

1 Q. **Reference: Justification Report, page 4, lines 4 - 15**

2 Hydro refers to its participation in the BST Program as “part of a shared services offering  
3 led by its parent company, Nalcor Energy (Nalcor).” Please provide a full justification for  
4 this approach to the acquisition of business systems, as compared to justifying the  
5 acquisition and implementation of business systems according to the requirements of the  
6 Board’s Capital Budget Application Guidelines. Include in the justification a detailed  
7 explanation of whether and how Hydro’s participation in the BST Program can be justified  
8 as the least-cost solution for Hydro’s customers according to the criteria of the Board’s  
9 normal capital budget review process.

10

11

12 A. Although Newfoundland and Labrador Hydro (“Hydro”) could have pursued the  
13 implementation of the Business Systems Transformation Program independently, through  
14 the capital budget process, Hydro determined it was least-cost for its customers to incur an  
15 annual operating cost for the utilization of Nalcor’s corporate shared services offering. The  
16 evidence provided in the “Corporate Business Systems Transformation Program  
17 Justification” report demonstrates that this choice enabled Hydro to avoid incurring \$2.6  
18 million in upfront development costs and provides for a sharing of the annual costs with  
19 Nalcor affiliates. Hydro also notes that the operating cost approach relieves customers  
20 from the obligation to provide a return on equity to Hydro for the business systems costs  
21 (as the costs are not included in Hydro’s rate base).

22

23 Had Hydro chosen the stand-alone capital project approach, the cost justification would  
24 have been included in the capital budget process. However, as the cost incurred under the  
25 proposed shared services approach is an annual operating cost, recovery from customers  
26 also requires justification before the Newfoundland and Labrador Board of Commissioners  
27 of Public Utilities; in this instance, through the General Rate Application process. Both  
28 approaches ensure the costs to be recovered from customers are prudent prior to inclusion  
29 in customer rates.