Q. 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?

A. (a) As we explained in our Phase Two Report (at paragraph 31), it would be ideal to restrict access to Management Reserve funds by requiring Board review. The advantage of this approach is to ensure oversight, transparency, and accountability for Hydro in accessing those funds. The disadvantage against which these advantages must be weighed is allowing for project development to continue without delay when additional funds are needed.

(b) (i-ii) It is unclear from Hydro's question the manner in which this hypothetical adjustment to the Management Reserve process has been "proposed" or is being considered. Notwithstanding this point, the three bulleted changes to the Management Reserve process are likely to have positive benefits and to increase oversight, transparency, and accountability for use of Management Reserve funds. Still, a core concern carried by the Management Reserve fund is ensuring that any expended Management Reserve funds be subject to a prudency review at the end of the project to ensure that such funds were due to the types of "unknown unknowns" risks for which the Management Reserve was intended, and not as a general backstop for cost overruns. As we noted in our Phase Two Report (at paragraph 31), the burden of prudence should remain with Hydro in all cases, and the Board should review Hydro's submissions for evidence that the strategic risks that those funds are meant to cover have materialized and driven the costs of the project higher.

(c) Use of an industry-standard definition of prudence, such as the definition endorsed by the Board in Order No. P.U. 13(2016), would suffice.