

1 Q. **Reference: Bates White Phase 2 Expert Report dated February 3, 2026 by Vincent Musco and**
2 **Collin Cain**

3 This report claims that the management reserve for Bay d’Espoir Unit 8 fails to incorporate
4 certain strategic risks. It is stated (page 5) *“The cumulative impact of these three risks is*
5 *estimated to be as high as \$562.4 million, which would represent an overall project cost increase*
6 *of 52%.”* The three risks are identified as competition for equipment, tariffs and the Bay d’Espoir
7 Unit 7 life extension.

8 a) Do two of the three identified risks, namely, competition for equipment and tariffs, also
9 apply to the Avalon CT?

10 b) How much do these risks increase the management reserve for the Avalon CT?

11
12
13 A. a) The comment in the Bates White Economic Consulting, LLC, (“Bates White”) Phase Two
14 Expert Report is preceded by Bates White’s specific reference to “...the potential for
15 increased costs due to competition for contractors, labour, and equipment from other
16 hydroelectric projects, including those to be developed by Newfoundland and Labrador
17 Hydro (“Hydro”) and Hydro-Québec in a new joint partnership.”¹ These are emerging risks
18 specifically addressed in the Bay d’Espoir (“BDE”) Unit 8 Basis of Estimate² (“BOE”). The BDE
19 Unit 8 Monte Carlo simulation was completed in November 2024, and the Memorandum of
20 Understanding (“MOU”) between Hydro and Hydro-Québec was announced in December
21 2024. Accordingly, as Bates White posits in their report, this was a matter of timing.

22 The scenario analysis that was presented in the BDE Unit 8 BOE was furthermore to present
23 information to project stakeholders and decision makers about the potential risk that could
24 occur if the work identified in the MOU were to be authorized and initiated on the schedule

¹ “Expert Report of Vincent Musco and Collin Cain,” Bates White Economic Consulting, LLC, February 3, 2026, sec. I, p. 5, item 16.

² “2025 Build Application – Bay d’Espoir Unit 8 and Avalon Combustion Turbine,” Newfoundland and Labrador Hydro, March 21, 2025, sch. 4, att. 1, sec. 16.1.1 and sec. 16.1.1.2.

1 identified in the MOU. These risks are primarily applicable to the BDE Unit 8 project, given
2 the similarity in the type of equipment and labour that would be needed for the BDE Unit 8
3 hydroelectric project, and the potential hydroelectric Churchill Falls MOU projects. Overlap
4 in these projects would result in demands on very similar vendors, contractors and labour
5 pools. While this risk does exist for the Avalon Combustion Turbine ("CT") project, it is much
6 less given the different types of equipment and trade labour demands.

7 For tariffs, there was consideration of an increased level of tariff in the BDE Unit 8 strategic
8 risk review,³ ranging between 10% and 20%. This was included in the Monte Carlo
9 simulation and contributed to the determination of management reserve. However, given
10 the statements and actions of the US Administration after the analysis was completed, a
11 further sensitivity analysis of tariff rates up to 25% and foreign exchange impacts of up to
12 \$1.50 CAD/\$1.00 USD was conducted. This sensitivity was not included in the modelling that
13 would contribute to management reserve, as Bates White posits, due to timing.

14 Coordination with the work planned for BDE Unit 7 was considered in the risk analysis,
15 based on the planned work execution and schedules for both projects at the time of the
16 development of the Quantitative Risk Analysis ("QRA"), and this would have contributed to
17 the management reserve. The coordination and scheduling of the work of both projects
18 remains a potential risk⁴ for both projects, especially until such time as both projects have
19 suppliers and execution contractors engaged and timelines validated. The inclusion of BDE
20 Unit 7 work in the scenario analysis included in the BDE Unit 8 BOE was in relation to the
21 additional risk that would be generated with the BDE Unit 8, BDE Unit 7, and MOU projects
22 all occurring in an overlapping timeframe, which would further exacerbate the MOU-related
23 risks noted above.

³ "2025 Build Application – Bay d'Espoir Unit 8 and Avalon Combustion Turbine," Newfoundland and Labrador Hydro, March 21, 2025, sch. 4, att. 1, sec. 16.1.1.3.

⁴ The BDE Unit 8 powerhouse is an extension to the existing powerhouse that houses Unit 7, which adds interfacing and execution risks. Furthermore, there are complications to support and execution logistics (accommodations, warehousing, construction laydown space, safe access routings, etc.) with both Unit 7 and Unit 8 works being conducted at the same site. These risks are much less for the Avalon CT project.

1 While the risks identified for BDE Unit 8, noted in the Bates White report, would apply to
2 the Avalon CT project, they apply in a different way.

3 Equipment competition has already led to increased pricing for the CTs for the Avalon CT
4 project; the signed contract is substantially higher than the budgetary pricing obtained from
5 the same supplier a year earlier. The supplier confirmed that the increase in cost was due to
6 competition for the equipment, largely due to the surge in the development of Artificial
7 Intelligence, as well as changes in US administration policy.⁵ Additionally, the CT price is also
8 driven by imposed tariffs given the sourcing of CT components. It must be noted, however,
9 that this is not the experience for all equipment at this time; [REDACTED]

10 [REDACTED]
11 [REDACTED]
12 Additionally, the Avalon CT project requires a different construction trade mix, and in
13 different numbers, than both the BDE Unit 8 and MOU projects. Furthermore, with the
14 differing project locations and remoteness, it is likely that there would be some differences
15 in the locations of the labour pool attracted to the different projects. Accordingly, this
16 aspect of the risk-based scenario analysis included in the BDE Unit 8 BOE is lower for Avalon
17 CT than for the BDE Unit 8 project.

18 The Bates White report notes that this scenario, were it included in the project, would
19 increase costs in the order of 52%. This is incorrect. The scenario analysis was primarily
20 related to timing issues between the MOU projects and the BDE Unit 8 project and was
21 based on if there were schedule changes that caused project overlap. If this risk event was
22 included in the QRA,⁶ it would be modelled with a probability of occurrence and a range of
23 impacts. This would result in a range of probability-based outcomes, which would result in a
24 higher recommended value for project reserves (i.e., the value associated with the P85
25 value) but would not result in an increase in management reserve equal to the
26 \$562.4 million cited by Bate's White. Given the strategic nature of the risk, this would be

⁵ Please refer to Hydro's response to CA-NLH-003 of the Early Execution Application proceeding, as well as PUB-NLH-007 Additional Early Execution Application proceeding.

⁶ The MOU was released following completion of the project estimate and QRA.

1 part of management reserve, and not contingency, which “is expected to be spent to
2 complete the project.”⁷

3 b) The QRA workshops for the Avalon CT project were held in early October 2024. The
4 imposition of tariffs, as well as the outcome of the US election, were unknown at that time.
5 Accordingly, tariffs were not considered in the QRA, and therefore that risk was not a
6 specific contributor to the determination of the value for project reserves (contingency and
7 management reserve).

8 Similarly, while there was some expected equipment competition at that time, it was
9 expected to not be any different than the normal level of competition. The CT unit, the
10 single largest equipment cost, was evaluated during project risk sessions, and the post-
11 mitigated cost risk was deemed to be low based on the proposal received from the
12 supplier.⁸ Accordingly, equipment competition was not a specific contributor to the
13 determination of the value for project reserves (contingency and management reserve)
14 during front-end engineering design. Further information on this can be found in Hydro’s
15 response to PUB-NLH-007 of this proceeding.

⁷ AACE International. (2026). *Recommended Practice No. 10S-90: Cost Engineering Terminology*.

⁸ "Risk and Assumption Register," Hatch Ltd., November 18, 2024, provided in "2025 Build Application – Avalon Combustion Turbine Evidentiary Update," Newfoundland and Labrador Hydro, April 16, 2026, att. 2, att. 4, Risk ID 012.