Q. **Reference: Schedule 7, project/program cost estimates**

Hydro's capital estimates routinely include internal labour and other indirect costs.

a) Please provide the total internal Hydro labour forecast to be capitalized through the 2027 CBA.

b) Please identify the employee-cost categories eligible for capitalization, including: i) salary; ii) overtime; iii) benefits; iv) payroll burden; v) engineering; vi) project management; and vi) other overhead.

c) Please provide all loadings applied to direct labour and identify their components.

d) Please identify the total project-management, engineering, administrative and other indirect costs forecast to be capitalized in the 2027 CBA.

e) Please explain whether costs associated with the following are capitalized and identify the accounting basis: i) preliminary investigation; ii) feasibility analysis; iii) capital planning and budgeting; iv) preparation of regulatory applications; v) procurement; vi) general administration; and vii) project closeout.

f) Please explain how capitalized labour and overhead are removed from operating expense such that customers do not recover the same costs through both O&M and capital-related revenue requirement.

g) Please quantify the forecast reduction in operating expense resulting from labour and overhead capitalized in 2027.

A. **a)** Newfoundland and Labrador Hydro's ("Hydro") project and program proposals identify the forecast amount of internal labour associated with each project and program, by year, based on the assumptions used in developing the respective budget. Hydro notes that these assumptions may change over time, and circumstances may arise where internal labour is replaced with external labour, or external labour is replaced with internal labour, based on resource availability and as project requirements evolve.

b) The following outlines how employee related costs or internal labour costs are included in capital projects. Internal labour costs incurred in the development or production of capital assets must be capitalized when they meet the capitalization criteria specified below. These costs include salaries, wages, benefits, and other directly attributable costs associated with internal labour.

To be eligible for capitalization, the following criteria must be met:

i. Directly Attributable Costs: Internal labour costs must be directly attributable to the development or production of a capital asset. These costs must be identifiable and directly related to the specific capital project or asset.
ii. Substantial Future Economic Benefits: It is probable that the internal labour costs will generate future economic benefits for the Company. These benefits may include increased efficiency, reduced costs, improved productivity, or enhanced revenue generation.
iii. Measurability and Reliability: The internal labour costs must be measurable and reliably quantifiable. The costs must be supported by appropriate documentation, such as timesheets, payroll records, and project reports.
iv. Capitalization Period: The internal labour costs must be incurred during the development or production phase of the capital project. Costs incurred during the initial research phase of a project or after the asset is ready for its intended use or sale must be expensed as incurred.

Once the internal labour costs meet the capitalization criteria, they will be capitalized as part of the cost of the capital project or asset.

Labour hours to be capitalized are captured through timesheets submitted on a weekly basis.

The amount of internal labour to be capitalized is determined in the following manner:

i. Determine Total Hours: The total number of hours to be capitalized is captured in the system as the hours recorded to the capital project work order on the timesheets for each individual involved in the project or asset.

ii. Determine Hourly Rates: An appropriate hourly rate is assigned to each individual based on their job classification or level within the organization. These bill rates must include not only the base salary but also any applicable benefits or overhead costs associated with the individual.

iii. Calculate Total Internal Labour Costs: In the system the total hours captured in the timesheets are multiplied by the respective hourly rates to calculate the total internal labour costs incurred that are to be capitalized.

c) As per Hydro's intercompany guidelines, internal labour is charged to capital at the employee's hourly rate plus a markup rate to account for fringe benefits, insurances, payroll taxes, vacation and sick leave and other salary related costs. This is a cost-based rate with no profit component. A fixed charge may also be applied to labor costs across entities.

d) Project management and engineering costs which are directly attributable to the project or program are included in each respective project or program budget, as outlined in Hydro's proposals in the Application. Administrative indirect costs are not capitalized in accordance with International Financial Reporting Standards ("IFRS"), however certain general expenses that are incremental to Hydro's capital program are deferred as part of Hydro's General Expenses Capitalized Deferral Account. Forecast additions to this account for 2027 are approximately $6.6 million, as per Hydro's evidence filed in its 2026 General Rate Application proceeding.

e) Hydro capitalizes expenditures in accordance with IFRS and its Capitalization Guidelines, provided within Hydro's response to CA-NLH-052 of this proceeding

f) Capitalized labour costs are initially recorded as operating expense through the normal payroll process. When an employee records time against a capital work order, the related labour cost is charged to the applicable capital projects, and a corresponding credit is recorded to operating expense through the labour-out account. As a result, labour costs capitalized to projects are removed from operating expense and are not recovered through Operations and Maintenance ("O&M") rates.

For general overhead, the methodology approved by the Board of Commissioners of Public Utilities Order No. P.U. 32(2025) is applied. For eligible departments, approved overhead rates are applied to net salary costs and the resulting amount is removed from operating expense through a credit to O&M and charged to capital projects. As a result, these costs are not recovered from customers through operating expenses in the year incurred. Accordingly, labour and overhead costs capitalized to projects are removed from operating expense and are recovered only through the depreciation of the related assets, preventing the same costs from being recovered through both O&M and capital-related revenue requirement.

g) For 2027, it is forecasted that operating costs will decrease by $37.5 million relating to capitalized labour and $6.6 million relating to general overhead.