

March 13, 2026

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

Attention: Colleen Jones  
Assistant Board Secretary

Dear Ms. Jones:

**Re: Newfoundland and Labrador Hydro (“Hydro”) – Application for Capital Expenditures for the Life Extension of Bay d’Espoir Unit 7 – Comments of Newfoundland Power Inc. (“Newfoundland Power” or the “Company”)**

## **A. Introduction**

Hydro filed its *Application for Capital Expenditures for the Life Extension of Bay d’Espoir Unit 7* (“BDE Unit 7 Life Extension Application”) with the Newfoundland and Labrador Board of Commissioners of Public Utilities (the “Board”) on June 20, 2025. The BDE Unit 7 Life Extension Application requests approval of a total overall authorized budget of \$85.3 million for the life extension of Unit 7 at the Bay d’Espoir Hydro Electric Generating Station.<sup>1</sup>

The Board set today’s date as the deadline for comments from parties. These are Newfoundland Power’s comments with respect to the BDE Unit 7 Life Extension Application.

## **B. The Application**

Bay d’Espoir Unit 7, commissioned in 1977 and located in Powerhouse 2, currently provides 154 MW of firm generation capacity on the Island Interconnected System and produces an average of 835 GWh of energy annually. Unit 7 is Hydro’s largest hydroelectric generator with many of the critical components having typical service lives ranging from 40 to 55 years.<sup>2</sup>

Hydro is proposing to refurbish and replace major components that are at or approaching end-of-life, extending the unit’s service life by at least 25 years.<sup>3</sup> In 2023, Hydro retained Hatch Ltd. (“Hatch”) to conduct a Level 2 Condition Assessment to validate prior inspections and identify the work required to preserve the unit’s integrity. Hatch’s report, delivered in 2024, confirmed that several components are near the end of their reliable service life and recommended significant refurbishment and replacement within five years.<sup>4</sup> Hydro proposes an Authorized

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<sup>1</sup> BDE Unit 7 Life Extension Application, Application, page 3, paragraph 10.

<sup>2</sup> BDE Unit 7 Life Extension Application, Schedule 1, page i, lines 1-8.

<sup>3</sup> BDE Unit 7 Life Extension Application, Schedule 1, page i, lines 9-12.

<sup>4</sup> BDE Unit 7 Life Extension Application, Application, pages 1-2, paragraphs 3-4.

### **Newfoundland Power Inc.**

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Budget of approximately \$85.3 million which includes both the Planned Project Budget and a Management Reserve.<sup>5</sup> Hydro is proposing the project over a four-year project timeline to allow for detailed engineering and planning activities and for the procurement of long-lead items, such as the turbine runner.<sup>6</sup>

Hydro cautions that deferring this work poses a significant risk of equipment failure, extended forced outage, and the loss of 154 MW of capacity from the Island Interconnected system.<sup>7</sup>

### **C. Newfoundland Power's Comments**

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

Newfoundland Power has been an active participant in Hydro's Reliability and Resource Adequacy Study Review since it was first established.<sup>8</sup> The Company agrees that Unit 7 is an essential component of the Island Interconnected System and must continue to be maintained and operated reliably into the future.

Life-extension projects for aging hydroelectric units are not unique to Newfoundland and Labrador. Hydro provided examples of similar initiatives across Canada, including Nova Scotia's Wreck Cove modernization, Ontario Power Generation's refurbishment of eight hydro stations, and SaskPower's Coteau Creek project.<sup>9</sup> These projects involve significant investment and address units similar in age to Bay d'Espoir Unit 7. While Hydro has not provided a direct comparison to the Unit 7 life extension project, Hydro's proposed budget of approximately \$85.3 million appears broadly consistent with the scale of investment required for the referenced projects.

Newfoundland Power agrees that the Bay d'Espoir Unit 7 Life Extension Project is necessary to maintain the reliability of the Island Interconnected System. The Company supports Hydro's assessment that Unit 7 is a critical asset that cannot be allowed to deteriorate to the point of failure. The Company further acknowledges that similar life-extension projects have been or are currently being undertaken by other Canadian utilities for assets of comparable age, size, and cost, confirming that Hydro's proposal reflects established industry practice. For these reasons, Newfoundland Power supports Hydro's Application.

#### ***Management Reserve***

Newfoundland Power notes that, as described by Hydro in its responses to Requests for Information filed in this proceeding, the use of management reserves is not unique to this

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<sup>5</sup> BDE Unit 7 Life Extension Application, Application, page 3, paragraph 10.

<sup>6</sup> BDE Unit 7 Life Extension Application, Schedule 1, page 5, lines 4-5.

<sup>7</sup> BDE Unit 7 Life Extension Application, Schedule 1, page 4, lines 24-27.

<sup>8</sup> Hydro filed its first Reliability and Resource Adequacy Study on November 16, 2018.

<sup>9</sup> NP-NLH-001.

application and is considered in other jurisdictions, particularly British Columbia (“BC”), as a means of addressing project-level uncertainty and execution risk on large and complex capital projects.<sup>10</sup> In that context, the concept of a management reserve is not, in and of itself, inconsistent with recognized project management practices in other Canadian jurisdictions.

Newfoundland Power observes that the inclusion of a management reserve to estimate project costs in this jurisdiction is a recent development. As such, guidance for estimating and including a management reserve in a capital budget project cost estimate have not been established.<sup>11</sup> While there are currently no guidelines in place respecting the establishment of a management reserve, the Company recognizes that there may be unforeseen risks outside of the control of Hydro that could materialize over the four-year timeframe required to complete the work. In addition, Newfoundland Power also observes that the use of management reserves is recognized as an acceptable practice by the Association for the Advancement of Cost Engineering International and is used in other Canadian jurisdictions. For these reasons, the Company does not object to the establishment of a management reserve for the Unit 7 Life Extension Project.

With respect to the Board’s request for comments regarding the proposed amounts for the found work, contingency and the management reserve allowances, the Company does not take issue with the proposed found work and contingency amounts. In PUB-NLH-007, Hydro referenced BC and BC Hydro in its response to the Board’s inquiry of other Canadian regulatory jurisdictions having approved management reserves in capital project budget proposals. It appears that BC Hydro has used contingency amounts that are generally aligned with Hydro’s proposed found work and contingency amounts.<sup>12</sup> While the management reserve amount generally does not appear unreasonable, Newfoundland Power does observe it is higher than management reserve amounts previously used by BC Hydro.<sup>13</sup> The Company is not in a position to specifically address the method used by Hydro to determine its proposed management reserve amount.

Further, in the Company’s view, Hydro has reasonably distinguished the purpose of the management reserve from the found work and contingency allowances.<sup>14</sup> Hydro has explicitly stated that the management reserve is “...a separate budget allocation established to address unknown unknowns, events that are unforeseen and outside the identified risk profile, or strategic risk events. Examples might include regulatory or code changes, major supplier

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<sup>10</sup> PUB-NLH-007.

<sup>11</sup> See the Board’s March 4, 2026 letter *Re: Newfoundland and Labrador Hydro – Application for Capital Expenditures for the Life Extension of Bay d’Espoir Unit 7 – Revised Schedule*.

<sup>12</sup> As part of a sample completed by the Government of BC in 2011, it was stated “In our sample, we noted one contingency of 4% and the remainder ranged from 10 to 20% of direct construction costs. Project reserves also accounted for an additional 13% of the expected budget.” See page 78 of the publication, *Review of BC Hydro, June 2011* prepared by the Government of BC. The Company notes that Hydro does not provide exhaustive jurisdictional research of management reserves in Canada in PUB-NLH-007 nor has Newfoundland Power completed such an analysis for the purposes of these comments.

<sup>13</sup> *Ibid.*

<sup>14</sup> PUB-NLH-013.

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*insolvency, geopolitical events, or a significant change in project execution strategy.*<sup>15</sup> From this, Newfoundland Power infers that the management reserve is only applicable to material cost changes that could not have been anticipated and specifically budgeted at this time, but could possibly materialize over the four-year project timeframe.

Overall, the establishment of a management reserve in a project cost estimate does not diminish the ability of the Board to determine whether any project costs were prudent or imprudent, regardless of whether they are a part of the management reserve or base cost estimate of the project. Further, the Board has the authority to determine whether such amounts should be included in approved capital expenditures, subject to defined oversight mechanisms, or addressed through alternative approval processes.<sup>16</sup> Regardless of the approach taken by the Board, the onus is on Hydro to explain any material variances in its project costs. More specifically, it would be anticipated that variances in each area of found work, contingency and the management reserve would be provided by Hydro to assist the Board in its oversight of this major project. Further, given the purpose of the management reserve is to address significant events that are unknown at this time, it may also be appropriate for Hydro to inform the Board in a timely manner if such events materialize, including the anticipated impact on the project and use of the management reserve.

#### **D. Concluding**

We trust this is in order. If you have any questions regarding the enclosed, please contact the undersigned.

Yours truly,



Dominic Foley  
Legal Counsel

Enclosures

ec. Shirley A. Walsh  
Newfoundland and Labrador Hydro

Paul Coxworthy  
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<sup>15</sup> *Ibid.*, page 2, lines 22-25.

<sup>16</sup> Guidance relevant to this is outlined in section V.A.6 of the Board's provisional *Capital Budget Application Filing Guidelines*.