

March 18, 2026

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

Attention: Colleen Jones  
Assistant Board Secretary

**Re: Application for Capital Expenditures for the Life Extension of Bay d'Espoir Unit 7 –  
Hydro's Reply**

On June 20, 2025, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") requesting approval of an Authorized Budget of \$85,346,227, comprising the project budget required for the life extension of Unit 7 of the Bay d'Espoir Hydroelectric Generating Facility ("Bay d'Espoir Unit 7") along with a management reserve to allow Hydro to quickly respond to strategic risks or unforeseen events that are within the project scope.

After a review process that included Hydro providing additional alternative analysis at the request of the Board and providing responses to Requests for Information ("RFI") issued by the Board and Newfoundland Power Inc. ("Newfoundland Power"), the Board set a schedule for comments from the parties and a final reply from Hydro. The Board's correspondence on March 4, 2026 invited comments from the parties on the application, particularly on issues related to the proposed amounts for found work, contingency, and management reserve. Specifically, the Board asked the parties to consider whether the elements of each of those items are reasonable and well defined, whether the distinction between the items is clear, and whether the method of calculation of each item is reasonable.

The Board noted that a management reserve had not previously been approved for a utility project in the province and asked the parties to opine on a number of questions regarding the management reserve. These included:

- 1) Is a management reserve appropriate for this project?
- 2) Is the amount of the proposed management reserve reasonable?
- 3) Is there adequate oversight of the management reserve, or should there be additional oversight by the Board?
- 4) Should a management reserve be included in the approved capital expenditures or, alternatively, should there be an opportunity for an expedited approval process to address significant changes which arise after approval?

The Board also invited the parties to provide comments regarding Hydro's claim of confidential treatment of certain information provided in the application.

The deadline for intervenor comments was Friday, March 13, 2026. As of that date, comments were received from Newfoundland Power, the Island Industrial Customer Group (“IIC Group”), and the Consumer Advocate. The submissions of these intervenors in each of the topics specified by the Board are as follows.

### **Bay d’Espoir Unit 7 Life Extension Project**

#### ***Newfoundland Power***

Newfoundland Power’s submission supports Hydro’s application, noting that Bay d’Espoir Unit 7 is an “essential component of the Island Interconnected System” and the project to extend its life is necessary to maintain the reliability of the Island Interconnected System. Newfoundland Power notes that similar life-extension projects are not unique to the province, citing the examples Hydro had provided in its response to Newfoundland Power’s RFI NP-NLH-001. Newfoundland Power supports Hydro’s position that it must complete the project to prevent the unit from deteriorating to the point of failure and acknowledges that Hydro’s proposed life-extension project reflects established industry practice.

#### ***IIC Group***

The IIC Group did not take a position on the merits of the Bay d’Espoir Unit 7 Life Extension Project, other than the submission on management reserve described below.

#### ***Consumer Advocate***

As with Newfoundland Power, the Consumer Advocate referenced the importance of Bay d’Espoir Unit 7 to the Island Interconnected System. The Consumer Advocate also noted the risks of continuing reliance on the Holyrood Thermal Generating Station beyond 2030, and the high cost of building new assets versus the investment necessary to extend the life of existing assets. The Consumer Advocate recommended that the Board approve the proposed life-extension project scope of work as proposed by Hydro, as soon as possible, to avoid any delays in project execution.

### **Found Work, Contingency, and Management Reserve**

#### ***Newfoundland Power***

Newfoundland Power advised that it does not take issue with the amounts Hydro has proposed for found work, contingency, and management reserve allowances. Newfoundland Power further takes the position that Hydro has reasonably distinguished the purpose of these three categories.

Newfoundland Power, in its submission, does not object to the inclusion of a management reserve for the Bay d’Espoir Unit 7 Life Extension Project, noting that management reserves are recognized by the Association for the Advancement of Cost Engineering International as an acceptable project-management practice and is used in other Canadian jurisdictions for large and complex capital projects. While acknowledging that the use of management reserves is new in this jurisdiction and that formal guidelines have not yet been established, Newfoundland Power considers the proposed management reserve to be not unreasonable in principle, while potentially higher than amounts used in some BC Hydro precedents. Newfoundland Power noted that the Board has the authority to determine whether the management reserve should be included in the approved expenditure for this proposed project, or whether it should be addressed through alternative approval processes. Newfoundland Power stated that in either case, it would be incumbent on Hydro to explain any material variances in its

project costs, whether that be as part of found work, contingency, or management reserve. Regarding management reserve in particular, Newfoundland Power suggested that it may be appropriate for Hydro to inform the Board if events that would trigger usage of the management reserve were to occur, along with the anticipated use of the management reserve and impact on the project.

### ***IIC Group***

The IIC Group did not speak to the found work or contingency aspects of Hydro's proposed expenditures. They also did not take a position on whether a management reserve is appropriate for the Bay d'Espoir Unit 7 Life Extension Project or on the reasonableness of the proposed amount. However, the IIC Group submits that management reserves should not be approved automatically or based solely on project size, but rather assessed on a case-by-case basis where project complexity and execution risk create a reasonable prospect of cost overruns arising from genuine "unknown unknowns." The IIC Group emphasized that approval of a management reserve for one project should not establish a precedent that a management reserve should be approved for all projects, or all projects over a threshold. They submit that any approved reserve should be subject to appropriate Board oversight, with the extent guided by where the project is on the critical path. Early notification would be required if Hydro anticipates accessing the management reserve, along with a post-project prudency review to determine recoverability from ratepayers.

The IIC Group's reasoning for proposing a post-project completion prudency review is that it would allow the full context of the project's execution and achievement of its overall objectives, including the timeliness of completion, to be considered without being subject to the incomplete regulatory scrutiny and deliberation, and possibly incomplete information, that would be caused by time constraints associated with expedited preapproval applications. The IIC Group argued that any approval of the management reserve as part of the approved capital expenditures should be qualified by the possibility that Hydro's usage of the management reserve may not be approved for recovery from ratepayers in a post-project completion prudency review.

### ***Consumer Advocate***

The Consumer Advocate did not take any exception to the inclusion of the found work and contingency allowances in the proposed budget for the Bay d'Espoir Unit 7 Life Extension Project, finding both to be generally used in the jurisdiction and reasonable given the nature of the project.

The Consumer Advocate does not support the inclusion of a management reserve for the Bay d'Espoir Unit 7 Life Extension Project and submits that Hydro has not adequately justified either the need for a management reserve or the proposed amount. The Consumer Advocate does concede that management reserves may help to avoid project delays and resulting cost increases from the necessity of obtaining approval for cost increases during project execution; however, in the Consumer Advocate's view, management reserves are typically associated with high-risk, novel, or greenfield projects, whereas Bay d'Espoir Unit 7 Life Extension Project is a relatively low-risk refurbishment of a long-owned and well-understood facility. The Consumer Advocate also notes that Hydro's familiarity with the facility would reasonably support a higher level of precision in estimation and project management, which appears to infer that a management reserve would only be required to offset less precise estimates and a lower level of project management.

The Consumer Advocate also takes issue with the amount of the proposed management reserve and compares the percentage of the authorized budget proposed by Hydro that is attributable to

management reserve to the percentage for other similar projects in other jurisdictions. If management reserves are to be considered, the Consumer Advocate submits they should be supported by robust benchmarking against comparable projects and, if approved, subject to enhanced and expedited Board oversight. However, the Consumer Advocate ultimately recommends that the management reserve not be included in approved capital expenditures.

### **Confidentiality**

None of the Intervenor's provided submissions regarding Hydro's requested confidentiality for commercially sensitive information in the application or subsequent filings.

### **Hydro's Reply**

#### ***Bay d'Espoir Unit 7 Life Extension Project***

The Bay d'Espoir Unit 7 Life Extension Project is a major capital refurbishment required to ensure the continued safe, reliable, and efficient operation of Hydro's largest generating unit on the Island Interconnected System. Bay d'Espoir Unit 7 is a 150 MW hydroelectric unit that plays a critical role in meeting peak demand, providing synchronous condenser capability for voltage and system stability, and supporting overall system reliability. Independent condition assessments completed by Hatch Ltd. in 2023 identified that key turbine and generator components are approaching the end of service life, with numerous medium- and high-priority deficiencies that cannot be addressed through routine maintenance. Deferral beyond the recommended intervention window in 2028 would materially increase the risk of unplanned outages and extended unavailability, particularly during winter peak periods, with significant reliability and cost implications.

None of the intervenors to this application take issue with the project itself; Newfoundland Power and the Consumer Advocate both support its approval.

Hydro's application and subsequent additional information filed in response to the Board's inquiries and Hydro's responses to the various RFIs have shown that Hydro's proposed approach represents the most cost-effective, least-risk solution to extend the useful life of Bay d'Espoir Unit 7 by at least 25 years while optimizing efficiency and supporting future system planning. The proposed life extension of Unit 7 represents a prudent, strategically timed investment to sustain critical generation capacity, mitigate reliability risks, and ensure continued alignment with Hydro's long-term system planning and operational goals.

#### ***Found Work and Contingency***

Hydro's summary of estimated costs, found at Table 7 of the Basis of Estimate provided as Attachment 1 to Schedule 1 of the application, has specific line items and amounts for found work, contingency, and management reserve. The distinction between these items was described in Schedule 1 to Hydro's application (Section 5.0) and Sections 12 and 13 of Attachment 1 to Schedule 1. They were then specifically described in detail, with examples and specifics as to the processes implemented to ensure costs are not duplicated between the categories, in Hydro's response to RFI PUB-NLH-013.

Newfoundland Power did not have any issue with the amounts proposed for found work or contingency and stated that Hydro had clearly distinguished among the three categories. The Consumer Advocate likewise distinguished among the three categories as described in Hydro's application and did not take

issue with the amounts proposed for found work and contingency. The IIC Group did not speak to the found work or contingency.

Hydro submits that the evidentiary record established through Schedule 1 of the Application and Hydro's responses to RFIs demonstrates that the proposed found work allowance, contingency, and management reserve are clearly defined, non-overlapping, calculated using recognized quantitative methods, and governed by robust internal controls.

### ***Management Reserve***

Management reserve is a separate provision for unknown unknowns and strategic risks (i.e. events that are not identifiable at the time of estimating and that fall outside the project risk register). It is not intended to fund normal scope growth, productivity variation, or found work. In calculating the management reserve, Hydro developed a strategic risk register of high-level risks and assigned low, expected, and high ranges of cost for each risk. These ranges were then used in a Quantitative Risk Analysis ("QRA")<sup>1</sup> using a Monte Carlo Simulation to develop a value for the management reserve. The strategic risk register is included in Appendix C to Schedule 1, Attachment 1 of the application. The management reserve calculated for the Bay d'Espoir Unit 7 project is specific to that project and its risk profile. It is very difficult, and likely misleading, to compare the percentage of the management reserve of the proposed authorized cost for this project to the percentage of management reserve proposed on another project without knowing the particular risk profile of that project.

The Bay d'Espoir Unit 7 life extension is a major refurbishment of Hydro's largest generating unit on the Island Interconnected System and is time-constrained by a non-winter outage window. It is dependent on long-lead equipment, multiple contract resources, complex project interfaces, and system-wide outage coordination. Large hydro refurbishment projects are generally lower risk than new builds but still carry material risk to cost and schedule, primarily driven by asset age, unknown condition, the complexity of integrating new technology into legacy infrastructure and the procurement challenges associated with a limited number of highly specialized vendors required for replacement parts and technical expertise. This project faces credible strategic risks that cannot be fully anticipated or mitigated through contingency alone; events that, if not addressed immediately, could force the project beyond the outage window. There does not appear to be any disagreement that the project carries execution risk; therefore, the question is how it is most prudently managed in the interests of customers.

While benchmarking against comparable projects, as suggested by the Consumer Advocate, can provide a helpful perspective about what management reserves similar projects may have carried, it is not and should not be the basis for calculating it. No two projects have identical risk profiles. Differences in scope, location, schedule, regulatory environment, or execution model can make benchmarks misleading. Benchmarking can lead to the management reserve being either higher or lower than warranted if not adjusted. Management reserve is typically tied to unknown-unknowns (as opposed to contingency, which covers identified risks), and the stronger methodology, as utilized by Hydro, is to complete a project-specific risk—and probability-based analysis to quantify overall risk exposure and uncertainty.

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<sup>1</sup> A risk analysis used to estimate a numerical value (usually probabilistic) on risk outcomes wherein risk probabilities of occurrence and impact values are used directly.

The IIC Group's position is that the use of a management reserve should be considered on a case-by-case basis. Hydro agrees that each project should be considered separately, with its own analysis. Hydro takes the position that management reserve should always be calculated to fully understand the potential impact of strategic risks on the project cost. The decision to request approval of it as part of the project's authorized cost should be made on a case-by-case basis, considering all risks associated with the specific project and the prudent flexibility that an approved management reserve provides in allowing Hydro to address realized strategic risks in a timely manner, reducing the potential for disruption or cost escalation that could arise from delays inherent in seeking separate regulatory approval for each unforeseen event. While it is Hydro's position that it is prudent to seek approval of an authorized budget inclusive of management reserve for its Major Projects, other factors, such as commercial sensitivity, must be considered when deciding whether to seek approval of the management reserve. For projects where the commercial risk associated with requesting approval of the management reserve outweighs the risk associated with omitting the management reserve, Hydro may not pursue approval of the management reserve.

While increased familiarity with the facility can reasonably be expected to improve estimate accuracy and project execution, as suggested by the Consumer Advocate, it does not eliminate the uncertainty that is associated with "unknown unknown" strategic risks inherent in project completion. Management reserve is not intended to compensate for deficiencies in estimating or project management; instead, it provides for unforeseen conditions and risks that are not reasonably identifiable at the time of estimate development.

Hydro recognizes that the use of management reserve funds must occur within a governance structure that ensures appropriate accountability, transparency, and Board visibility. Hydro's established project governance framework requires any potential requirement for management reserve to first be identified through the initiation of a Deviation Alert Notice, which provides early visibility of emerging risks or deviations from project assumptions. If further analysis confirms that a deviation requires a change to project scope, cost, or schedule, a Project Change Notice ("PCN") is developed and brought forward to the Major Projects Change Control Committee for consideration. The PCN provides the justification for the change, an assessment of impacts, and a proposed implementation plan. If a change requires the use of management reserve, approval would be sought in accordance with Hydro's financial authorization levels, which include senior executive authorization.

Hydro recognizes that the Board has broad discretion over the process and reporting requirements related to management reserve. Hydro strongly believes that management reserve is necessary to mitigate the potential impact of strategic risks on project cost and schedule, and should be approved. Hydro does not oppose the process to support Board oversight of the use of the management reserve, including:

- Providing notice to the Board 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.
- Providing notice to the Board 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 prudence as issues arise rather than deferring review to the end of the project.

While the IIC Group discussed post-project review versus pre-approval applications, Hydro believes that approval of the management reserve as part of the proposed authorized cost, with a defined process that would allow for a particular use of the management reserve to be addressed contemporaneously with the draw, supports clear and efficient oversight and ensures that decisions are assessed based on the information available at the time.

Hydro strongly believes that if or when Hydro makes the determination that the use of the management reserve is likely to be required, and notifies the Board, it is at this stage that the Board can examine the circumstances of the use of the management reserve and its prudence. Having the Board review the use of the management reserve at the time it is utilized allows the determination that the access of the funds was prudent and in line with the purpose of the management reserve, and that the related expenditure can be recovered from customers along with the rest of the approved and prudently incurred costs of the project. This "no-hindsight" approach, which is generally utilized in Canadian utility regulation, ensures that evidence focuses on the facts known to the utility at the time of the expenditure.

Hydro submits that the management reserve is appropriate for this project, and the amount of the management reserve, calculated appropriately as described above, is also reasonable. Hydro believes that its established project governance framework provides robust oversight; however, Hydro recognizes the Board's role and interest in the process and use of the management reserve and believes that there is opportunity for oversight by the Board while allowing the management reserve to function as intended to allow for the mitigation of the delays and the resulting cost implications of a circumstance when an unforeseen circumstance were to arise. While there are certain specific cases where a request for approval of management reserve as part of the project Authorized Budget is not made, as detailed above, and an expedited approval process for the Board to approve significant changes after initial approval could suffice, this project is not a scenario where that is the case. Commercial sensitivities related to the request for a management reserve are not a particular issue here. Bay d'Espoir Unit 7 will require multiple contracts for specialized services, and its procurement will be complex and higher risk due to the lower availability of these contractors as compared to other projects requiring general civil contractors that tend to be more readily available. The nature of the work and the size of the unit make this project complex, and addressing any "unknown unknowns" that may arise is more time sensitive.

Given the project complexity, procurement risk, reliance on multiple, potentially global contract resources, and complex project interfaces, in this case, pausing critical project activities to allow for additional regulatory approval—whether expedited or not—poses undue risk to the project schedule and cost.

### ***Confidentiality***

No intervenor commented on Hydro's request for confidentiality of commercially sensitive information in the application and the subsequent filings during the review process. Hydro maintains that the confidentiality claims are reasonable and necessary. The information that Hydro requests to remain confidential, including detailed cost breakdowns, contingencies, and reserve amounts, would signal budget headroom to bidders; undermine competitive tension; and increase claims-oriented behaviour, particularly during procurement.

The sections that the Board has identified, in particular, contain detailed cost, schedule, execution, and risk information that is integral to Hydro's competitive procurement and project delivery strategy. Public disclosure would reasonably be expected to prejudice Hydro's commercial position and increase project costs. The confidential content can be summarized as follows.

**Schedule 1, pages 16, 20, 22, 26, 27**

These sections present project-level cost composition and risk allowances, including:

- The breakdown and relative magnitude of base costs, found work allowance, contingency, and management reserve;
- Narrative explanations linking these allowances to specific project risks and execution assumptions; and
- Discussion of how uncertainty and risk exposure vary across major work components.

Public disclosure of this information would signal Hydro's internal assessment of cost flexibility and risk tolerance, which could influence bidder pricing and claims behaviour.

**Schedule 1, Attachment 1, pages 5, 6, 21–28, 36–40**

These pages form part of the Basis of Estimate, which documents:

- Key estimating assumptions, exclusions, and methodologies;
- Unit pricing logic, productivity assumptions, and labour strategies;
- Risk identification and QRA inputs used to derive contingency and management reserve; and
- The rationale for selected confidence levels.

This material reveals Hydro's internal estimating methodologies, cost structures, and risk modelling, which are not typically disclosed during active or upcoming procurement processes due to the impact on negotiating position and leverage.

**Schedule 1, Attachment 2, pages 13–14**

The confidential portions of the Project Charter address:

- Execution strategy, including sequencing, interface management, and resourcing assumptions;
- Internal governance and escalation pathways for cost and schedule changes; and
- Strategic considerations related to outage coordination and system reliability.

Disclosure would provide contractors with insight into Hydro's execution constraints and decision thresholds, potentially undermining Hydro's negotiating position.

**Schedule 1, Attachment 3, pages 10, 13, 18–19**

These sections contain schedule-critical information, including:

- Identification of critical path activities and schedule drivers;
- Assumptions regarding outage windows, procurement lead times, and commissioning constraints; and

- The location and magnitude of schedule contingency embedded within the plan.

Public access to this information could:

- Reduce contractor incentives to optimize schedules;
- Increase the likelihood of delay claims; and
- Provide leverage in negotiations where schedule pressure is known.

**RFI Responses: PUB-NLH-005, 006, 009, and 013**

The identified RFI responses include:

- Detailed explanations of how the found work allowance, contingency, and management reserve were calculated and segregated;
- Quantitative and qualitative risk information used in the Monte Carlo analysis;
- Cost drivers associated with schedule delay, escalation, and interest during construction; and
- Examples of potential strategic risks and their financial implications.

These responses expand on the confidential estimating and risk material in Schedule 1 and would similarly reveal Hydro's internal cost sensitivities and risk exposure.

Across all of these sections, the confidential information shares common characteristics:

- It discloses internal cost estimates, risk assessments, and execution assumptions;
- It would reasonably be expected to influence bidder behaviour, weaken competitive tension, and increase claims activity if made public; and
- It is information that utilities and owners do not normally disclose during procurement for major capital projects.

Hydro has ensured regulatory transparency by providing the Board with all materials, also provided to the Intervenor to this application who have signed non-disclosure agreements ("NDA"), thereby enabling full scrutiny of prudence, reasonableness, and governance without exposing customers to the risk of higher costs through impacted procurement outcomes.

Hydro submits that confidentiality in this context protects customers by preserving Hydro's ability to obtain goods and services at the least cost. The Board and the intervenors who have executed NDAs retain access to unredacted information for regulatory oversight.

**Conclusion**

For the reasons set out above, Hydro respectfully submits that the Bay d'Espoir Unit 7 Life Extension Project, including the management reserve, is prudent, reasonable, and necessary to ensure the continued reliability of the Island Interconnected System at least cost to customers. The management reserve is project-specific, calculated using quantitative risk analysis, and subject to strong internal governance and Board visibility. Approving the management reserve as part of the Authorized Cost will reduce execution risk, avoid materially higher costs arising from delay, and ensure that decisions made to address unforeseen strategic risks can be assessed for prudence based on the information available at the time.

Hydro therefore requests that the Board approve the application as filed.

Should you have any questions, please contact the undersigned.

Yours truly,

**NEWFOUNDLAND AND LABRADOR HYDRO**



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