Q. **Reference: Schedule 7, Information Systems projects; 2025 Capital Expenditures and Carryover Report**

Hydro states that cloud/SaaS solutions may not qualify for capitalization under IFRS and that the ultimate accounting classification frequently cannot be determined until procurement is completed. Hydro has previously determined that the SharePoint solution did not qualify for capitalization under IFRS and proposed that the implementation costs instead be included in the Cloud Cost Deferral Account.

a) For each information systems project proposed in the 2027 CBA, please identify whether Hydro presently expects the solution to be: i) owned/on-premises; ii) cloud-hosted and controlled by Hydro; iii) SaaS; or iv) undetermined pending procurement.

b) Please identify the amount presently assumed to be capital for purposes of the CBA and revenue requirement calculation.

c) Where classification is currently undetermined, please explain how Hydro has reflected the expenditure in forecast rate base, depreciation and revenue requirement.

d) For expenditures that do not qualify for capitalization under IFRS but are eligible for the Cloud Cost Deferral Account, please provide: i) the eligible cost categories; ii) the amortization period; iii) the carrying-cost/return treatment; and iv) the treatment of interest incurred during implementation.

e) Please explain the basis for permitting carrying costs or capitalized interest on implementation expenditures that are operating costs under IFRS.

f) Please compare the cumulative revenue requirement borne by customers from a representative $1 million: i) owned software investment; and ii) cloud/SaaS implementation expenditure deferred through the Cloud Cost Deferral Account.

g) Please explain how Hydro ensures that regulatory accounting treatment does not favour one technology solution over another independently of the lifecycle cost to customers.

h) Please provide the portion of the Cloud Cost Deferral Account and associated annual amortization/carrying costs expected to be allocated to residential customers.

A. **a)** Table 1 lists all Information System projects and programs included in Newfoundland and Labrador Hydro's ("Hydro") 2027 Capital Budget Application ("CBA"), and classifies each based on forecasted solution.

Table 1: Information Systems Project and Program Classification[1]

Projects and Programs	**Solution**	**2027 Expenditure ($000)**
Clarity Replacement (2027)	Owned/On-Premises	475
Migrate Legacy Applications (2027)	Undetermined Pending Procurement	988
Perform Software Upgrades and Minor Enhancements - Information Technology (2026–2027)	Owned/On-Premises	1,097
Perform Software Upgrades and Minor Enhancements - Information Technology (2027–2028)	Undetermined Pending Procurement	1,298
Perform Software Upgrades and Minor Enhancements - Operational Technology (2027)	Owned/On-Premises	275
Purchase Mobile Devices (2027)	Owned/On-Premises	327
Purchase Personal Computers (2027)	Owned/On-Premises	1,650
Replace GRID Application (2026–2027)	Undetermined Pending Procurement	364
Replace Peripheral Infrastructure (2027)	Owned/On-Premises	462
SWOP Replacement (2027–2028)	Undetermined Pending Procurement	1,054
Update Cybersecurity Infrastructure (2027)	Owned/On-Premises	343
Upgrade Core Information Technology Infrastructure (2027)	Owned/On-Premises	2,909
Upgrade Core IT Infrastructure (2026–2027)	Owned/On-Premises	523
Upgrade Core Operational Technology Infrastructure (2027)	Owned/On-Premises	561
Upgrade Energy Management System (2027–2028)	Owned/On-Premises	376
Total		**12,701**

b) Please refer to Table 1 within part a) of this response for a list of project and program totals. The $12.7 million in information systems projects and programs included in Hydro's 2027 CBA are presently assumed to be capital as none of these projects are known to be cloud-based or SaaS[2] at this time.

c) Undetermined projects and programs are currently treated as capital until such a time as they are confirmed to be cloud-based or otherwise. Should a project or program require a cloud-based solution, they would be included in the Cloud Cost Deferral Account, which is also included in rate base, and amortized over a period approved in Hydro's depreciation

[1] Numbers may not add due to rounding.
[2] Software as a Service.

study for similar software commencing at the in-service date (generally this will be around seven years).

d) Please refer to part a) of this response. There are no projects currently identified as not qualifying for capitalization under International Financial Reporting Standards but eligible for inclusion in the Cloud Cost Deferral Account. Please refer to the Cloud Cost Deferral Account Application for further information. [3]

e) Please refer to Hydro's Application for Approval of a Deferral Account for an Allowance for Funds Used During Construction[4] which is currently pending approval by the Board of Commissioners of Public Utilities ("Board"). In addition, refer to Hydro's Application for Approval of a Proposed Cloud Cost Deferral Account approved in Board Order No. P.U. 35(2025).

f) Please refer to Hydro's evidence filed as part of its Application for Approval of a Proposed Cloud Cost Deferral Account where Hydro provided an illustrative example.

g) Please refer to Hydro's evidence filed as part of its Application for Approval of a Proposed Cloud Cost Deferral Account.

h) The 2027 CBA seeks approval of proposed capital expenditures and does not seek approval of rates, revenue requirement, customer class allocations, or recovery of amounts through the Cloud Cost Deferral Account. The allocation of any future deferral account balances and associated amortization or carrying costs to customer classes would be addressed in a rate proceeding and is not relevant to the determination of the issues in this proceeding.

[3] "Approval of a Proposed Cloud Cost Deferral Account", Newfoundland and Labrador Hydro, October 14, 2025.
[4] "Approval of a Deferral Account for an Allowance for Funds Used During Construction", Newfoundland and Labrador Hydro, April 14, 2026.