

1 Q. **Reference: Schedule 1, Attachment 11, Page 19 of 29.**

2 a) Provide a detailed description of Performance Security and the basis for the estimated cost  
3 of this component.

4 b) Is the cost estimated for Performance Security included in the Base Cost Estimate used in  
5 the quantitative risk assessment that ultimately led to the estimate for Contingency? If yes,  
6 please explain why this is an appropriate treatment for this cost component.

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9 A. a) Performance Security provides the Owner with a broad level of assurance that the  
10 Contractor fulfills the obligations outlined in an agreement. Specifically, Newfoundland and  
11 Labrador Hydro ("Hydro") uses Performance Security to protect against a contractor's  
12 failure to meet certain execution, technical, and/or schedule requirements and to discharge  
13 liens or pay subcontractors.

14 For civil agreements, Hydro typically employs one (or a combination of) industry-standard  
15 Performance Security instruments, including but not limited to the following:

16 • **Performance Bond:** Issued typically by an insurance company and generally used to  
17 guarantee the successful completion of Contractor obligations in an agreement.

18 • **Labour and Materials Payment Bond:** Issued typically by an insurance company and  
19 generally used to guarantee the payment of subcontractors and the vacating of any liens  
20 on a project that are associated with a Contractor's performance of work.

21 • **Letter of Credit:** Issued typically by a Canadian chartered bank and generally used to  
22 provide a financial guarantee that a Contractor will satisfy its obligations in the  
23 agreement.

24 • **Parent Guarantee:** Issued by the Parent entity of the Contractor and generally used to  
25 supplement a Contractor's financial position by providing broader guarantees of  
26 performance.

1           The exact Performance Security instruments employed in an agreement and the level of  
2           protection they provide are often decided through a risk/credit worthiness assessment  
3           performed by Owner and are influenced by discussions during the negotiation phase of the  
4           procurement process.

5           For the Penstock 3 Weld Refurbishment and Section Replacement Project (“Penstock 3  
6           Project”), to estimate a value for the performance security, Hydro determined the ratio of  
7           the value of the performance security in the Penstock 1 Weld Refurbishment and Section  
8           Replacement Project to the value of the construction contract for that project. Hydro then  
9           applied that ratio to the Penstock 3 Project. As noted herein, the exact Performance Security  
10          instruments used and their associated value will be determined through the procurement  
11          process for the Penstock 3 Project.

12          **b)** The cost estimated for Performance Security is included in the Base Cost Estimate used in  
13          the Quantitative Risk Assessment (“QRA”).<sup>1</sup> The Performance Security is considered part of  
14          the construction contract. During the QRA, cost ranges for the construction contract were  
15          included in the Monte Carlo Simulation (“MCS”). Because the value of the Performance  
16          Security will likely vary in proportion to the construction contract, it is considered  
17          appropriate to also include the Performance Security in the MCS.

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<sup>1</sup> “Section Replacement and Weld Refurbishment – Bay d’Espoir Penstock 3,” Newfoundland and Labrador Hydro, March 12, 2026, sch. 1, att. 11, p. 24 of 29.