Q. **Reference: Schedule 5, 2026 Capital Expenditures Overview**

a) Provide a table listing the number of projects, including project titles, that are over budget by 10%, 20%, 30%, 40% and 50% or more.

b) Explain how Hydro determines when a project must be reconsidered and alternatives evaluated due to a cost increase, including whether there is an expenditure or variance threshold that trigger internal review and approval and the level of management authority required to approve expenditures beyond the Board approved amount.

c) Explain how Hydro determines when it will notify the Board of a variance to the approved budget, including the circumstances in which Hydro may continue to incur expenditures above the approved budget without further Board approval, when a supplemental application or other Board approval is required, and how such variances are monitored and reported to the Board.

A. **a)** Table 1 provides a listing of projects and programs that are forecast to exceed budget by 10% or more. This Table does not include expenditures related to Major Projects currently before the Board of Commissioners of Public Utilities ("Board").

As Newfoundland and Labrador Hydro's ("Hydro") 2026 Capital Expenditures Overview is a mid-year report, variances are based on focused management and re-forecasting efforts and are subject to change throughout the year as the projects and programs proceed. Actual variances at the completion of each project and program will be discussed in the 2026 Capital Expenditures and Carryover Report when annual expenditures are final. Hydro continues to review its capital budget planning and execution methodologies and uses its expenditures analysis to identify opportunities to reduce capital expenditure variances in future years.

Table 1: Projects and Programs Forecast to Exceed Budget by More Than 10%

Project/Program Description	Total Budget ($000)	Total Forecast ($000)	Forecast Variance ($000)	Forecast Variance (%)
Distribution System In-Service Failures, Miscellaneous Upgrades and Street Lights (2026)	6,115	6,706	591	10%
Renew Circuit Breakers (2025–2026)	2,661	2,944	283	11%
Additions for Load Growth - Unit 2065 Replacement and Fuel Storage Upgrades (2024–2027) - Rigolet[1]	3,429	3,844	415	12%
Replace Mobile Equipment (2025–2027)[2]	4,648	5,231	583	13%
Replace Powerhouse 1 Roof (2024–2025) - Bay d'Espoir	1,959	2,328	369	19%
Replace VHF Radio System (2024–2025)	1,552	1,858	306	20%
Replace Light- and Heavy-Duty Vehicles (2024–2026)	6,761	8,241	1,479	22%
Refurbish Intake 2 (2025–2026) - Bay d'Espoir	3,354	4,093	739	22%
Overhaul Diesel Units (2026)	2,354	3,011	658	28%
Replace Diesel Gensets (2024–2026)	3,418	4,417	998	29%
Replace Unit 2047 (2021–2023) - Ramea	2,437	3,167	731	30%
Upgrade Distribution (2024–2025) - Bay d'Espoir Terminal Station 2	425	567	142	34%
Install Ultra-Fast DC Electric Vehicle Chargers (2023–2025) - Supplemental	2,060	2,780	720	35%
Wabush Terminal Station Upgrades (2021–2024)	12,678	17,172	4,494	35%
Refurbish Control Structure (2021–2025) – Ebbegunbaeg	17,679	23,954	6,275	35%
Upgrade Power Transformers (2025–2026)	1,986	2,732	746	38%
Diesel Genset Replacement Program (2023–2025)	2,408	3,457	1,049	44%
Overhaul Turbine and Valves - Unit 3 (2025) - Holyrood	15,976	23,362	7,386	46%
Replace Human Machine Interface (2025) - Stephenville	277	438	161	58%
Refurbish Control Building (2024–2025) - Grandy Brook and Doyles	554	914	360	65%
Replace Circuit Breaker Reclosing Controllers (2023–2024) - Hardwoods	231	412	181	78%
Upgrade Water and Fire Suppression Systems (2023–2024) - Bishop's Falls	3,240	5,800	2,560	79%
Update Flame Scanners - Unit 3 (2025) - Holyrood	141	276	135	96%
Perform Level 2 Condition Assessment - Unit 7 Intake and Draft Tube (2025) - Bay d'Espoir	472	1,123	651	138%
Replace Annunciator - Phase 2 (2024–2025) - Bay d'Espoir	482	1,163	681	141%
Upgrade Instrumentation (2024–2025) - Hardwoods Gas Turbine	218	553	335	154%
Replace Instrument Transformers (2025–2026)	469	1,396	927	198%
Diesel In-Service Failures (2026)	817	2,974	2,157	264%

b) Hydro does not apply a single expenditure or percentage-variance threshold in determining whether a project should be paused and alternatives re-evaluated. Cost increases are assessed case by case through Hydro's project change-management processes, considering factors such as the magnitude of the increase, project materiality, reason for the variance,

[1] This project budget is updated as part of the 2027 Capital Budget Application ("CBA").
[2] This program budget is updated as part of the 2027 CBA.

status of execution, whether the approved scope or rationale has changed, and whether the increase could affect the relative economics of the alternatives considered. Hydro may also apply greater scrutiny to certain projects based on their circumstances, including investments at Holyrood given the shorter remaining operating life of the facility.

Consistent with Hydro's policy for authorization and procurement of commodities, the level of internal approval required depends on materiality, with Director- or Vice-President-level approval required as applicable. Further, any individual project increase of $5 million or more requires approval by the Hydro Board of Directors.

c) The Capital Budget Application Guidelines (Provisional) ("Guidelines") includes the following for multi-year projects[3]:

> The proposed expenditures for each year of a multi-year project will be considered together in the initial year of the application. Where a utility confirms in its capital budget application in subsequent years that the scope, nature and magnitude of the project continues to be consistent with the original approval, further approval of the project is not required. If there is a material change in a subsequent year the expenditures will be subject to further review. A change will be considered material if the nature or scope of the project changes such that that original rationale provided is no longer applicable or where the revised forecast expenditure exceeds the approved amount by 10% or more.

The Guidelines do not provide specific guidance for single year projects.

Hydro considers budget increases on a case by case basis to determine the materiality. Relevant factors include the absolute and percentage increase, whether the approved scope and rationale remain unchanged, whether the alternatives remain valid, contractual commitments already made, and the consequences of delaying or stopping the work. Where Hydro determines that a change is material, it may seek further approval through a supplemental application or other appropriate filing. Otherwise, Hydro may continue execution and report the variance through its established regulatory reporting processes.

[3] "Capital Budget Application Guidelines (Provisional)," Board of Commissioners of Public Utilities, January 2022, p. 5.

Actual expenditure variances are monitored through Hydro’s project-management and forecasting processes and reported to the Board in accordance with the applicable Guidelines, including the annual Capital Expenditures and Carryover Report.