

1 Q. **Reference: Application, 2025 Capital Expenditures Overview, Appendix B - Capital**  
2 **Expenditures and Carryover Report for the Year Ended December 31, 2024, page B.**

3 It is stated "*Most of these over-expenditures associated with estimates are attributed to materials*  
4 *and construction contracts that exceeded the budget estimates, which may be indicative of a*  
5 *general shift in market pricing.*" What is Hydro doing in response to this "general shift in market  
6 pricing"?

7  
8  
9 A. In response to shifts in market pricing for materials and construction contracts, Newfoundland  
10 and Labrador Hydro ("Hydro") ensures that budget estimates take into consideration Hydro's  
11 most recent cost experience from ongoing projects and programs. Due to the timing of project  
12 execution and capital budget activities, there is typically a one-year feedback lag on the impact  
13 of recent experience of market pricing on Hydro's estimates in its capital budgeting process. For  
14 example, budget estimates for the 2026 Capital Budget Application ("CBA") were finalized in the  
15 first quarter of the 2025. For 2025 projects and programs, tendered pricing for materials and  
16 construction is typically obtained late in the first year or in the second year of execution,  
17 following completion of engineering design and tendering activities. As such, the 2025 pricing  
18 would not be available for use to inform CBA estimates until preparation of the 2027 CBA  
19 estimate in early 2026. In efforts to attract best possible pricing and minimize market shift  
20 impacts, Hydro strategically packages its procurement items and goes to market for pricing as  
21 early as possible. Due to the lag between estimate completion and procurement activities, in  
22 addition to high market volatility, in some cases, contract pricing may differ from that assumed  
23 at the time of estimation; in such cases, Hydro reviews alternative analysis and project  
24 justification to ensure the selected alternative remains least-cost, and that the project  
25 justification remains valid before proceeding with the project.