Q. **Reference: Replace Heavy-Duty Vehicles 2027 - 2028**

It is stated "*To mitigate these uncertainties, Hydro has increased the amount of contingency included within this proposal to approximately 20%*." Why is this necessary given that Hydro simply informs the Board if actual costs turn out to be greater than budget in its next Capital Expenditures and Carryover Report?

A. Newfoundland and Labrador Hydro ("Hydro") includes contingency in its capital estimates as a normal and prudent project management and cost-estimating practice. Contingency represents an allowance for uncertainty associated with executing the approved scope of work. Consistent with accepted estimating practice, contingency recognizes that uncertain items, conditions, or events are expected, in aggregate, to result in additional costs, although the specific items giving rise to those costs cannot be known with certainty at the time the estimate is prepared. Including a reasonable contingency allowance in the proposed budget allows the Board of Commissioners of Public Utilities ("Board") to review and assess, in advance, Hydro's estimate of the cost uncertainty associated with executing the approved scope of work and to provide any direction it considers appropriate with full visibility of the expected cost range. By contrast, excluding contingency from the initial estimate would defer consideration of known cost uncertainty until after it materializes, potentially requiring subsequent applications for additional funding.

For the Replace Heavy-Duty Vehicles program, Hydro has identified greater-than-normal uncertainty in vehicle and equipment pricing and has therefore included a higher contingency allowance than would typically be applied. The approximately 20% contingency reflects that increased pricing uncertainty and is intended to ensure that the proposed budget reasonably reflects the expected cost of executing the approved scope. Its inclusion does not mean that every identified pricing risk will materialize or that the full contingency will necessarily be spent; rather, it reflects Hydro's estimate of the aggregate cost uncertainty associated with the program.

Excluding a reasonable allowance for known uncertainty would knowingly understate the expected cost of the proposed work and increase the likelihood that Hydro would be required to return to the Board for additional approval once firm supplier or contract pricing becomes available. In Hydro’s view, it is more prudent and regulatorily efficient to submit a reasonable estimate that reflects expected cost uncertainty than to systematically exclude contingency and rely on subsequent applications for cost increases associated with execution of the same approved scope.

Repeated supplemental applications for cost increases within an otherwise unchanged scope can create additional regulatory and administrative costs and may delay procurement or project execution, neither of which is in customers’ interests. The inclusion of contingency does not provide Hydro with authority to materially alter the approved scope of work, and where costs increase beyond the approved amount to a level requiring further Board approval, Hydro will seek that approval in accordance with the applicable regulatory requirements.