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March 9, 2026

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Colleen Jones
Assistant Board Secretary

Re: Newfoundland and Labrador Hydro – 2025 Capital Budget Supplemental Application – Application for the Purchase and Installation of Bay d’Espoir Unit 8 and Avalon Combustion Turbine – Avalon Combustion Turbine Estimate Refresh

In correspondence to Newfoundland and Labrador Hydro (“Hydro”) on December 19, 2025,¹ the Board of Commissioners of Public Utilities (“Board”) referenced Hydro’s December 2025 monthly update on the early execution work for the Avalon Combustion Turbine (“CT”) and Bay d’Espoir Unit 8. In particular, the Board referenced Hydro’s statement that it had received an indication that the current pricing from vendors in the marketplace was significantly higher than the initial cost estimates. The Board requested that Hydro provide its updated costs, including impacts on indirect costs, contingency and management reserve, for the Avalon CT project. The Board requested that this information be provided prior to the Monte Carlo analysis and acknowledged that changes to the cost estimate may need to be filed again.

On December 19, 2025,² Hydro provided the updated actual costs for the major procurement packages and work completed during the 2025 early execution work on the Avalon CT project. Hydro noted at that time that it was unable to provide a revised figure for contingency and management reserve prior to completion of a Monte Carlo simulation and committed to providing a further update upon completion of the Monte Carlo simulation.

Hydro conducted its Monte Carlo analysis to reflect the information regarding the current pricing in the market for CTs, as well as newly identified specific risk items related to variable portions of the CT contract, in order to determine the updated values of both the contingency and management reserve.³ These risk items are:

- Foreign exchange rates;
- Onsite vendor support;
- Transportation;

¹ Newfoundland and Labrador Hydro - Application for Capital Expenditures for the Purchase and Installation of Bay d’Espoir Unit 8 and Avalon Combustion Turbine, and Bay d’Espoir Unit 8 Project and Avalon Combustion Turbine Project Early Execution Updates for October 2025 - Request for Further Information,” Board of Commissioners of Public Utilities, December 19, 2025.

² Newfoundland and Labrador Hydro - Application for Capital Expenditures for the Purchase and Installation of Bay d’Espoir Unit 8 and Avalon Combustion Turbine, and Bay d’Espoir Unit 8 Project and Avalon Combustion Turbine Project Early Execution Updates for October 2025 – Request for Further Information – Hydro’s Reply,” Newfoundland and Labrador Hydro, December 19, 2025.

³ Variable portions of the contract have an estimated value in the contract pricing, but the actual value may differ. For example, onsite vendor support is based on time and materials, and therefore, the actual value is dependent on the services rendered during execution.

- Design changes during detailed design;
- Tariff impacts;
- Factory acceptance testing and training; and
- CRN⁴ certification for pressure-retaining components.⁵

During the front-end engineering design stage, at the time of the original Quantitative Risk Analysis (“QRA”), the CT contract pricing was assumed to be firm, as it was based on a firm quote and supported by additional budgetary quotes from vendors. As such, a significant increase in CT pricing was not identified as a material risk requiring management reserve. Because this risk was not a major component of the management-reserve assessment, the subsequent increase in CT price certainty did not substantially reduce the proposed management reserve.⁶ As a result, its overall impact on Hydro’s proposed management reserve is low. While updating its Monte Carlo analysis, Hydro reviewed additional project elements unrelated to the CT contract to determine if there was any other known information that would impact its analysis. The additional project elements that have progressed during early execution did not materially change the base cost estimate and were also not considered significant risks at the time of the original QRA. As the project has not advanced to detailed design, and as other significant procurement activities, such as the tendering of the civil and balance-of-plant contracts, have not yet occurred, project maturity has not advanced such that other risks identified in the original QRA have significantly changed. As a result, the contingency (mean at P55) has adjusted to account for the variable portions of the CT contract, and the management reserve (P85) has only adjusted slightly.

The results of Hydro’s update to the Avalon CT project estimate are provided in Table 1.

Table 1: Avalon CT Project Estimate Update (\$ Millions)⁷

Item	Original BOE ⁸	Revised Recommendation	Change	Notes
Base Estimate	████	████	████	Base price has been adjusted as a result of the change to the CT price. Indications are that other elements are within expected estimate bounds. As detailed design has not yet commenced, several unknowns remain.
Escalation	████	████	████	Escalation has been adjusted as the CT contract has been awarded, thus fixing escalation rates within the contract.
IDC ⁹	████	████	████	IDC has been adjusted as the CT contract has been awarded with a higher base estimate.
Contingency (mean at P55)	████	████	████	Project contingency has been adjusted as a result of the price increase of the CT package, as well as the added specific risks on the variable portions of the scope in the contract, as listed above.
Management Reserve (P85)	████	████	████	Management reserve has been adjusted slightly due to changes in the certainty of the CT components.
Total	891.4	995.9	+104.5	

⁴ Canadian Registration Number (“CRN”).

⁵ Due to the high probability of occurrence, CRN Certification was included as an adjustment to the Base Estimate rather than a risk item.

⁶ Since the timing of the original QRA, the CT market has been significantly impacted by unprecedented demand, largely due to significant global investment in Artificial Intelligence infrastructure. This level of market impact was not anticipated at that time.

⁷ Numbers may not add due to rounding.

⁸ Basis of Estimate (“BOE”).

⁹ Interest During Construction (“IDC”).

Colleen Jones
Board of Commissioners of Public Utilities

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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