Q. **Reference: Supplemental Material, page 6, Cost Allocations (Recoveries) – Table 3-3**

a) Provide a breakdown of the "Net Administration Fees" between regulated administration fee recovery and the non-regulated administration fees from 2024 Actual to the 2027 Test Year.

b) Why will Hydro experience a decrease in Net Administrative Fees in the 2027 Test Year when compared to the period 2024 to 2026 Forecast?

c) Provide an explanation for the significant increase in the Removal and Decommissioning Recovery from 2024 and 2025.

d) How does Hydro budget for Removal and Decommissioning Recovery and why is this recovery forecast to decline to $1 million in the 2027 Test Year?

e) Provide an explanation for the significant increase in the Other Cost Recoveries in 2025.

f) How does Hydro budget for Other Cost Recoveries and why is this recovery forecast to decline to $0.5 million in the 2027 Test Year?

A. **a)** Please refer to PUB-NLH-026, Attachment 1. An explanation of the administration fee components is contained in Exhibit 2 of Newfoundland and Labrador Hydro's ("Hydro") 2026 General Rate

b) ***2027 Test Year vs 2024 Actual***

The decrease of $0.5 million in the 2027 Test Year compared to the 2024 Actual is primarily driven by the following:

- The Board of Commissioners of Public Utilities ("Board") approved the transfer of shared information systems and business systems assets and projects from Non-Regulated Hydro to Regulated Hydro effective January 1, 2027, as per Board Order No. P.U. 18(2026). In 2024, the Net Administration Fees included charges from non-regulated to regulated relating to the depreciation of the information system assets;[1] whereas, in 2027, the depreciation on those assets is regulated and is being recovered from non-regulated (net impact of $2.8 million).[2]

- Other immaterial variances in cost pools and allocators ($0.2 million).

Partially offset by the following:

- Increased costs in Information systems to be allocated relating to business needs (e.g., Microsoft M365), higher or new subscriptions and licenses, increased cybersecurity and escalation on contracts ($1.9 million).
- Changes to the Intercompany Guidelines including addition of shared services departments ($0.6 million).

2027 Test Year vs 2026 Forecast

The decrease in Net Administration Fees of $1.4 million from the 2026 Forecast to the 2027 Test Year is primarily driven by:

- The Board approved the transfer of shared information systems and business systems assets and projects from non-regulated to regulated effective January 1, 2027, in Board Order No. P.U. 18(2026). In the 2026 Forecast, the Net Administration Fees included charges from non-regulated to regulated relating to the depreciation of the information system assets;[3] whereas, in 2027, the depreciation related to the assets is recorded in regulated and is being recovered from non-regulated (net impact of $1.9 million).[4]

Offset partially by the following:

[1] The charge in of information system assets was partially offset by the deferral of costs in the Business Systems Transformation Program Deferral Account.
[2] There is also an offsetting increase in the 2027 depreciation expense income statement category in relation to the transfer of the assets.
[3] The charge in of information system assets was partially offset by the deferral of costs in the Business Systems Transformation Program Deferral Account and the proposed amortization of the Business Systems Transformation Program Deferral Account. Please refer to "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. I, ch. 5, sec. 5.6.1.
[4] There is also an offsetting increase in 2027 depreciation expense in relation to the transfer of the assets.

- Increased costs in Information Systems to be allocated relating to business needs ($0.5 million).

2019 Test Year vs 2027 Test Year

The increase of $1.9 million in Net Administration Fees from 2019 Test Year to 2017 Test Year is primarily related to:

- Increased costs in Information systems to be allocated relating to business needs (e.g., Microsoft M365), higher or new subscriptions and licenses, increased cyber security and escalation on contracts ($1.4 million).
- Changes in intercompany guidelines including addition of shared services and introduction of the universal allocator ($0.6 million).
- Other immaterial variances to cost pools and allocators ($0.1 million).

Offset partially by:

- The Board approved the transfer of shared information systems and business systems assets and projects from non-regulated to regulated effective January 1, 2027, in Board Order No. P.U. 18(2026). In the 2019 Test Year, the Net Administration Fees included charges from non-regulated to regulated relating to the depreciation of the information system assets;[5] whereas, in 2027, the depreciation of those assets is regulated and is being recovered from non-regulated (net impact of $0.2 million).[6]

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[5] The charge in of information system assets was partially offset by the Business Systems Transformation Program Deferral Account and the proposed amortization of the Business Systems Transformation Program Deferral Account. Please refer to "2026 General Rate Application," Newfoundland and Labrador Hydro, May 27, 2026, vol. I, ch. 5, sec. 5.6.1.

[6] There is also an offsetting increase in 2027 depreciation expense in relation to the transfer of the assets.

c) Removal and decommissioning recovery variances are driven by the scopes of work in each year. Table 1 outlines the cost from 2020 through the 2027 Test Year.

Table 1: Removal and Decommissioning Recovery ($000)

2020 Actual	2021 Actual	2022 Actual	2023 Actual	2024 Actual	2025 Actual	2026 Forecast	2027 Test Year
-	(276)	(603)	(4,794)	(1,666)	(4,610)	(3,465)	(965)

Annual variance explanations are as follows:

- 2020 to 2022 – From 2020 to 2022, there were no large decommissioning work scopes planned, and the variances are immaterial.
- 2023 – The increase of $4.2 million from 2022 to 2023 is due primarily to the Transmission Line TL1301 decommissioning project ($4.4 million).
- 2024 – Removal costs decreased by $3.1 million from 2023 to 2024 due to lower TL1301 decommissioning costs in 2024 versus 2023 ($3.2 million).
- 2025 – The increase of $2.9 million from 2024 to 2025 is due to the decommissioning of Tank 2 at the Holyrood Thermal Generating Station ("Holyrood TGS") in 2025 ($2.1 million), higher TL202 line camp decommissioning costs in 2025 ($0.6 million), and higher distribution line removals in 2025 ($0.7 million); partially offset by decreased costs in 2025 on the TL1301 removal project ($0.6 million).
- 2026 – The decrease of $1.1 million from 2025 to 2026 is primarily due to the decommissioning of Tank 2 at the Holyrood TGS in 2025 ($2.1 million), the TL202 line camp decommissioning costs in 2025 ($0.6 million), and decreased transformer removals in 2026 ($0.5 million); partially offset by the Nain Site removal project in 2026 ($2.0 million).
- 2027 – The decrease of $2.5 million from 2026 to 2027 is due to the Nain Site removal projects in 2026 ($2.5 million) and no large removal projects being forecasted for the 2027 Test Year.

The 2027 Test Year Removal and Decommissioning Recovery was determined by consulting with the business to determine what known removal and decommissioning work is upcoming for the test year; these scopes of work are then included as individual removal projects in that budget year. In addition to budgeting for known scopes of work, there is an allowance included, which is calculated by taking an average of actual removal costs from the past five years as an estimate of that budget year's removal costs budget. The five-year average removal cost estimate is normalized to remove larger scopes of work that could have an unwarranted impact on the calculation of the five-year average (i.e., if a transmission line removal project for over $1 million occurred or, in the case above, the Tank 2 decommissioning project would be removed before the average is calculated).

d) Please refer to Hydro’s response to part c) for discussion of how the removal and decommissioning recovery was forecast for the test year and the reason for the decline to $1 million.

e) The increase in Other Cost Recoveries for 2025 Actuals is due to the deferral of cloud-based information systems projects that cannot be capitalized. This was approved by the Board in Order No. P.U. 35(2025) and Board Order No. P.U. 1(2026), with $2.1 million of the approved amount attributable to 2025. Please refer to Hydro’s response to part f) for further discussion on the 2027 budget process in relation to the cloud-based projects.

f) Other Cost Recoveries are forecast based on the underlying recovery mechanism for each cost category. For example, Cloud Cost Deferrals are budgeted on an individual project basis using a zero-based budgeting approach, the Fixed Charge recovery is forecast based on intercompany labour hours multiplied by the applicable fixed charge rate, and Accommodation Charge/Recovery is forecast using a historical three-year average.

The decrease from $2.7 million in 2025 Actuals to $0.5 million in the 2027 Test Year is primarily due to the absence of cloud deferral recoveries in 2027. Approximately $2.1 million of cloud deferral recoveries were recorded in 2025; however, no eligible cloud projects had been identified when the 2027 Test Year was prepared and, therefore, no cloud deferral recovery was forecast. The remaining recoveries, including Nalcor Fixed Charge recoveries and Accommodation Charge/Recovery amounts, are relatively consistent between years.

There is no net impact to total operating costs in 2025 Actuals or 2027 Test Year in relation to the deferral of cloud costs. The projects result in higher costs in cost categories such as contract labour, but they are offset in cost recoveries.

Newfoundland and Labrador Hydro
Operation Costs - Net Administration Fees
($000)

	2019 Test Year	2024 Actual	2025 Forecast	2025 Actual	2026 Forecast	2027 Test Year
Hydro Regulated Administration Fee Recovery	(2,306)	(3,522)	(3,656)	(3,638)	(5,148)	(5,517)
Non-Regulated Administration Fees	5,093	8,737	10,157	9,834	11,204	10,222
Total Net Administration Fees	**2,787**	**5,216**	**6,501**	**6,196**	**6,056**	**4,705**
($ Millions)	**2.8**	**5.2**	**6.5**	**6.2**	**6.1**	**4.7**