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June 19, 2026

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

Attention: Mike McNiven
Board Secretary

Re: Newfoundland and Labrador Hydro – Application for Capital Expenditures for the Purchase and Installation of Bay d'Espoir Unit 8 and Avalon Combustion Turbine – Requests for Information – Avalon Combustion Turbine

Please find enclosed Newfoundland and Labrador Hydro's ("Hydro") requests for information NLH-PUB-001 to NLH-PUB-003 in relation to Hydro's application for approval of expenditures related to the purchase and installation of the Avalon Combustion Turbine.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

Shirley A. Walsh
Senior Legal Counsel, Regulatory
SAW/kd

Encl.

ecc:

Board of Commissioners of Public Utilities
Jacqui H. Glynn
Ryan Oake
Board General

Consumer Advocate
Adrienne H.Y. Ding, O'Dea Earle
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Consumer Advocate General

Newfoundland Power Inc.
Dominic J. Foley
Douglas W. Wright
Regulatory Email

Island Industrial Customer Group
Paul L. Coxworthy, Stewart McKelvey
Denis J. Fleming, Cox & Palmer
Glen G. Seaborn, Poole Althouse

IN THE MATTER OF the *Electrical Power Control Act, 1994,* SNL 1994, Chapter E-5.1 ("*EPCA*") and the *Public Utilities Act*, RSNL 1990, Chapter P-47 ("*Act*"), and regulations thereunder; and

IN THE MATTER OF an application by Newfoundland and Labrador Hydro ("Hydro") for approval of capital expenditures for the purchase, construction, and installation of Unit 8 at the Bay d'Espoir Hydroelectric Generating Facility ("Bay d'Espoir") and a combustion turbine ("CT") located on the Avalon Peninsula.

Newfoundland and Labrador Hydro

Requests for Information

NLH-PUB-001 to NLH-PUB-003

June 19, 2026

NLH-PUB-001 **Reference: Expert Addendum Report of Vincent Musco and Collin Cain (June 5, 2026), Executive Summary, Page 9, Management Reserve and Project Governance.**

> There is a trade-off between the objective of the management reserve to facilitate quick action, and the ability of the Board to exercise detailed oversight of the use of reserve funds. We reiterate our recommendation in our Phase Two Report that the Board should pursue a prudency review at the end of the project to test the validity of use of the Management Reserve to ensure that such funds were due to the types of "unknown unknowns" risks for which the Management Reserve is intended, and not as a general backstop for cost overruns.

a) What are the specific advantages and disadvantages that Bates White observes as a "trade-off" between the facilitation of quick action by management reserve and detailed oversight of reserve funds by the Board?

b) Hydro is also considering proposal of the following process (similar to the Allowance For Unforeseen) to support Board oversight of the use of the management reserve:

- Notice to the Board by Hydro when Hydro determines that use of the management reserve is likely to be required, along with a summary of the circumstances leading to the potential draw.

- Notice to the Board by Hydro when management reserve funds are actually accessed, along with supporting information that sets out the nature of the issue, the rationale for the draw, and the amount accessed.

- If the Board raises concerns or requires additional information during any notification, Hydro will provide a follow-up report similar to the process used for the Allowance for Unforeseen Items. This enables the Board to assess prudency as issues arise rather than deferring review to the end of the project.

(i) Based on Bates White's conclusions regarding management reserve governance, would such a process mitigate the trade-off identified by Bates White? Why or why not?

(ii) Please identify any specific elements that would be required, in Bates White's view, for such a process to provide meaningful and timely oversight of management reserve use.

c) If the prudency review were to be implemented at the end of the project as recommended by Bates White, what specific actions do Bates White recommend the Board take to mitigate the risk of Hindsight Bias while evaluating the use of management reserve?

NLH-PUB-002 **Reference: Expert Addendum Report of Vincent Musco and Collin Cain (June 5, 2026), Executive Summary, Page 9, Qualitative Risk Analysis (QRA) and Monte Carlo simulation.**

> The Avalon CT Project consists of a mature, widely deployed technology, well-understood by Hydro (based on its experience with the Holyrood CT), modest in size and complexity relative to many other utility generation projects, and now reasonably well-advanced in terms of costing. These characteristics would seem to be consistent with the application of a QRA method using estimate ranging, which would inherently accommodate a significant project event such as the contracting of the CT packages.

a) How does Bates White define project complexity?

b) What other utility generation projects would be more complex than the Avalon CT Project? Based on what criteria?

c) In Bates White opinion, can a project be considered complex not on the basis of execution alone, but because of other factors such as market volatility, project design and construction logistics (e.g., fuel or water supply), environmental considerations, and the number of contractors and interfaces between them?

NLH-PUB-003 **Reference: Expert Addendum Report of Vincent Musco and Collin Cain (June 5, 2026), Section III., A. Management Reserve and Project Governance, Page 12, Item (22).**

> In summary, our conclusions included the following:
>
> • Incorporation of a budget component for Contingency is standard practice, but inclusion of Management Reserve, while not unprecedented, is not widespread among regulated utilities.
>
> • There is no single accepted methodology for determining Management Reserve, and the methodologies applied with respect to Hydro's Build Application were reasonable.
>
> • Hydro potentially underestimated high-impact strategic risks.

• Management Reserve should only be accessed in situations where the strategic risks manifest themselves and negatively impact the project(s).

Reference: Expert Report of Vincent Musco and Collin Cain (February 3, 2026), Section VII., C. Management Reserve fund allowances are not unprecedented but their use is not widespread, Page 65–66, Items (159) and (160).

> (159) Another example comes from Ontario. In 2016, the Ontario Energy Board approved rate base additions of about $5.2 billion to Ontario Power Generation's rate base related to the Darlington Refurbishment Program. In that case, the Ontario Energy Board accepted a P90 Monte Carlo cost estimate that included contingency. Notably, the contingency approved by the Ontario Energy Board was more akin to the contingency proposed by Hydro in the instant proceeding, not to management reserve. Ontario Power Generation explained that:
>
> [Contingency] refers to amounts that [Ontario Power Generation] anticipates spending because there are risk items and uncertainties that will occur and cannot be entirely mitigated or avoided. Contingency is included as a cost component of a project estimate just like any other component of a project. It is not an extra amount that will not be spent if the project goes as planned, nor is it a tool to compensate for an underdeveloped project plan. It is a necessary, legitimate and thoughtfully developed part of the estimated project cost based on residual (post-mitigation) risk and uncertainty.
>
> (160) In summary, our review suggests the following conclusions. First, use of Monte Carlo simulation in determining capital budgets for large, regulated utility projects is relatively common. Second, use of management reserve allowance funds is not unprecedented but is not widespread. Third, when management reserve is used, the determination of those reserves has included approaches similar to those used by Hydro in this case: that is, defining a confidence interval (e.g., P90), and subtracting the P50 estimate, with the difference being the defined management reserve.

a) Please advise whether Bates White completed a jurisdictional scan to arrive at its conclusion that the use of management reserve is not "widespread" at regulated utilities. If so, please provide the details of that jurisdictional scan, including the number of utilities included and their locations.

b) Please advise whether Bates White has any opinion or understanding of why management reserve allowance is not widespread and whether the fact that it is not widespread should be an impediment to use in this jurisdiction. Why or why not?

c) Was there a prudency review aspect required as part of the Ontario Energy Board's approval of Ontario Power Generation's proposal?

d) In the Ontario example, the Ontario Energy Board approved Ontario Power Generation's proposal based on a P90 Monte Carlo estimate that included contingency. Does this attract the same or similar oversight concerns to those identified by Bates White for the utilization of a management reserve? Does Bates White believe that the proposal of budgets at high confidence intervals (i.e., P85, P90) for approval by regulators is reasonable in cases of large capital utility projects?

DATED at St. John's, in the province of Newfoundland and Labrador, this 19th day of June 2026.

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