

1 Q. Reference: Schedule 1, page 12, lines 15 to 17.

2 “The proposed approach to be utilized for the procurement of the CT and GSU
3 transformers is forecasted to limit Hydro’s cost exposure for those particular
4 items to approximately [REDACTED] of which represents the
5 contract cancellation clauses for CTs and transformers).”

6 a) Describe the composition of the [REDACTED] amount for the Avalon CT.

7 b) Describe in detail what has happened since the early execution application was approved
8 in Order No. P.U.17 (2005) to increase Hydro’s cost exposure by [REDACTED] (
9 [REDACTED]) for the Avalon CT.

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12 A. a) The \$[REDACTED] million referenced the cost exposure for the procurement of the combustion
13 turbine (“CT”) and generator step-up (“GSU”) package specifically. It represents the amount
14 at risk for non-recovery by Newfoundland and Labrador Hydro (“Hydro”), if the overall
15 project is not approved or recovery permitted, as a result of the procurement of the CT and
16 GSU transformer packages, which includes the approved budget for the Early Execution
17 Project, the proposed budget for the Additional Early Execution Project, and any
18 cancellation clauses. As discussed in Hydro’s response to PUB-NLH-012 of this proceeding,
19 Hydro has since negotiated the reduction of the cancellation clauses within the applicable
20 contracts for the CT and the GSU transformer to \$0 (nil) and \$[REDACTED] million, respectively.
21 Therefore, the total financial risk to Hydro has reduced from \$[REDACTED] million to \$[REDACTED] million.

22 Table 1 of Schedule 1 of this application presents, in columns, the early execution Approved
23 Budget Amount (A), the proposed Additional Early Execution Budget (B) and the
24 Cancellation Clause Costs (C), as assumed as of the submission of this application on
25 December 12, 2025, representing the composition of the \$[REDACTED] million amount for the
26 Avalon CT.

Table 1: Financial Risk as Presented in the Additional Early Execution Application (\$000)

Category	Approved Early Execution Budget Amount ¹ (A)	Additional Early Execution Budget (B)	Early Execution Capital Budget (A+B)	Cancellation Clause Costs (C)	Total Financial Risk Exposure (A+B+C)
CT Procurement					
GSU Transformer Procurement					
Total					

b) As discussed in this application, Hydro has found that the CT market has accelerated even more than anticipated, largely due to the increased competition for equipment from rapidly evolving technology industries such as artificial intelligence. Through the Request for Proposal process for the CT package, Hydro received indications that the current pricing from vendors in the marketplace was significantly higher than the initial budget estimates for the Avalon CT included in the 2025 Build Application,² which was based on market research and information from vendors as of Summer 2024.

As outlined in Hydro’s response to PUB-NLH-012 of this proceeding, since the filing of the Additional Early Execution Application, Hydro has reduced its total financial risk exposure, in the event the projects are not approved, to \$ million. The approved Early Execution Budget of \$ million accounted for the initial % downpayment for both the CT packages and GSU transformers without the addition of cancellation fees.

The components of the \$ million difference between Hydro’s revised cost exposure of \$ million and the originally approved Early Execution Budget of \$ million are shown in Table 2. Hydro is proposing an Additional Early Execution budget of \$ million. This includes managing the oversight and fabrication of CTs from a quality and timely delivery perspective, as well as progressing the contract via milestone payments. The milestone

¹ As approved in Board Order No. P.U. 17(2025).
² “2025 Build Application – Bay d’Espoir Unit 8 and Avalon Combustion Turbine,” Newfoundland and Labrador Hydro, March 21, 2025.

payments owed to suppliers include a payment of █% of the contract price at March 26, 2026,³ as well as further monthly milestone payments in April, May, and June.⁴

Hydro is not proposing any additional early execution budget for the GSU transformers; however, there is a cancellation clause fee of \$█ million, as discussed in Hydro’s response to PUB-NLH-012 of this proceeding. These fees are only paid in the event of project cancellation and are considered operating costs; however, they represent material financial risk to Hydro.

Table 2: Updated Financial Risk Exposure for CT and GSU Packages (\$000)

Category	Approved Early Execution Budget Amount ⁵ (A)	Additional Early Execution Budget (B)	Total Early Execution Capital Budget (A+B)	Revised Cancellation Clause Costs ⁶ (C)	Updated Total Financial Risk Exposure (A+B+C)
CT Procurement	█	█	█	-	█
GSU Transformer Procurement	█	█	█	█	█
Total	█	█	█	█	█

³ Approval to proceed with the March 26, 2026, milestone payment must be completed by March 16, 2026, to ensure the payment deadline can be met.

⁴ The agreement details specific progress payments through the life of the agreement, and the negotiated cancellation provisions stipulate that if cancellation were to occur prior to delivery of the CT packages, the progress payments made as of the date of cancellation are non-recoverable. The next scheduled milestone payment is required to be paid by March 26, 2026, for which Hydro requires approval by the Board of Commissioners of Public Utilities of this application. That milestone payment will enable Hydro to fully secure the production slots and overall price. If Hydro is unable to proceed with that, or any, milestone payment, the contract will be cancelled.

⁵ As approved in Board Order No. P.U. 17(2025).

⁶ Please refer to Hydro’s response to PUB-NLH-012 of this proceeding.