

**NEWFOUNDLAND AND LABRADOR  
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

**REASONS FOR DECISION IN RELATION TO**

**ORDER NO. P.U. 12(2026)**

1 **IN THE MATTER OF** the **Electrical Power**  
2 **Control Act, 1994**, SNL 1994, Chapter E-5.1 (the  
3 “**EPCA**”) and the **Public Utilities Act**, RSNL 1990,  
4 Chapter P-47 (the “**Act**”), as amended, and  
5 regulations thereunder; and  
6

7 **IN THE MATTER OF** an application by  
8 Newfoundland and Labrador Hydro for  
9 approval of capital expenditures for the  
10 life extension of Unit 7 at the Bay d’Espoir  
11 Hydroelectric Generating Facility, pursuant  
12 to section 41 of the **Act**.  
13

14 **DECISION SUMMARY**  
15

16 On April 21, 2026 the Board issued Order No. P.U. 12(2026) approving capital expenditures in the  
17 amount of \$66,265,000 for the life extension of Unit 7 at Newfoundland and Labrador Hydro’s  
18 Bay d’Espoir Hydroelectric Generating Facility. The Board did not approve the proposed capital  
19 expenditures of \$85,346,227 and found that:  
20

- 21 • A found work allowance has never been approved in this jurisdiction and the evidence  
22 does not show why it should be approved in this case.
- 23 • A management reserve has never been approved in this jurisdiction and the evidence  
24 does not show that it is appropriate in this case and does not demonstrate that the  
25 proposed amount is reasonable and necessary.
- 26 • Hydro’s use of Quantitative Risk Analysis and Monte Carlo Simulations has not been  
27 previously considered by the Board and the evidence is insufficient to justify the approach  
28 and the resulting contingency and management reserve.
- 29 • The total amount proposed for the found work allowance, contingency and management  
30 reserve is not justified based on the evidence.
- 31 • A contingency of 20% of base costs should be included in the approved capital  
32 expenditures to provide for potential cost increases resulting from changes in  
33 circumstances.

1 The Board also ordered that Hydro should file updates on the Unit 7 life extension project in  
2 accordance with subsequent directions of the Board.

3  
4 Order No. P.U. 12(2026) was issued without reasons. These are the Board’s Reasons for Decision.

5  
6 **1. APPLICATION**

7  
8 On June 20, 2025 Newfoundland and Labrador Hydro (“Hydro”) filed an application seeking  
9 approval of capital expenditures in the amount of \$85,346,227 for the life extension of Unit 7 at  
10 the Bay d’Espoir Hydroelectric Generating Facility on the Island Interconnected System  
11 (“Application”).

12  
13 **2. PROCESS**

14  
15 Notice of the Application, including an invitation to participate, was published on August 8, 2025  
16 and details of the Application and supporting documentation were posted on the Board’s  
17 website.

18  
19 Newfoundland Power Inc. (“Newfoundland Power”), a group of industrial customers (the “Island  
20 Industrial Customer Group”), and the Consumer Advocate intervened in the Application.<sup>1</sup>

21  
22 On August 8, 2025 the Board requested that Hydro provide additional information related to the  
23 Application, including information related to the potential uprate of Unit 7. Hydro responded to this  
24 request on September 23, 2025.<sup>2</sup>

25  
26 On October 6, 2025 the Board requested that Hydro provide further information in relation to the  
27 potential uprate of Unit 7. Hydro responded to this request on October 16, 2025.

28  
29 On October 30, 2025 the Board and Newfoundland Power issued Requests for Information  
30 (“RFIs”). Hydro filed responses on November 14, 2025.<sup>3</sup>

31  
32 On March 4, 2026, the Board set a schedule for comments and asked the parties to specifically  
33 address certain issues, including found work, contingency, management reserve and Hydro’s  
34 request for confidential treatment of certain information.

35  
36 On March 13, 2026 Newfoundland Power, the Island Industrial Customer Group and the  
37 Consumer Advocate filed written submissions. Hydro filed its reply submission on March 18,  
38 2026.

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<sup>1</sup> Corner Brook Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) LP and Vale Newfoundland and Labrador Limited are the members of the Island Industrial Customer Group. Ms. Adrienne Ding was appointed as interim Consumer Advocate on January 26, 2026, replacing Mr. Dennis Browne, KC.

<sup>2</sup> Hydro’s response was originally filed on September 22, 2025 and was revised on September 23, 2025.

<sup>3</sup> The Board issued 26 RFIs and Newfoundland Power filed 3 RFIs.

### 1 3. SUBMISSIONS

2

3 The Consumer Advocate supported the proposed project but objected to the inclusion of  
4 amounts for a management reserve and also commented on the oversight of the management  
5 reserve.

6

7 Newfoundland Power supported the proposed project and capital expenditures and commented  
8 on the oversight of project expenditures.

9

10 The Island Industrial Customer Group did not object to the proposed project or expenditures and  
11 commented on the oversight of project expenditures.

12

13 Hydro submitted that the Bay d’Espoir Unit 7 life extension project and associated expenditures  
14 are prudent, reasonable, and necessary to ensure the continued reliability of the Island  
15 Interconnected System at least cost to customers.

16

### 17 4. BOARD DECISION

18

#### 19 Life Extension of Bay d’Espoir Unit 7

20

21 The Bay d’Espoir Hydroelectric Generating Facility (“Bay d’Espoir”) is located on the south coast  
22 of the island portion of the province. It is the largest source of supply on the Island Interconnected  
23 System with a capacity of 613 MW, and approximate annual energy supply of 2,560 GWh. The  
24 facility consists of upstream storage reservoirs, a forebay, a spillway, four penstocks, two  
25 powerhouses and seven generating units which together form an integral part of the provincial  
26 power grid. Powerhouse 1 houses six units, each with a capacity of 75 MW and Powerhouse 2  
27 houses Unit 7.

28

29 Unit 7 is the largest of the units at Bay d’Espoir with a generating capacity of 154 MW and  
30 approximate annual energy supply of 835 GWh. It is comprised of a generator and turbine  
31 assembly, complete with required auxiliary systems. It receives water through a dedicated  
32 headrace canal, intake and penstock. As well Unit 7 has the capability to act as a synchronous  
33 condenser to meet system requirements.

34

35 Unit 7 was commissioned in 1977. It is now almost 50 years old with critical components which  
36 have typical service lives ranging from 40 to 55 years. While Unit 7 has operated reliably since  
37 commissioning, there are major components that must be refurbished, replaced or modernized  
38 to extend the service life of the unit for another 25 years.

39

40 A turbine major overhaul was completed on Unit 7 in 2019.<sup>4</sup> This was the first time the unit was  
41 fully disassembled since commissioning. This work included the removal of the runner and a

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<sup>4</sup> The scope was included within the Hydraulic Generation Refurbishment and Modernization Project, which was approved as part of Hydro’s 2019 Capital Budget Application in Board Order No. P.U. 46(2018).

1 thorough condition assessment of the other major power unit components. An inspection and  
2 refurbishment report was completed by Voith Group (“Voith”) which concluded that critical  
3 components including the turbine, generator and embedded parts are at, or approaching the end  
4 of reliable service life and required intervention during the next major outage to ensure  
5 continued reliable operation of the unit.

6  
7 In 2023 a Level 2 Condition Assessment was completed by Hatch Ltd. (“Hatch”) confirming that  
8 Unit 7 required major intervention, including refurbishment and/or replacement of major  
9 components such as the runner, operating ring, stator and rotor pole windings. Hatch expanded  
10 upon the scope of work to include the turbine shaft and embedded components. This assessment  
11 identified varying levels of deterioration, particularly in critical components, including:  
12 dimensional irregularities of the stator core, aged windings in both the stator and rotor, severe  
13 cavitation of runner, accelerating wear of servomotors, wicket gates, operating ring and water  
14 leakage around the scroll case access door. In addition, supporting systems were identified as  
15 approaching obsolescence, including the governor and excitation system controls. It was  
16 concluded that Unit 7 is nearing the end of its reliable service life due to the age of major  
17 components and its current condition. Hatch determined that the timeline for intervention could  
18 be extended to 2029.

19  
20 The Application proposed a like-for-like replacement and modernization strategy, based on the  
21 2023 condition assessment. The proposed scope of work includes the full disassembly of the unit,  
22 engineering, procurement, construction, installation, testing, and commissioning of all works  
23 required to refurbish or replace core unit components and modernize control and support  
24 systems. This work includes the design and manufacture of a replacement turbine runner with a  
25 focus on optimizing the efficiency in the historical and forecast operating ranges and analysis on  
26 major components of the unit that are subjected to cycle loading, including the head cover,  
27 turbine and generator shafts and wicket gates. The proposed site work includes dismantling the  
28 unit, inspection and necessary replacements of all components, replacement of the turbine  
29 bottom ring and runner and replacement/refurbishment of other key turbine components,  
30 replacement of generator stator windings and re-insulation of rotor field pole windings,  
31 procurement of spares, refurbishment or replacement of auxiliary equipment, work to address  
32 leaks around embedded parts, reassembly, testing and commissioning.

33  
34 The proposed work is expected to extend the life of Unit 7 by at least 25 years and optimize its  
35 efficiency within the current and forecasted operating regimes. While there was an opportunity  
36 to uprate Unit 7 as a part of this project, the evidence showed that an uprate would serve to  
37 increase project cost, negatively impact overall system efficiency, and delay the refurbishment  
38 of Unit 7.<sup>5</sup> The project also includes a number of additional work items which were not addressed  
39 in the 2023 condition assessment.<sup>6</sup> These items were included in the project on the basis that

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<sup>5</sup> Bay d’Espoir Unit 7 Additional Analysis Report, September 23, 2025 page 11.

<sup>6</sup> Application, Schedule 1, page 14. The scope of the additional work includes install dust collection system, design and install turbine pit monorail and hoist, modernization of excitation system controls, turbine governor and unit control system.

1 they were required to support the safe and reliable operation of Unit 7 and would otherwise  
2 require a major outage window to execute.<sup>7</sup> The four year schedule for this project was  
3 developed in consideration of the lead time for the turbine components and the proposed  
4 completion in 2028 is aimed at minimizing potential interface impacts with the proposed Unit 8  
5 Project.

6  
7 The Board notes that Unit 7 is the largest hydroelectric generating unit on the Island  
8 Interconnected System. It plays a critical role in meeting peak demand, providing synchronous  
9 condenser capability and supporting overall system reliability. Since commissioning, Unit 7 has  
10 operated reliably with regular annual maintenance outages and periodic capital investments to  
11 refurbish and modernize the equipment. Two major inspections, one in 2019 and one in 2023,  
12 both showed that Unit 7 turbine and generator components are at or approaching the end of  
13 their service life with numerous deficiencies that cannot be addressed through routine  
14 maintenance.

15  
16 Hydro submitted that the proposed project represents a prudent, strategically timed investment  
17 to sustain critical generation capacity, mitigate reliability risks, and ensure continued alignment  
18 with Hydro's long-term system planning and operational goals. The Board notes that there were  
19 no objections to the Unit 7 life extension. In Newfoundland Power's view the continued reliable  
20 operation of Unit 7 is necessary to maintain the reliability of the Island Interconnected System.  
21 The Consumer Advocate noted the age of the unit and its importance to the system and  
22 submitted that deferring the Unit 7 work would expose Hydro to an increased number of outages  
23 and a deterioration in reliability.

24  
25 The Board accepts that Unit 7 is a critical asset that is necessary for the continued supply of  
26 reliable and adequate power on the Island Interconnected System. The evidence filed by Hydro  
27 clearly demonstrates that major components are at or near the end of useful life and need to be  
28 refurbished or replaced and that without refurbishment customers may experience decreased  
29 reliability and outages. The Board is satisfied that a major intervention is required to ensure  
30 continued reliable operation of Unit 7. The Board accepts the proposed like-for-like replacement  
31 and modernization strategy and that the proposed additional work should be completed at the  
32 same time. The Board believes that the proposed schedule for completion of the work is prudent  
33 in the circumstances given the importance of this unit, the schedule risks and other potential  
34 necessary work at Bay d'Espoir. The Board is satisfied that the life extension of Unit 7 is  
35 reasonable and necessary for the continued provision of adequate and reliable service on the  
36 Island Interconnected System.

37

### 38 **Proposed Capital Expenditures**

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40 The Application requested approval of capital expenditures for the Unit 7 life extension project,  
41 in the amount of \$85,346,227 as set out below.

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<sup>7</sup> Application, Schedule 1, page 4.

**Proposed Capital Expenditures  
Unit 7 Life Extension Project<sup>8</sup>**

Component	Amounts (\$)
Direct Cost	33,587,179
Indirect Cost	15,593,822
Found Work	3,315,796
<b>Base Costs</b>	<b>52,496,797</b>
Contingency	7,689,262
<b>Base Costs with Contingency</b>	<b>60,186,049</b>
Escalation	3,739,493
Interest During Construction("IDC")	3,507,518
<b>Costs with Escalation and IDC</b>	<b>67,433,060</b>
Management Reserve	17,913,168
<b>Proposed Expenditures</b>	<b>85,346,227</b>

1 The Board notes that there were no objections to the proposed direct costs, indirect costs,  
 2 escalation and IDC. The Board has reviewed the evidence filed in relation to these costs and is  
 3 satisfied that they are reasonable and necessary in the circumstances. Based on the evidence,  
 4 the estimates for direct costs were developed by Hatch and were reviewed and, in some cases,  
 5 updated by Hydro. For major items Hydro obtained budgetary quotes from suppliers while other  
 6 estimates are a combination of the Hydro and consultant estimates, based on a combination of  
 7 subject matter expert assessment, historical costs and supplier quotes. The indirect costs include  
 8 management and personnel costs associated with Hydro's major projects department and Unit  
 9 7 project team and engineering, construction and commissioning, sunk costs, insurance, camp  
 10 construction, accommodations and turnaround costs, emergency response and engineering,  
 11 procurement, and construction management costs. These costs were estimated by the Hydro  
 12 major projects estimator in collaboration with the Unit 7 project team.<sup>9</sup> Escalation accounts for  
 13 anticipated increases in labour costs and material prices over the course of the project.<sup>10</sup> Interest  
 14 During Construction is the cost of borrowing throughout the duration of the project.<sup>11</sup> The  
 15 estimates for escalation and IDC are based on the committed cost profile over the life of the  
 16 project and the associated escalation factors and interest rates.<sup>12</sup>

17  
 18 The main issues in this Application relate to the proposed amounts for found work, contingency  
 19 and management reserve. The total amount for these items is \$28.9 million as set out below:

- 20
- The proposed amount of found work allowance is \$3.3 million;

<sup>8</sup> Application, Schedule 1, Attachment 1, page 6 of 225.

<sup>9</sup> Application, Schedule 1, Attachment 1, page 13 of 225.

<sup>10</sup> Application, Schedule 1, page 18.

<sup>11</sup> Application, Schedule 1, page 17.

<sup>12</sup> Application, Schedule 1, Attachment 1, pages 20 - 21 of 225.

- The proposed amount of contingency is \$7.7 million; and
- The proposed amount of management reserve is \$17.9 million.

Together these amounts are much higher than the usual contingency approved in capital expenditure applications to provide for potential cost increases as a result of changes in circumstances.

### Found Work Allowance

Found work refers to repair or replacement activities that are not specifically identified during the planning and engineering phases but are reasonably expected to arise. According to Hydro it is prudent to include an allowance for found work to provide for potential additional necessary work. Hydro explained that this is distinct from contingency and is informed by lessons learned from similar projects at the Churchill Falls Hydroelectric Generating station.<sup>13</sup> The proposed found work allowance of \$3.3 million was determined based on 10% of the direct costs. Amounts for found work beyond this allowance would be reflected in the management reserve.<sup>14</sup>

The Board acknowledges that Unit 7 is almost 50 years old and it is likely that additional necessary work will be identified when the unit is disassembled. However, the Board notes that Hydro has a great deal of experience with this type of refurbishment at its hydroelectric facilities. In addition, there has been a great deal of work done to review the condition of Unit 7 and particularize the necessary work and the associated costs. As already discussed, in 2019 there was an extensive condition assessment by Voith with the unit being effectively dismantled and inspected, tested and reassembled. Another comprehensive condition assessment was conducted in 2023 by Hatch.<sup>15</sup> In addition, there will be a third major assessment in 2026 with the planned Preventive Maintenance 9 (“PM9”)<sup>16</sup> which will provide another opportunity to review the condition of the asset, confirm the prior assessments and identify any additional deterioration.<sup>17</sup> The scope of the PM9 work will include short-term remediation work to address deficiencies identified during the 2023 condition assessment as being urgent and will include necessary inspection work to ensure a fulsome understanding of up-to-date asset condition is known prior to critical design decisions in the life extension project.<sup>18</sup> Should anything be identified in the 2026 assessment, Hydro can apply for approval of this additional work.

The Board notes that this is the first time that Hydro has applied for approval of a specific found work allowance and that found work is normally addressed as part of a contingency.<sup>19</sup> The Board also notes that the regulatory precedents cited and standard engineering guidance do not

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<sup>13</sup> Application, Schedule 1 page 16.

<sup>14</sup> Application, Schedule 1, Attachment 1, page 21 of 225.

<sup>15</sup> Application, Schedule 1, pages 3-4.

<sup>16</sup> A PM9 is a more detailed inspection than an annual inspection. It includes an inspection of all major components with testing and repairs as required.

<sup>17</sup> Application, Schedule 1, page 7.

<sup>18</sup> Application, Schedule 1, Attachment 1, page 57.

<sup>19</sup> PUB-NLH-005.

1 contemplate a found work allowance.<sup>20</sup> There was little evidence provided as to why a found  
2 work allowance should be approved for this project. The Board does not accept that there is a  
3 heightened risk of significant found work for this project given Hydro's experience with this type  
4 of refurbishment in combination with the extensive condition assessments in 2019 and 2023. In  
5 addition, the Board notes that there was little evidence provided to justify the proposed amount  
6 of the found work allowance and further, that additional found work beyond this amount would  
7 go to the management reserve. Based on the evidence the Board does not accept that a found  
8 work allowance should be approved for the Unit 7 life extension project.

9

#### 10 Contingency and Management Reserve

11

12 In addition to the found work allowance, the Application proposed a contingency of \$7.7 million  
13 and a management reserve of \$17.9 million. Together this would amount to 52% of the base  
14 costs determined to be reasonable by the Board.<sup>21</sup> The Board notes that this is significantly higher  
15 than the typical contingency amount approved for similar projects.

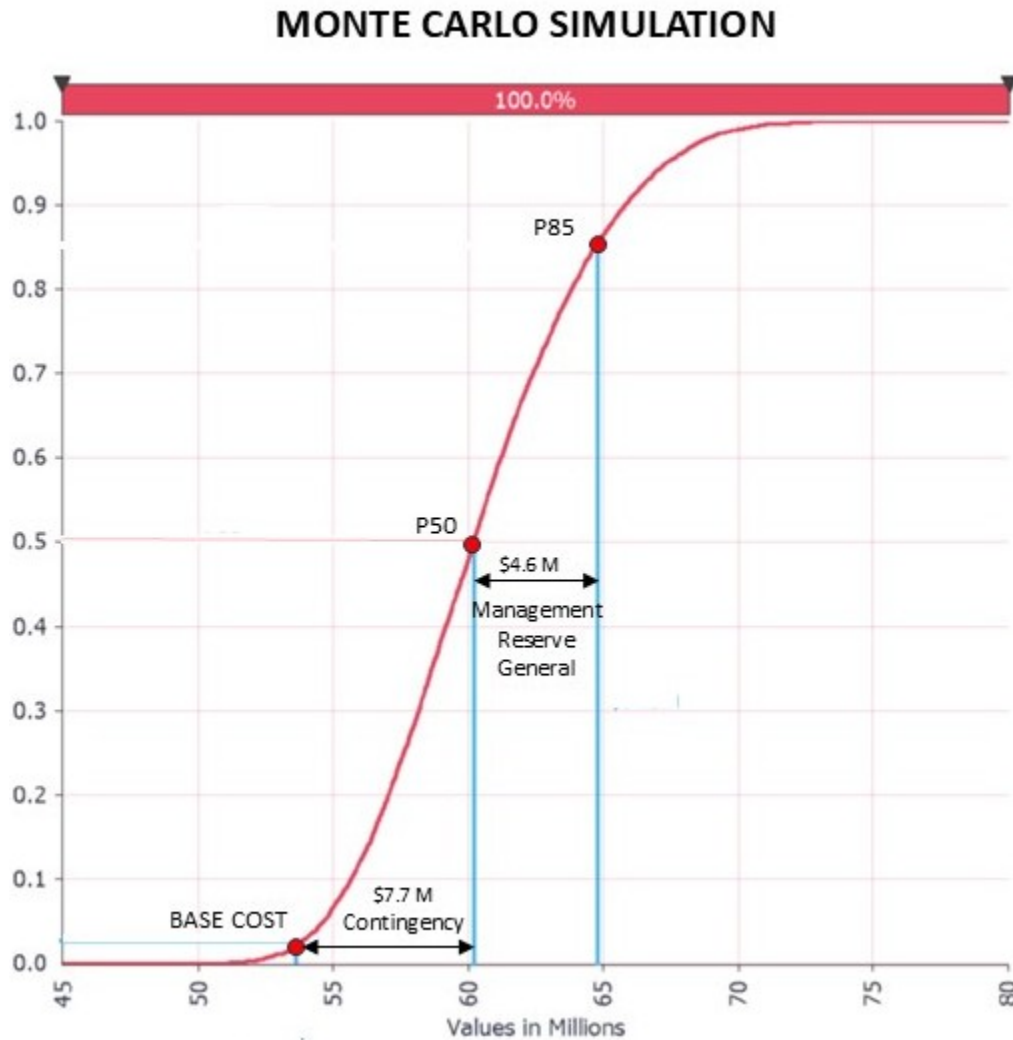
16

17 Hydro explained that in determining both the contingency and the management reserve it used  
18 quantitative risk analysis ("QRA") and Monte Carlo Simulations ("MCS"). Hydro stated that the  
19 identification and quantification of risk was undertaken by subject matter experts and a QRA  
20 using a MCS was employed to develop contingency and management reserve values which  
21 account for the identified risks. As part of this process, Hydro developed a strategic risk register  
22 of high-level risks and assigned low, expected, and high ranges of cost for each risk. These ranges  
23 were then used in a QRA using a MCS to develop contingency and management reserve  
24 estimates. The results of this analysis are shown in the graph below.

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<sup>20</sup> AACE® International Recommended Practice No. 10S-90, Cost Engineering Terminology, Rev. February 18, 2026, page 32 of 144 available at <https://web.aacei.org/docs/default-source/rps/10s-90.pdf>.

<sup>21</sup> Any reference to base costs in this section excludes the found work allowance on the basis that the Board does not accept such an allowance should be approved for the Unit 7 life extension project.



1 The contingency of \$7.7 million was determined based on the P50 confidence level in the QRA  
 2 and MCS as shown in this graph which means it reflects a confidence level of 50% that the actual  
 3 costs will be less than or equal to the estimated costs.<sup>22</sup>

4

5 The management reserve is made up of two separate amounts:

- 6
- 7 • Base Costs – The Board refers to this as a “general” reserve to reflect risk tolerance and funding at higher confidence levels; and
  - 8 • Strategic Risks – The Board refers to this as a “specific” reserve for high impact low probability events.
- 9

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<sup>22</sup> The estimated costs include direct and indirect costs, found work allowance, IDC, escalation and contingency.

1 The proposed management reserve includes the following:

<b>Proposed Management Reserve</b>	
<b>Component</b>	<b>Amount (\$)</b>
"General" Reserve	4,607,414
"Specific" Reserve	13,305,754
<b>Total Management Reserve</b>	<b>17,913,168<sup>23</sup></b>

2 The "general" reserve of \$4.6 million is based on Hydro's QRA and MCS results as shown in the  
 3 above graph. This is the amount which was determined to increase the P50 confidence level  
 4 associated with the contingency to a P85 confidence level for management reserve. This means  
 5 that the probability that actual costs will be less than estimated would increase from 50% to an  
 6 85% confidence level.

7  
 8 The "specific" portion of the management reserve of \$13.3 million is an additional amount which  
 9 was determined based on a second QRA and MCS analysis intended to address low probability  
 10 high impact strategic risks. This analysis determined the amount of the "specific" reserve  
 11 required to get to an 85% confidence level that the costs will be lower than the estimated amount  
 12 for these risks. The Board notes that the "specific" reserve portion of the management reserve is  
 13 almost three times the "general" reserve and makes up almost half of the total of the found work  
 14 allowance, contingency and management reserve.

15  
 16 The Board notes that Hydro has utilized a QRA and MCS in developing proposed expenditures for  
 17 this project. The Board accepts that QRA and MCS can be effective tools in developing a budget  
 18 for large, complex projects that span multiple years. However, this is a new approach for Hydro  
 19 and this is the first time the Board has considered whether it is appropriate. The Board has  
 20 reviewed the evidence which was filed in support of this approach and finds that the evidence  
 21 does not provide sufficient information in relation to how this analysis was completed. In  
 22 particular, the evidence is not clear as to which risks were considered and how these risks were  
 23 incorporated in the MCS for the contingency and the two components of the management  
 24 reserve. While the evidence sets out a list of strategic risks<sup>24</sup> as well as five strategic risks  
 25 considered to be outside of the project team's sphere of influence,<sup>25</sup> it is not clear how these  
 26 risks were assessed.

27  
 28 The Board also notes that this is the first time that the Board has considered a request to approve  
 29 a management reserve. According to Hydro a management reserve is intended to address  
 30 "unknown unknowns" and provide for unforeseen events that are not identifiable at the time of  
 31 estimating and fall outside the project risk register. Hydro stated:

<sup>23</sup> Application, Schedule 1, Attachment 1, page 24, Table 6.

<sup>24</sup> Application, Schedule 1, Attachment 1, Appendix C.

<sup>25</sup> Application, Schedule 1, page 22.

1 Management reserve is an industry-standard tool that is used to manage strategic risk  
2 and to address issues that may arise that are outside of the control of Hydro. It serves as  
3 additional funds in a project budget that are set aside for strategic risks and potential  
4 external, uncontrollable factors that may arise throughout the course of the project. It is  
5 not intended to be used to accommodate foreseeable changes in scope, schedule and  
6 cost that are within Hydro's control.<sup>26</sup>  
7

8 According to Hydro the proposed management reserve is reasonable and appropriate for the  
9 Unit 7 life extension project as there are credible strategic risks that cannot be fully anticipated  
10 or mitigated through contingency alone. Hydro explained that the project will require multiple  
11 contracts for specialized services and procurement will be complex and higher risk due to the low  
12 availability of contractors. The Consumer Advocate does not believe that Hydro has justified the  
13 use or amount of the proposed management reserve and noted the low-risk nature of the project  
14 and Hydro's familiarity with the facility.  
15

16 The Board acknowledges that it may be appropriate in some circumstances to include a  
17 management reserve as a means of addressing uncertainty and execution risk on large and  
18 complex projects. The Board accepts that the refurbishment of Unit 7 is a major project, however,  
19 based on the evidence this project is not substantially more complex or of a longer duration than  
20 other refurbishment work that Hydro has done at its hydroelectric facilities, including Bay  
21 d'Espoir.<sup>27</sup> While there are risks associated with this project, including risks associated with  
22 schedule delays and the extension of the outage window, most of the identified risks would be  
23 expected in such a project.<sup>28</sup> As already noted Hydro has a great deal of experience with this type  
24 of refurbishment and a great deal of work has been completed to define the scope of work and  
25 estimated costs. The Board finds that the evidence does not show why a management reserve is  
26 appropriate for the Unit 7 life extension project.  
27

28 The Board notes that the proposed management reserve is \$17.9 million or 36% of base costs  
29 and that the total amount of the proposed contingency and management reserve is \$25.6 million  
30 or 52% of base costs. This is much higher than the contingency normally approved for similar  
31 projects. Contingencies for these types of projects are typically in the range of 10% to 20%.<sup>29</sup> The  
32 evidence does not demonstrate why the contingency and management reserve for the Unit 7 life  
33 extension would be so much higher than the contingency approved in other recent applications  
34 for similar projects.  
35

36 The Board further notes that the contingency and management reserve are much higher on a  
37 percentage basis than proposed in three other major capital applications currently before the

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<sup>26</sup> Application, Schedule 1, page 18, footnote 21.

<sup>27</sup> For example, in recent years Hydro has undertaken a stator rewind of the Hinds Lake generator (2025 Capital Budget Application) and Bay d'Espoir Unit 6 stator and rotor rewind (2021 Capital Budget Application).

<sup>28</sup> Application, Schedule 1, Attachment 3, page 19 of 27. The project control schedule does not include any schedule contingency or reserve.

<sup>29</sup> For example, the capital budget application projects for the Section Replacement and Weld Refurbishment of Penstock 1 and the Labrador Voltage Conversion included 10% contingency while the Holyrood CT and Bay d'Espoir to Western Avalon Transmission Corridor supplemental capital budget applications included 20% contingency.

1 Board, where Hydro utilized a QRA and MCS. In these applications the total contingency and  
2 management reserves ranged from 22% to 29% of base costs.<sup>30</sup> The evidence does not  
3 demonstrate why the contingency and management reserve for the Unit 7 life extension would  
4 be so much higher than the proposed contingency and management reserve proposed in other  
5 ongoing applications before the Board.

6  
7 The Board also has concerns in relation to the oversight of the management reserve. Based on  
8 the evidence, the use of the management reserve is outside of the project team's authority and  
9 requires approval by Hydro's Chief Executive Officer. The Board is not satisfied that a  
10 management reserve should be utilized without Board oversight. The Board believes that  
11 significant changes which are outside of the proposed scope of work and approved costs should  
12 be brought back to the Board for its approval. While the parties suggested Board oversight  
13 following the use of the management reserve, the Board believes that an after the fact  
14 assessment may not be sufficient to ensure appropriate oversight of significant changes in project  
15 scope and costs. The Board acknowledges Hydro's concern that unforeseen events which are not  
16 addressed immediately could impact the project schedule but notes that Hydro can file an  
17 application for expedited approval to address increases in costs.

18  
19 In conclusion the Board does not accept that it is reasonable in the circumstances to approve the  
20 proposed found work allowance, contingency and management reserve. The total amount of  
21 these three items is \$28.9 million or approximately 59% of the base costs, while the typical  
22 contingency approved for similar projects has been in the range of 10% to 20%. As already  
23 discussed, the Board has determined that:

- 24
- 25 • The total amount proposed for the found work allowance, contingency and management  
26 reserve is not in keeping with previously approved contingency amounts and is not  
27 justified based on the evidence.
  - 28 • This is the first time that Hydro has proposed a found work allowance and the evidence  
29 does not show why it should be approved in this case.
  - 30 • This is the first time that the Board has considered a request from Hydro that utilized a  
31 QRA and MCS and the evidence is insufficient to explain this approach and justify the  
32 resulting contingency and management reserve.
  - 33 • This is the first time that the Board has considered a request from Hydro for a  
34 management reserve and the evidence does not show that a management reserve is  
35 appropriate in this case and does not demonstrate that the amount of the proposed  
36 management reserve is reasonable.

37  
38 The Board believes that it is reasonable and necessary to include a contingency to provide for  
39 potential cost increases as a result of changes in circumstances. As already discussed, until  
40 recently Hydro's capital expenditure applications have reflected only a contingency to provide

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<sup>30</sup> BDE Penstock 3 contingency and management reserve is 22% but the proposed capital expenditures do not include the management reserve of 16%. BDE Unit 8 project contingency and management reserve is 26%. The Avalon Combustion Turbine contingency and management reserve is 29%.

1 for all unanticipated increases in costs, with no management reserve or found work allowance.  
2 This is a simple and straightforward approach which is transparent and does not require  
3 additional categorization or oversight by Hydro or the Board. The Board does not believe that  
4 Hydro has shown that it is appropriate in this case to create and approve three separate and  
5 distinct cost categories to address uncertainties. While Hydro submitted that the proposed found  
6 work allowance, contingency, and management reserve are clearly defined and non-overlapping  
7 categories, calculated using recognized quantitative methods, and governed by robust internal  
8 controls, the Board finds that the evidence does not support this view. The Board is satisfied that  
9 one amount should be approved as a contingency for the Unit 7 life extension project to allow  
10 for reasonable increases in costs resulting from significant changes in circumstances.

11  
12 In terms of the amount of the contingency the Board notes that the proposed contingency in this  
13 Application is 16% of base costs, excluding found work. If the amount of the found work  
14 allowance were added to the proposed contingency this would result in a contingency of  
15 approximately 22% of base costs. While the typical contingency approved for similar projects  
16 ranges from 10% to 20%, most often the contingency amount is around 20%. While the Unit 7  
17 life extension project is significant, Hydro has a great deal of experience with this type of  
18 refurbishment and there has been a lot of work done to assess the potential scope of work and  
19 associated costs. Based on the evidence the Board is satisfied that a contingency of 20%,  
20 consistent with historical contingency levels, is reasonable and appropriate for the Unit 7 life  
21 extension project.

22

### 23 **Reporting**

24

25 The Bay d'Espoir Unit 7 life extension project is a major refurbishment of Hydro's largest  
26 generating unit on the Island Interconnected System. According to Hydro the project is  
27 dependent on long-lead equipment, multiple contract resources, complex project interfaces, and  
28 system-wide outage coordination. As already discussed, the project faces certain risks that could  
29 force the project beyond the outage window which could have significant impacts for the system.  
30 Given the importance of Unit 7 and the critical nature of completing this project on schedule the  
31 Board believes that close monitoring of the progress of the project is required.

32

33 In addition, the proposed capital expenditures for the Unit 7 life extension project are significant.  
34 As recently expressed in other capital expenditure applications, the Board is concerned about the  
35 burden on ratepayers associated with the increasing level of utility capital spending. Given the  
36 amount of the proposed capital expenditures and the potential for cost overruns, the Board  
37 believes that close monitoring of actual and anticipated variances from budget is required.

38

39 The Board believes that it is essential that Hydro file updates as to the progress of the Unit 7 life  
40 extension project to ensure that all available measures are taken to ensure that project proceeds  
41 on schedule and on budget. This reporting should detail all actual and potential changes in the  
42 scope of work, schedule, costs, risks and contingency as the project progresses and the additional  
43 measures taken in the circumstances. While Hydro proposed quarterly reporting, the Board  
44 believes that more frequent reporting may be required at times and will issue subsequent

1 direction in this regard. In addition, the Board notes that should circumstances arise which  
2 indicate that the actual costs will or may exceed the approved budget in the range of 5%, Hydro  
3 should file a supplemental capital budget application for the approval of the Board. Such an  
4 application can proceed on an expedited basis.

5

#### 6 **Confidential Information**

7

8 The Application included a claim for confidential treatment of information which Hydro argued  
9 was commercially sensitive, including base cost estimates, contingencies and management  
10 reserves, escalation, IDC, basis of estimate, escalation factors, basis of schedule, critical path  
11 schedule, vendor quotes and information, and other third-party commercially sensitive  
12 information. The Board notes that Hydro's claim for confidential treatment in this Application  
13 predates the recent determinations of the Board with respect to a similar confidentiality claim  
14 made by Hydro.<sup>31</sup> The Board determined in that case that high-level costs and risk information  
15 should be released, including direct and indirect costs, escalation, IDC, contingency and  
16 management reserve.<sup>32</sup>

17

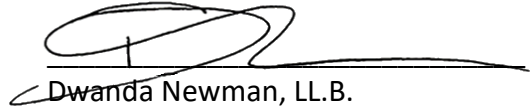
18 The Board has reviewed the evidence in this Application and finds that the record does not  
19 support the redaction of high-level cost and risk information. Proceedings before the Board are  
20 open and transparent and all documents are placed on the record and are made available to the  
21 public unless the Board accepts a claim for confidentiality. Transparency and openness are always  
22 paramount and disclosure is presumed and expected in proceedings before the Board. The  
23 public's right to be informed and to understand and trust the Board's processes requires  
24 disclosure of relevant information. The Board believes that high-level cost and risk information  
25 should be available to interested persons so that they can understand the issues in this  
26 proceeding and the reasons for the Board's decision. As a result, high-level cost and risk  
27 information is not given confidential treatment in these Reasons for Decision. In the  
28 circumstances the Board is satisfied that it is not necessary at this stage of the proceeding to  
29 require Hydro to refile the evidence in this Application to reflect the Board's finding on  
30 confidentiality.

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<sup>31</sup> Board letter, March 19, 2026, Application for the Purchase and Installation of Bay d'Espoir Unit 8 and Avalon Combustion Turbine.


<sup>32</sup> Board's letter, April 2, 2026, page 1.

**DATED** at St. John's, Newfoundland and Labrador this 7<sup>th</sup> day of May 2026.




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Dwanda Newman, LL.B.  
Vice-Chair




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John O'Brien, FCPA, FCA, CISA  
Commissioner



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Christopher Pike, LL.B., FCIP  
Commissioner



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Mike McNiven  
Board Secretary