

1 **Q Reference: Introduction Evidence**

2 Please describe the degree, if any, to which Hydro's management decision-making
3 and corporate governance are affected by Hydro's relationship with Nalcor and its
4 affiliates. The response should generally address the relative roles and
5 responsibilities of the senior management and board of directors of each of Hydro
6 and Nalcor in relation to Hydro's regulated activities. The response should
7 specifically address the impact of (i) increased intercompany activity between
8 Hydro and Nalcor (including shared services) and (ii) employee transfers between
9 Hydro and Nalcor on those regulated activities. (Introduction, page 1.22 et. seq.
10 and Exhibit 1)

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13 **A.** Hydro is a subsidiary of Nalcor Energy, and the operations of Hydro are integrated
14 within Nalcor's overall business plan in a number of ways. The two companies
15 share a number of aspects of organizational governance in common, including the
16 same President and CEO; the same high level corporate goals; shared company
17 values; common corporate branding; and a shared services model under which
18 functional support services are leveraged across Nalcor and all lines of business
19 through a matrix organizational design. Nalcor's shared services model helps to
20 ensure consistent standards, policies and practices across all areas of Nalcor in
21 corporate services areas such as Safety and Health; Environmental Management;
22 Finance; Human Resources and Labour Relations; Project Execution; Asset
23 Management; Corporate Relations; Internal Audit; and Legal Affairs.

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25 Notwithstanding the above, the senior management structures of Nalcor Energy
26 and Hydro are separate, and clear, single point accountability for the overall

1 management of Hydro's operations, as distinct from those of any other Nalcor
2 entity, is vested with the Vice-President of Hydro. Monthly meetings of the senior
3 management groups of Nalcor and Hydro are conducted separately. Similarly, the
4 Board of Directors of Hydro is vested with the legal and fiduciary responsibility to
5 oversee the operations of Hydro, as distinct from Nalcor, and meetings of the
6 Nalcor and Hydro Boards of Directors are conducted separately from each other.

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8 The level of inter-company activity among Nalcor and its lines of business has
9 increased in recent years as the non-regulated parts of Nalcor have grown and
10 become more active. This has driven a predictable increase in the amount of
11 shared services activity across Nalcor, and to the extent that many of the support
12 services involved are provided by Hydro personnel, this has also resulted in a
13 somewhat higher relative utilization of those resources for non-regulated activity
14 over time. Nalcor and Hydro have implemented various measures to ensure that
15 Hydro's costs and operations are not inappropriately impacted by this shared
16 services arrangement.

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18 In particular, clear processes are in place to ensure that work performed by Hydro
19 personnel for non-regulated business units is properly cost-allocated to those areas,
20 and charges into Hydro are controlled and managed in the same manner. In
21 addition, the impact on Hydro resources is monitored regularly by the accountable
22 managers and supervisors. If the level of required inter-company support reaches a
23 point where additional resources are indicated, this is addressed either through the
24 annual budget process for Hydro, Nalcor or the non-regulated business unit
25 involved, or through the Company's personnel requisition system.

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1 Employees who have transferred from Hydro to Nalcor have generally been those
2 whose duties and responsibilities are performed for, and on behalf of, all lines of
3 business and functional support areas within Nalcor, and whose time is not
4 allocated predominantly to any one line of business. In such cases, the related
5 salary and benefit costs should not be associated with Hydro, but rather with
6 Nalcor, and then re-allocated as appropriate on a time-charge basis. The
7 Company's experience is that the impact of such transfers has been a beneficial one
8 from a cost and productivity/resource optimization standpoint. However, any
9 potential for a negative impact on regulated activities is monitored by the
10 appropriate Hydro supervisors and managers, and addressed if necessary through a
11 workload or job scope adjustment, process change, the hiring of additional
12 resources, or some other appropriate action.