity Ltd. v. The Queen — Insights from Canada's Most Recent TP Decision (Part 2)**, Peter Kurjanowicz, Author
  *Bloomberg Law / US Law Week — March 4, 2021*
  Provides a detailed examination of the Court's analysis of repricing under section 247(2)(a)/(c), functional and risk analysis, the role of contracts versus conduct, benchmarking under the TNMM, and burden of proof. Offers practical guidance for structuring and defending transfer pricing arrangements in Canada.

- **Transfer Pricing: Beyond the Pricing**, Peter Kurjanowicz, Author
  *Grant Thornton — June 2019*
  Discusses transfer pricing as a multidisciplinary governance exercise extending beyond benchmarking and pricing, emphasizing the importance of policy design, operational alignment, implementation, and documentation to support defensible and sustainable transfer pricing outcomes.

- **Transfer Pricing Deadlines and Contemporaneous Documentation Requirements**, Peter Kurjanowicz, Author
  *Grant Thornton – Insights — June 2018*
  Examines Canada's transfer pricing documentation and filing deadlines, with a focus on contemporaneous documentation requirements, penalty exposure, and practical compliance considerations for multinational enterprises. The article highlights key timing risks, common areas of misunderstanding, and the importance of proactive planning to mitigate audit and penalty risk under Canada's transfer pricing rules.

**Is It Time to Consider Transfer Pricing Year-End Adjustments?**
*Grant Thornton – Insights — December 2018*
Explores the role of transfer pricing year-end adjustments as a governance and risk-management tool for multinational enterprises. The article discusses when year-end adjustments may be appropriate, common triggers and pitfalls, interaction with transfer pricing policies and documentation, and considerations relevant to audit readiness and regulatory scrutiny. Emphasis is placed on aligning financial outcomes with arm's-length principles while maintaining defensibility in tax authority reviews.

# Appendix C: Comprehensive Listing of Information Considered in Doane Grant Thornton’s Review

Appendix C provides a comprehensive listing of the information considered by Doane Grant Thornton in conducting its independent expert review. The information considered includes materials provided by Hydro, information obtained through our information request procedures, and independent sources referenced in the preparation of this report.

Table C-1 sets out the materials provided and submitted by Hydro that were considered as part of our review.

**Table C-1**
**Comprehensive Listing of Information Considered in Doane Grant Thornton’s Review**
**Materials Provided and Submitted by Newfoundland and Labrador Hydro**

| No. | Title of Material | Description of Material |
|---|---|---|
| 1 | Intercompany Transactions Costing Guidelines | Proposal prepared by Hydro in 2026. |
| 2 | Intercompany Transactions Costing Guidelines Review | Report prepared by KPMG LLP in 2026. |
| 3 | Attachment 1 - Org Charts (2024) | 2024 organization charts before amalgamation of Hydro and Nalcor. |
| 4 | Attachment 2 - Org Charts (2026) | 2026 organization charts after amalgamation of Hydro and Nalcor. |
| 5 | GT-NLH-001 a) | Explanation of File 3 and File 4 within this table. |
| 6 | GT-NLH-001 b) | Explanation of the governance, review, approval, and oversight processes used. |
| 7 | GT-NLH-002 a) | Management Confirmation – Hybrid Allocator Conclusions. |
| 8 | Attachment 1 - GT-NLH-002 b) | Detailed Hybrid Allocator calculation. |
| 9 | GT-NLH-002 b) | Explanation of File 8. |

**Table C-1**
**Comprehensive Listing of Information Considered in Doane Grant Thornton's Review**
**Materials Provided and Submitted by Newfoundland and Labrador Hydro**

| No. | Title of Material | Description of Material |
|---|---|---|
| 10 | GT-NLH-002c Attachment 1 | Detailed application of cost pools calculation. |
| 11 | GT-NLH-002 c) | Explanation of File 10. |
| 12 | GT-NLH-002 d) | Supporting analysis and alternatives of Hybrid Allocator. |
| 13 | GT-NLH-003 a) Attach 1 | Management Confirmation – Impact of One-Step vs Two-Step calculation. |
| 14 | GT-NLH-003 a) | Explanation of File 13. |
| 15 | GT-NLH-003 b) | Management Rationale & Fairness – One-Step Allocation. |
| 16 | GT-NLH-004 a) Attachment 1 | Management calculation of the effect of excluding administrative metrics. |
| 17 | GT-NLH-004 a) Attachment 1_V2_July 29 | Cleaned up calculations from Hydro. |
| 18 | GT-NLH-004 a) | Explanation of File 16 and File 17. |
| 19 | GT-NLH-004 b) | Explanation of validation of implementation – exclusion of administrative metrics. |
| 20 | GT-NLH-005a(ii) Attachment 1 | Calculation of Operating Bill Rate. |
| 21 | GT-NLH-005 a) ii) | Explanation of File 20. |
| 22 | GT-NLH-0005 a) iii) - Attachment 1 | Calculation of Fixed Charge per hour. |
| 23 | GT-NLH-005 a) iii) | Explanation of File 23. |
| 24 | Attachment 1 - GT-NLH-005 b) | Calculation of data and analysis supporting File 2. |
| 25 | GT-NLH-005 b) | Explanation of File 24. |
| 26 | GT-NLH-005 c) | Response to request for internal memos or documentation. |
| 27 | GT-NLH-005 d) | Response to request for other contextual materials. |
| 28 | GT-NLH-007 | Response to additional request for cost recovery business unit working papers. |

*Source: Newfoundland and Labrador Hydro.*

Table C-2 summarizes the internal Doane Grant Thornton materials and publicly available sources considered in preparing this report.

**Table C-2**
**Comprehensive Listing of Information Considered in Doane Grant Thornton's Review**
**Other Materials and Public Sources**

| No. | Title of Material | Description of Material |
|---|---|---|
| 29 | Newfoundland and Labrador Hydro Expert Report: Evaluating the Pricing Policy for Affiliate Common Services, Common Expenses and Corporate Services | Published by Grant Thornton in 2013 to assist the Board in evaluating hydro pricing policy. |
| 30 | Guidelines for Cost Allocations and Affiliate Transactions | Published by National Association of Regulatory Utility Commissioners in 1998, its role is to provide guidance to jurisdictional regulatory authorities and regulated utilities and their affiliates in the development of procedures and recording of transactions for services and products between a regulated entity and affiliates. |
| 31 | Study of Affiliate Service Costs and Cost Allocation | Prepared by BDR North America Inc. in 2016 for Canadian Niagara Power Inc., the report examines the allocation of shared service costs among regulated and unregulated business activities and the use of cost drivers to support fair and reasonable cost allocation methodologies. |
| 32 | Milton Hydro Distribution Inc. – 2025 Application for an Accounting Order | Filed by Milton Hydro Distribution Inc. in 2025 as part of its 2025 Application for an Accounting Order, the application discusses a third-party review of affiliate and shared service cost allocation methodologies, including the allocation of corporate costs among affiliates and the resulting impact on ratepayers. |
| 33 | ATCO Ltd. Shared Service Cost Allocation Review | Prepared by KPMG in 2024 for ATCO Ltd., the report reviews the methodologies used to allocate shared service costs among regulated and nonregulated affiliates and evaluates their consistency with cost causation principles, regulatory guidance, and utility industry practice. |
| 34 | Schedule 3.7 – Corporate Allocations Report | Prepared by Liberty Utilities (Gas New Brunswick) LP in 2023, the report describes the methodology used to allocate corporate and shared service costs from affiliated entities to regulated utility operations, including the use of direct charges, indirect allocations, and multi factor allocation methodologies. |
| 35 | OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations | Published by the Organisation for Economic Co operation and Development in 2022, Chapter VII of the OECD Transfer Pricing Guidelines discusses the use of direct charge and indirect charge methods for shared services and provides guidance on the selection and application of allocation keys where costs are allocated among multiple recipients. |

**Table C-2**
**Comprehensive Listing of Information Considered in Doane Grant Thornton's Review**
**Other Materials and Public Sources**

| No. | Title of Material | Description of Material |
|---|---|---|
| 36 | British Columbia Utilities Commission Order Number G-349-20 | This order, dated December 24, 2020, documented a ruling by the BC Utilities commission regarding the application for a corporate cost allocation methodology by Corix Multi-Utility Services Inc. the BC Utilities Commission approved the applicant's cost allocation methodology. |
| 37 | Centra Gas Manitoba Inc. – Expense Allocation Methodology Review | This document, dated October 23, 2024, is a report prepared by Deloitte LLP in support of Manitoba Hydro's application for its 2024/25 GRA concerning its integrated cost allocation methodology. |
| 38 | Enbridge Cost Allocation Methodology | This policy document, dated March 17, 2009, was part of Enbridge Gas New Brunswick LP's 2010 Regulatory documents package. Enbridge Gas New Brunswick LP was subsequently acquired by Liberty Utilities, a division of Algonquin Power & Utilities Corp. in 2019. |
| 39 | Cost Allocation – Perspectives for the Utilities Industry | This marketing document published by KPMG LLP (US) in November 2022 provides an advisor's perspective on cost allocation policies of regulated utilities. We reviewed this for information regarding the Modified Massachusetts Formula. |

# Appendix D: Description of the Principal Steps in Connection with Doane Grant Thornton’s Review

The principal steps in connection with our review were as follows:

**Phase 1 – Information Compilation and Review**

1. Review of the KPMG Report in detail

2. Provision of an initial detailed information request, and a supplemental request, to Hydro for supporting information and working papers relating to the three matters under the terms of reference noted in Appendix A

3. Review of relevant precedent and contextual materials relating to Hydro’s Intercompany Transaction Costing Guidelines in connection with historical GRAs

4. Searched and review of information concerning management service cost allocation methodologies from certain regulatory filings of other public utility companies

**Phase 2 – Technical Review and Analysis**

1. Review of the responses from Hydro to our information requests and the supporting working papers concerning the hybrid allocator, the change from a partial two-step to one-step allocation methodology for the Administration Fee, and the removal of administrative business unit components from the allocation methodology

2. Assessment of the technical explanations provided by Hydro and from the KPMG Report

3. Consideration of the direction and quantum of the estimated effects of the proposed policy changes and their materiality to ratepayers

**Phase 3 – Preparation and Delivery of the Expert Report**

1. Drafting of this Expert Report and its provision for review and consideration by the Board

2. Provision of a copy of this Expert Report to Hydro for their review and comment

# Appendix E: Hybrid Allocator Calculation

The following section demonstrates the calculation of Hydro's Hybrid Allocator based on the methodology and supporting information provided by Hydro. The calculation has been reproduced to illustrate how the allocator is derived and applied to determine the allocation percentages for Hydro Regulated and Other Lines of Business.

Based on the information contained in File 8 provided by Hydro, we reproduced the calculation of the Hybrid Allocator using Hydro's 2024 financial data. The results of this calculation are presented in Table E-1 on the next page, which demonstrates how the Hybrid Allocator produces an allocation of approximately 30.0% to Hydro Regulated and 70.0% to Other Lines of Business.

| Table E-1<br>**Calculation Using 2024 Financials to Demonstrate the 30 / 70 Percent Split**<br>**Updated on March 30, 2026**<br>**CAD** | | | | | |
|---|---|---|---|---|---|
| **Hydro Entity or Division** | **Gross PP&E** | **Proportion of Gross PP&E (%) [A]** | **Total O&M Costs** | **Proportion of Total O&M Costs (%) [B]** | **Equal Weighted Proportion (%)[1] [0.5*A+0.5*B]** |
| Churchill Falls | 1,845,289,000 | 9.69% | 77,626,956 | 20.96% | 15.33% |
| NL Hydro (Non-Regulated) | 213,923,076 | 1.12% | 29,841,055 | 8.06% | 4.59% |
| Menihek Generating Station | 87,638,504 | 0.46% | 5,125,106 | 1.38% | 0.92% |
| Nalcor Energy Marketing | 332,000 | 0.00% | 5,445,151 | 1.47% | 0.74% |
| Labrador Transmission | 995,049,000 | 5.22% | 5,113,917 | 1.38% | 3.30% |
| Muskrat Falls Operations | 6,627,276,000 | 34.79% | 61,157,728 | 16.52% | 25.65% |
| Labrador Island Link | 5,534,766,000 | 29.06% | 36,227,279 | 9.78% | 19.42% |
| **Hydro Regulated** | **3,743,979,085** | **19.66%** | **149,456,770** | **40.36%** | **30.01%** |
| Hydro Non-Regulated | – | 0.00% | 313,035 | 0.08% | 0.04% |
| Total | 19,048,252,665 | 100.00% | 370,306,996 | 100.00% | 100.00% |
| | | | | | |
| Regulated | | 19.66% | | 40.36% | **30.01%** |
| Other Lines of Business | | 80.34% | | 59.64% | **69.99%** |
| Total | | 100.00% | | 100.00% | 100.00% |

*Source: Newfoundland and Labrador Hydro.*
*Note 1: Excluding Maritime Link PP&E and O&M expenses based on the provided note from Hydro.*

The Hybrid Allocator is calculated using the following formula:

$$\text{LoB Allocation \%} = 50\% \times \frac{\text{LoB Gross PP\&E}}{\text{Total Gross PP\&E}} + 50\% \times \frac{\text{LoB O\&M Cost}}{\text{Total O\&M Cost}}$$

Based on the information contained in File 10 provided by Hydro, the subsequent exhibits apply Hydro's Hybrid Allocator to the 2026 GRA forecast cost pools to determine the allocation of costs between Hydro Regulated and Other Lines of Business. Exhibit E-2 presents the calculation for the Communications Common Services Business Unit, Exhibit E-3 presents the calculation for the Safety, Health & Environment Common Services Business Unit, Exhibit E-4 presents the calculation for the Executive Common Services Business Unit, and Exhibit E-5 presents the calculation for the Corporate Secretary Common Services Business Unit. Based on these calculations, we verified the allocation amounts presented by Hydro in Table 3-2.

**Exhibit E-2**
**Hydro's Calculation for Communications Common Services Business Unit**
**Updated on March 30, 2026**
**CAD**

**Hydro**

**Communications Common Services Business Unit**

| | Cost Type Description | | GRA Forecast 2026 |
|---|---|---|---|
| **Itemized list of Operating Costs** | | | |
| | Salaries & Fringe Benefits | $ | 895,279 |
| | System Equipment Maintenance | | 37,314 |
| | Office Supplies & Expenses | | 182,286 |
| | Professional Services | | 39,370 |
| | Equipment Rentals | | - |
| | Travel | | 4,104 |
| | Miscellaneous Expenses | | - |
| | Building Rental & Maintenance | | - |
| | Other | | (17,903) |
| A | Total | $ | 1,140,450 |
| **Allocations** | | | |
| B | Hydro Regulated | | 30% |
| C | Other LOB | | 70% |
| | Total | | 100% |
| D | Hydro Regulated $ (A * B) | | 342,249 |
| E | Other LOB $ (A * C) | | 798,201 |
| | Total allocation $ | $ | 1,140,450 |

*Source: Newfoundland and Labrador Hydro.*

**Exhibit E-3**
**Hydro's Calculation for Safety, Health & Environment Common Services Business Unit**
**Updated on March 30, 2026**
**CAD**

**Hydro**

**Safety, Health & Environment Common Services Business Unit**

| | Cost Type Description | | GRA Forecast 2026 |
|---|---|---|---|
| **Itemized list of Operating Costs** | | | |
| | Salaries & Fringe Benefits | $ | 409,438 |
| | System Equipment Maintenance | | 1,018 |
| | Office Supplies & Expenses | | 5,543 |
| | Professional Services | | 410,473 |
| | Equipment Rentals | | - |
| | Travel | | 716 |
| | Miscellaneous Expenses | | 3,184 |
| | Transportation | | |
| | Building Rental & Maintenance[1] | | 86,387 |
| A | Total | $ | 916,759 |
| **Allocations** | | | |
| B | Hydro Regulated | | 30.0% |
| C | Other LOB | | 70.0% |
| | Total | | 100.0% |
| D | Hydro Regulated $ (A *B) | | 275,119 |
| E | Other LOB $ (A * C) | | 641,640 |
| | Total allocation $ | $ | 916,759 |

[1] Expenditures for this business unit in this cost category relate to safety supplies.

*Source: Newfoundland and Labrador Hydro.*

**Exhibit E-4**
**Hydro's Calculation for Non-Reg Executive Common Services Business Unit**
**Updated on March 30, 2026**
**CAD**

**Hydro**

**Non-Reg Executive Common Services Business Unit**

| | Cost Type Description | GRA Forecast 2026 |
|---|---|---|
| | **Itemized list of Operating Costs** | |
| | Salaries & Fringe Benefits | $ 1,595,730 |
| | System Equipment Maintenance | - |
| | Office Supplies & Expenses | 3,178 |
| | Professional Services | 72,727 |
| | Equipment Rentals | - |
| | Travel | 13,228 |
| | Miscellaneous Expenses | 24,786 |
| A | Total | $ 1,709,650 |
| | **Allocations** | |
| B | Hydro Regulated | 30% |
| C | Other LOB | 70% |
| | Total | 100% |
| D | Hydro Regulated $ (A* B) | 513,066 |
| E | Other LOB $ (A * C) | 1,196,584 |
| | Total allocation $ | 1,709,650 |

*Source: Newfoundland and Labrador Hydro.*

**Exhibit E-5**
**Hydro's Calculation for Corporate Secretary Common Services Business Unit**
**Updated on March 30, 2026**
**CAD**

**Hydro**

**Corporate Secretary Common Services Business Unit**

| | Cost Type Description | | GRA Forecast 2026 |
|---|---|---|---|
| **Itemized list of Operating Costs** | | | |
| | Salaries & Fringe Benefits | $ | 380,592 |
| | System Equipment Maintenance | | - |
| | Office Supplies & Expenses | | - |
| | Professional Services | | - |
| | Equipment Rentals | | - |
| | Travel | | - |
| | Miscellaneous Expenses | | - |
| | Transportation | | |
| | Building Rental & Maintenance | | - |
| A | Total | $ | 380,592 |
| **Allocations** | | | |
| B | Hydro Regulated | | 30% |
| C | Other LOB | | 70% |
| | Total | | 100% |
| D | Hydro Regulated $ (A * B) | | 114,216 |
| E | Other LOB $ (A * C) | | 266,377 |
| | Total allocation $ | | 380,592 |

*Source: Newfoundland and Labrador Hydro.*

# Appendix F: Two-Step Versus One-Step Calculation

Appendix F presents supporting calculations provided by Hydro relating to the transition from a partial two-step allocation methodology to a one-step allocation methodology. The exhibits included in this appendix illustrate Hydro's calculation of the resulting cost allocations under the one-step approach and provide support for the amounts presented in the 2026 Guidelines. The calculations have been reproduced to demonstrate Hydro's methodology and to verify the amounts reported by Hydro.

As reflected in the calculations, the Hydro Admin Fee Recovery, Non-Reg Hydro Admin Fee Recovery, and BSP Admin Fee Recovery amounts are included under the partial two-step allocation methodology but are removed under the proposed one-step allocation methodology. The resulting impact of this change on the allocation of costs between Hydro Regulated and Other Lines of Business is illustrated in the tables below.

## F.1 Accounts Payable Cost Centre

Table F-1 presents the total accounts payable recharge calculated using the 2025 budget under both the partial two-step allocation methodology and the proposed one-step allocation methodology.

| **Table F-1**<br>**Accounts Payable Cost Computation**<br>**Updated on March 30, 2026**<br>**Data from 2025 Annual Budget**<br>**CAD** | | | |
|---|---|---|---|
| **Description** | **Partial Two-Step** | **One-step** | **Change in Total Cost** |
| Salaries and Benefits | 1,119,843 | 1,119,843 | – |
| System Equipment Maintenance | 2,496 | 2,496 | – |
| Office Supplies | 103 | 103 | – |
| Miscellaneous | 17,062 | 17,062 | – |
| Hydro Admin fee recovery | 52,156 | – | (52,156) |
| Non-Reg Hydro Admin Fee Recovery | 96,207 | – | (96,207) |
| BSP Admin Fee Recovery | 16,207 | – | (16,207) |
| **Total Cost to be Allocated** | **1,304,074** | **1,139,503** | **(164,570)** |

*Source: Newfoundland and Labrador Hydro.*

Table F-2 presents the allocation of these costs between Hydro Regulated and Other Lines of Business under each methodology.

| **Table F-2**<br>**Accounts Payable Cost Recovery Allocation**<br>**Updated on March 30, 2026**<br>**Data from 2025 Annual Budget**<br>**CAD** | | | | | |
|---|---|---|---|---|---|
| **Description** | **Number of Invoices** | **Allocation Key[1]** | **Partial Two-Step** | **One-step** | **Change in Total Cost Allocated** |
| Other Lines of Business | 16,541 | 38.4% | 500,945 | 437,727 | (63,218) |
| Hydro Regulated | 26,519 | 61.6% | 803,129 | 701,776 | (101,353) |
| **Total Cost to be Allocated** | **43,060** | **100%** | **1,304,074** | **1,139,503** | **(164,570)** |

*Source: Newfoundland and Labrador Hydro.*
*Note 1: The allocation key is calculated based on the expected number of invoices for each business unit divided by the expected total number of invoices.*

## F.2 General Ledger Cost Centre

Table F-3 presents the total general ledger recharge calculated using the 2025 budget under both the partial two-step allocation methodology and the one-step allocation methodology.

| **Table F-3**<br>**General Ledger Cost Computation**<br>**Updated on March 30, 2026**<br>**Data from 2025 Annual Budget**<br>**CAD** | | | |
|---|---|---|---|
| **Description** | **Partial Two-Step** | **One-step** | **Change in Total Cost** |
| Salaries and Benefits | 806,503 | 806,503 | – |
| System Equipment Maintenance | 500 | 500 | – |
| Office Supplies | 82 | 82 | – |
| Miscellaneous | 15,904 | 15,904 | – |
| Hydro Admin fee recovery | 46,063 | – | (46,063) |
| Non-Reg Hydro Admin Fee Recovery | 78,372 | – | (78,372) |
| BSP Admin Fee Recovery | 13,261 | – | (13,261) |
| **Total Cost to be Allocated** | **960,685** | **822,990** | **(137,696)** |

*Source: Newfoundland and Labrador Hydro.*

Table F-4 presents the allocation of these costs between Hydro Regulated and Other Lines of Business under each methodology.

| **Table F-4**<br>**General Ledger Cost Recovery Allocation**<br>**Updated on March 30, 2026**<br>**Data from 2025 Annual Budget**<br>**CAD** | | | | | |
|---|---|---|---|---|---|
| **Description** | **Number of JEs, receipts, AR invoices** | **Allocation Key[1]** | **Partial Two-Step** | **One-step** | **Change in Total Cost Allocated** |
| Other Lines of Business | 7,243 | 58.7% | 564,021 | 483,179 | (80,841) |
| Hydro Regulated | 5,094 | 41.3% | 396,665 | 339,811 | (56,854) |
| **Total Cost to be Allocated** | **12,337** | **100%** | **960,685** | **822,990** | **(137,696)** |

*Source: Newfoundland and Labrador Hydro.*
*The allocation key is calculated based on the expected number of journal entries, receipts, and AR invoices.*

## F.3 Executive Cost Centre

Table F-5 presents the total executive cost recharge calculated using the 2025 budget under both the partial two-step allocation methodology and the one-step allocation methodology.

**Table F-5**
**Executive Cost Computation**
**Updated on March 30, 2026**
**Data from 2025 Annual Budget**
**CAD**

| Description | Partial Two-Step | One-step | Change in Total Cost |
|---|---|---|---|
| Salaries and Benefits | 1,417,341 | 1,417,341 | – |
| Office Supplies | 3,125 | 3,125 | – |
| Professional Services | 72,727 | 72,727 | – |
| Travel | 13,007 | 13,007 | – |
| Miscellaneous | 24,431 | 24,431 | – |
| Hydro Admin fee recovery | 66,552 | – | (66,552) |
| Non-Reg Hydro Admin Fee Recovery | 37,554 | – | (37,554) |
| BSP Admin Fee Recovery | 5,894 | – | (5,894) |
| **Total Cost to be Allocated** | **1,640,630** | **1,530,631** | **(109,999)** |

*Source: Newfoundland and Labrador Hydro.*

Table F-6 presents the allocation of these costs between Hydro Regulated and Other Lines of Business under each methodology.

**Table F-6**
**Executive Cost Recovery Allocation**
**Updated on March 30, 2026**
**Data from 2025 Annual Budget**
**CAD**

| Description | Number of FTEs | Allocation Key[1] | Partial Two-Step | One-step | Change in Total Cost Allocated |
|---|---|---|---|---|---|
| Other Lines of Business | 697 | 44.4% | 728,855 | 679,988 | (48,868) |
| Hydro Regulated | 872 | 55.6% | 911,775 | 850,643 | (61,132) |
| **Total Cost to be Allocated** | **1,569** | **100%** | **1,640,630** | **1,530,631** | **(109,999)** |

*Source: Newfoundland and Labrador Hydro.*
*Note 1: The allocation key is calculated based on the number of FTEs.*

## F.4 Summary of Estimated Effect of Change from Partial Two-Step to One-Step Allocation

Table F-7 summarizes the cumulative impact of the transition from the partial two-step allocation methodology to the one-step allocation methodology by aggregating the changes identified in the preceding calculations. The table presents the total difference in recharge amounts between the two methodologies.

**Table F-7**
**Cumulative Impact on Cost Allocation from Partial 2 Step to One Step Allocator**
**Updated on March 30, 2026**
**Based Upon Data from 2025 Annual Budget**
**CAD, thousands**

| Description | Accounts Payable Cost Recovery | General Ledger Cost Recovery | Executive Cost Recovery | Change in Total Cost Allocated |
|---|---:|---:|---:|---:|
| Hydro Regulated | (101) | (57) | (61) | (219) |
| Other Lines of Business | (63) | (81) | (49) | (193) |
| **Total Cost to be Allocated** | **(165)** | **(138)** | **(110)** | **(412)** |

*Source: Newfoundland and Labrador Hydro.*
*Note: Figures may not sum precisely due to rounding.*

Table F-8 summarizes the net effect of the transition from the partial two-step allocation methodology to the one-step allocation methodology. The table presents the overall change in costs allocated between Hydro Regulated and Other Lines of Business resulting from the methodology change, which supports data provided in Table 3-3.

**Table F-8**
**Net Impact on Cost Allocation from Partial 2 Step to One Step Allocator**
**Updated on March 30, 2026**
**Based Upon Data from 2025 Annual Budget**
**CAD, thousands**

| Description | 2025 Budget | 2025 Budget with Adjustment | Variance in Absolute Term |
|---|---:|---:|---:|
| Hydro Regulated | 16,079 | 15,860 | (219) |
| Other Lines of Business | 12,920 | 13,140 | 219 |
| **Total Cost to be Allocated** | **29,000** | **29,000** | **–** |

*Source: Newfoundland and Labrador Hydro.*
*Note: Figures may not sum precisely due to rounding.*

# Appendix G: Incremental Impact of the Administrative Business Unit Removal

Appendix G presents the supporting calculations provided by Hydro relating to the removal of Admin BU components from the allocator calculations. The two tables reproduced in this appendix set out, first, the allocators used to distribute each Administration Fee component before and after removal of the Admin BU component, and second, the resulting change in the costs allocated between Hydro Regulated and Other Lines of Business. Together they support the results presented in Table 3-4 and Table 3-5 and have been reproduced to demonstrate Hydro's methodology and to verify the amounts it reported.

Exhibit G-1 (Summary of Administration Fee Allocators and Budget 2025 Total Costs) lists each Administration Fee component — for example, HR, Information Systems, Hydro Place, and Executive — alongside the allocator assigned to it, such as FTEs, average Information Systems users, square footage, or purchase orders. For each component, the table shows the total allocator split between Hydro Regulated and Other Lines of Business before any adjustment (columns A to C), the portion of that allocator attributable to the Admin BU component being removed (columns D to F), and the adjusted allocator that results once the Admin BU component is excluded (columns G to I). The final column (column J) records the Budget 2025 total cost of each component to be shared. The table reflects the full set of affected allocators.

The FTE line for the HR component — under which the regulated allocator moves from 871.8 of 1,569.3 FTEs (approximately 55.6%) to 841.3 of 1,457.8 FTEs (approximately 57.7%) — is the single-component illustration reproduced in Table 3-4. The same mechanic applies to each of the other allocators shown.

Exhibit G-2 (Summary of Computation of Total Allocation Variance) applies those allocators to the Budget 2025 cost of each component. It presents the dollars allocated to Hydro Regulated and Other Lines of Business under the unadjusted allocators (columns K and L), the dollars allocated under the adjusted allocators (columns N and O), and the resulting variance for each component (columns Q and R). Aggregated across all components, the removal of the Admin BU components shifts approximately $617,000 from Other Lines of Business to Hydro Regulated, the amount presented in Table 3-5.

**Exhibit G-1**
**Summary of Administration Fee Allocators and Budget 2025 Total Costs**
**Updated on March 30, 2026**

| Assigned Allocator | Admin fee Component | | A<br>Budget 2025 Regulated Allocator | B<br>Budget 2025 Non-Regulated Allocator | C<br>Budget 2025 Total Allocator | D<br>Admin fee Reg Allocator | E<br>Admin fee Non-Reg Allocator | F<br>Admin fee Allocator | A - D = G<br>Adjusted Reg Allocator | B - E = H<br>Adjusted Non-Reg Allocator | I<br>Adjusted Total | J<br>Budget 2025 Total Costs to be shared ($000's) |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| FTE | HR | Non-Reg | 871.8 | 697.5 | 1,569.3 | 30.5 | 81.0 | 111.5 | 841.3 | 616.5 | 1,457.8 | $ 1,295 |
| FTE | Employee Engagement[1] | Non-Reg | 871.8 | 697.5 | 1,569.3 | 30.5 | 81.0 | 111.5 | 841.3 | 616.5 | 1,457.8 | $ - |
| Universal allocator | Communications[2] | Reg & Non Reg | - | - | - | - | - | - | - | - | - | $ - |
| Average users | IS | Non-Reg | 961.2 | 746.9 | 1,708.1 | 28.1 | 79.8 | 107.9 | 933.1 | 667.1 | 1,600.2 | $ 12,876 |
| Universal allocator | SH&E | Non-Reg | 871.8 | 697.5 | 1,569.3 | 30.5 | 81.0 | 111.5 | 841.3 | 616.5 | 1,457.8 | $ 869 |
| Square footage | Hydro Place | Reg | 80,564 | 71,936 | 152,500 | 1,877 | 13,958 | 15,834 | 78,687 | 57,978 | 136,666 | $ 4,150 |
| Purchase Orders | Procurement | Reg | 8,582 | 8,896 | 17,478 | 46 | 40 | 86 | 8,536 | 8,856 | 17,392 | $ 1,847 |
| Average users | Network Services | Reg | 961.2 | 746.8 | 1,708.1 | 28.1 | 79.8 | 107.9 | 933.1 | 667.0 | 1,600.2 | $ 1,321 |
| Transactions | AP[2] | Non-Reg | - | - | - | - | - | - | - | - | - | $ 1,304 |
| Transactions | GL[2] | Non-Reg | - | - | - | - | - | - | - | - | - | $ 961 |
| Universal allocator | Executive | Non-Reg | 871.8 | 697.5 | 1,569.3 | 30.5 | 81.0 | 111.5 | 841.3 | 616.5 | 1,457.8 | $ 1,641 |
| Universal allocator | Corporate Secretary[2] | Non-Reg | - | - | - | - | - | - | - | - | - | $ - |
| BST Average users | BST[3] | Non-Reg | 899.9 | 718.7 | 1,618.7 | 29.3 | 79.0 | 108.3 | 870.6 | 639.7 | 1,510.4 | $ 2,385 |
| **Total** | | | | | | | | | | | | **$ 28,648** |
| BST Hydro Specific[3] | | | | | | | | | | | | $ 351 |
| **Total Costs** | | | | | | | | | | | | **$ 28,999** |

*Source: Newfoundland and Labrador Hydro*

*Notes:*

*1 Employee Engagement transitioned to an Admin fee business unit beginning in 2026.*

*2 No impact from Admin fee allocator change.*

*3 Illustration excludes the Hydro specific charges of $351K in 2025B as it has no impact on the analysis.*

**Exhibit G-2**
**Summary of Computation of Total Allocation Variance**
**Updated on March 30, 2026**

| | J | J * (A/C) = K | J * (B/C) = L | M | J * (G/I) = N | J * (H/I) = O | P | N - K = Q | O - L = R | S |
|---|---|---|---|---|---|---|---|---|---|---|
| **Admin Fee Component** | **Budget 2025 Total Costs to be shared ($000's)** | **Reg Allocation ($000's)** | **Non-Reg Allocation ($000's)** | **Total Allocation ($000's)** | **Adjusted Reg Total Allocation ($000's)** | **Adjusted Non-Reg Total Allocation ($000's)** | **Adjusted Total Allocation ($000's)** | **Reg Total Allocation Variance ($000's)** | **Non-Reg Total Allocation Variance ($000's)** | **Total Allocation Variance ($000's)** |
| HR | $ 1,295 | $ 719 | $ 575 | $ 1,295 | $ 747 | $ 548 | $ 1,295 | $ 28 | $ (28) | $ - |
| Employee Engagement[1] | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Communications[2] | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| IS | $ 12,876 | $ 7,246 | $ 5,630 | $ 12,876 | $ 7,508 | $ 5,368 | $ 12,876 | $ 262 | $ (262) | $ - |
| SH&E | $ 869 | $ 483 | $ 386 | $ 869 | $ 501 | $ 367 | $ 869 | $ 19 | $ (19) | $ - |
| Hydro Place | $ 4,150 | $ 2,192 | $ 1,958 | $ 4,150 | $ 2,389 | $ 1,761 | $ 4,150 | $ 197 | $ (197) | $ - |
| Procurement | $ 1,847 | $ 907 | $ 940 | $ 1,847 | $ 906 | $ 940 | $ 1,847 | $ (0) | $ 0 | $ - |
| Network Services | $ 1,321 | $ 743 | $ 577 | $ 1,321 | $ 770 | $ 551 | $ 1,321 | $ 27 | $ (27) | $ - |
| AP[2] | $ 1,304 | $ 803 | $ 501 | $ 1,304 | $ 803 | $ 501 | $ 1,304 | $ - | $ - | $ - |
| GL[2] | $ 961 | $ 397 | $ 564 | $ 961 | $ 397 | $ 564 | $ 961 | $ - | $ - | $ - |
| Executive | $ 1,641 | $ 911 | $ 729 | $ 1,641 | $ 947 | $ 694 | $ 1,641 | $ 35 | $ (35) | $ - |
| Corporate Secretary[2] | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| BST[3] | $ 2,385 | $ 1,326 | $ 1,059 | $ 2,385 | $ 1,375 | $ 1,010 | $ 2,385 | $ 49 | $ (49) | $ - |
| **Total** | **$ 28,648** | **$ 15,728** | **$ 12,920** | **$ 28,648** | **$ 16,345** | **$ 12,303** | **$ 28,648** | **$ 617** | **$ (617)** | **$ -** |
| BST Hydro Specific[3] | $ 351 | $ 351 | $ - | $ 351 | $ 351 | $ - | $ 351 | $ - | $ - | $ - |
| **Total Costs** | **$ 28,999** | **$ 16,079** | **$ 12,920** | **$ 28,999** | **$ 16,696** | **$ 12,303** | **$ 28,999** | **$ 617** | **$ (617)** | **$ -** |

*Source: Newfoundland and Labrador Hydro.*
*Notes:*
*1 Employee Engagement transitioned to an Admin fee business unit beginning in 2026.*
*2 No impact from Admin fee allocator change.*
*3 Illustration excludes the Hydro specific charges of $351K in 2025B as it has no impact on the analysis.*