

1 Q. Further to response to Request for Information NP-NLH-010:

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3 Please provide a cost-benefit analysis indicating that common services moved to
4 Nalcor Energy from Hydro related to Human Resources, Safety, Environment,
5 Supply Chain and Information Systems are consistent with the least-cost provision
6 of service to customers.

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8 A. Supply Chain services are provided to all Nalcor companies from Hydro with full
9 cost recovery through an administration fee.

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11 During the reorganization in 2016, it was determined that strategic and core Human
12 Resources, Safety, and Environment services required by Hydro would remain in
13 Hydro with clear accountability under a Hydro executive. As a result of shared
14 systems, technology, and processes, work of a transactional nature (such as payroll,
15 benefits administration, HR analytics, document management, and safety reporting
16 database management) were moved to Nalcor, where those costs are spread across
17 all the Nalcor companies. Please refer to Hydro's response to NP-NLH-212. The
18 cost to develop these shared systems, technologies, and processes independently
19 for Hydro was determined not to be cost effective or efficient. Hydro's operating
20 costs for these three departments from 2015 Actual to the 2019 Test Year increased
21 \$0.1 million dollars related to the transfer of services.

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23 The transfer of the Information Systems (IS) functions was also consistent with this
24 approach, and judged to be more effective and efficient from a common service
25 model due to the cost Hydro would incur to duplicate these programs, systems, and
26 services; however, core information and operating technology services, such as the
27 functions within the Energy Control Centre and Network Services were considered

1 to be strategic and core to Hydro’s operations, and therefore, should be operating
2 within Hydro, with clear executive accountability. Hydro also added a position to
3 manage these functions and ensure appropriate delivery of information services
4 from Nalcor through the Administration Fee. This FTE change within Hydro (\$0.2
5 million) is the only cost within Information Systems that is associated with the
6 reorganization and transfer of shared services to Nalcor.

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8 Overall, the operating costs for IS, including Hydro’s Information & Operations
9 Technology department, increased by \$3.6 million from 2015 Actual to the 2019
10 Test Year. The increase is driven by business requirements resulting from the
11 Business Systems Transformation Program, increases in Energy Management
12 System costs, and resultant Administration Fee costs which are unrelated to the
13 transfer of shared services and would have been incurred regardless of the service
14 delivery model.

15 The goal of the organizational structure, and the benefits, are to ensure
16 independence and clarity for Hydro from its parent company, Nalcor Energy, in the
17 areas of: operations management; financial management; performance
18 accountability; regulatory oversight; and, control and accountability for shared
19 services. The delivery of common services to Hydro from Nalcor through an
20 Administration Fee enables Hydro and its employees to focus on delivering the
21 service customers expect, and supporting its core business.

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23 Overall, the increase in costs associated with the transfer of common services
24 within Human Resources, Safety and Health, Environment, and Information Systems
25 to Nalcor was determined by Hydro to be the least-cost option that ensures

- 1 appropriate separation and focus on the regulated business, and facilitates the
- 2 delivery of reliable service to customers per Hydro's legislated mandate.