Q. **Reference: Overhaul Diesel Units (2026), pages 8 and 9**

The advancement of materials procurement into 2026 is identified for three units scheduled for overhaul in 2027 at Paradise River (Unit 2094), Postville (Unit 2096) and Rigolet (Unit 2101).

a) The Overhaul Diesel Units (2026) program approved in the 2026 Capital Budget Application identified that overhauls were required for diesel gensets at Paradise River (Unit 585), Postville (Unit 2084) and Rigolet (Unit 2081). Are these the same diesel gensets identified here by different unit designations?

b) The Renew Diesel Units (2027) Program includes only Postville (Unit 2096) among the proposed 2027 units. Will the overhauls at Paradise River and Rigolet be completed under another program or project?

c) Provide the expenditure amount for materials procured in 2026 for the Paradise River, Postville and Rigolet units and explain how those expenditures are incorporated into the 2027 project or program estimates.

d) Explain how Hydro determined that purchasing replacement engines in advance of Board approval would not presume the outcome of the Board's consideration of the associated future capital work.

(e) How does Hydro treat capital expenditures made in advance of project approval?

(f) Are there other examples in the 2027 CBA where similar decisions were made to procure equipment in advance of project approval?

A. **a)** No. The diesel units that have been advanced for procurement in 2026 (Paradise River Unit 2094, Postville Unit 2096 and Rigolet Unit 2101) are different units than those scheduled for overhaul in 2026 as listed in the 2026 Capital Budget Application ("CBA") (Paradise River Unit 585, Postville Unit 2084 and Rigolet Unit 2081).

b) The overhaul of Paradise River Unit 2094 was excluded from the 2027 budget proposal as the unit experienced a failure in 2026 and is being replaced under the Diesel In-Service

Failures ("ISF") program in 2026 using an available spare engine. An overhaul in 2027 is no longer required and the engine ordered in 2026 for that purpose will be utilized to replenish the spare under the Diesel ISF program.

The overhaul of Rigolet Unit 2101 was excluded from the 2027 budget proposal as there was a tentative plan to advance the work into 2026 due to the operating hours of the unit being higher than anticipated. However, it was subsequently determined that the work can not proceed until unit switchgear upgrades are completed on a separate ongoing project titled Additions for Load Growth – Unit 2065 Replacement and Fuel Storage Upgrades (2024–2027). The overhaul could not be advanced to 2026 and is planned to proceed in 2027.

c) The three new engines are expected to be received in 2026 at costs of $69,500 for Paradise River Unit 2094, $106,000 for Postville Unit 2096 and $125,000 for Rigolet Unit 2101.

If the Postville and Rigolet units are received in 2026 as expected, the costs will be recorded as actual expenditures on the Overhaul Diesel Units (2026) program and will be financially treated as "work-in-progress" until the units are installed. Installation costs for the Postville and Rigolet units will be recorded as actual expenditures on the Renew Diesel Units (2027) program, if installation proceeds as planned in 2027.

If the Paradise River unit is received in 2026 as expected, it will become a capital spare and the cost will be recorded as actual expenditures on the Diesel ISF (2026) program.

d) Newfoundland and Labrador Hydro's ("Hydro") annual diesel overhaul programs are structured as single-year programs for administrative and execution efficiency. Where long lead times create a reliability risk, Hydro may advance procurement of major materials or replacement engines required for a subsequent year's planned overhaul. In this case, procurement of the three replacement engines was advanced to 2026 to mitigate reliability risk through the 2026–2027 winter period.

Advancing procurement does not presume the outcome of the Board of Commissioners of Public Utilities ("Board") consideration of the subsequent capital work. Board approval is required, where applicable, for the subsequent project or program expenditures. Hydro assumes the risk associated with the early procurement. If the associated work is not approved or ultimately does not proceed, Hydro would determine the appropriate alternative use or disposition of the procured equipment. The units proposed for advancement are standard units with use cases across Hydro's system.

e) Expenditures incurred in advance of the associated project being approved and placed in service are limited to materials purchases and generally recorded as work-in-progress and are not included in rate base as an in-service capital asset until the applicable asset is placed in service. Hydro has previously applied this treatment where expenditures were incurred for work that might be incorporated into a future approved project.

f) Hydro has not identified another instance in the 2027 CBA that is directly comparable to the advancement of the three diesel replacement engines prior to approval of the associated 2027 overhaul program.

There are, however, examples of procurement or expenditures being advanced within projects that had already received Board approval. For example, the Rigolet Unit 2065 and fuel storage project had procurement and installation activities advanced from later years of an already approved multi-year project. Those circumstances differ from the procurement referenced in this request because the underlying project had already been approved.