Q. 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?

A. (a) Bates White reviewed several jurisdictional approaches regarding major capital projects, which we detailed in our Phase Two Report at paragraphs 147-160. A majority of those jurisdictions reviewed do not include separate management reserve allowances in capital budgets. This is also true of Newfoundland and Labrador, which has not used Management Reserve funds for Hydro's capital projects to date.[1] We also note that Hydro identified just two jurisdictions where Management Reserve funds were approved in capital budget project proposals in its application and in response to information requests.[2]

[1] Bates White Phase Two Report, paragraphs 147 and 163.
[2] Bates White Phase Two Report, paragraphs 148 and 157.

(b) We do not have any insight into why a jurisdiction has or has not implemented management reserves.

(c) We are not aware whether the OEB incorporated any explicit prudency review requirements as part of its approval of the OPG proposal.

(d) We have not assessed the methodology applied by OPG, the basis of approval by the OEB, or whether there are residual oversight concerns with respect to the cited example.

With respect to the second question of (d), we believe it is reasonable and appropriate for utilities to seek approval for large capital project budgets that capture significant strategic risks. This is consistent with the recommendations of the Muskrat Falls Report, which we discuss in our Phase Two Report.[3]

[3] Bates White Phase Two Report, paragraphs 138 to 142.