Q. **Reference: Perform Major Inspection – Synchronous Condenser 2 (2025–2026) – Wabush, page B-55**

The original project budget was for $22,800 in 2025 and $572,800 in 2026, for a total project budget of $595,600.

(a) Provide a table showing the budget, expenditures and variance for both years of the multi-year project incorporating the expenditures associated with the unexpected failure of the Synchronous Condenser 2 rotor poles.

(b) Explain why the Allowance for Unforeseen Items was not used for the expenditures related to the failure of the Synchronous Condenser 2 rotor poles.

A. **a)** The budget for this 2025–2026 program approved in the 2025 Capital Budget Application (“CBA”) was updated from $595,600 to $1,271,800 as part of the 2026 CBA as a result of the additional expenditures associated with the failure of the Synchronous Condenser 2 (“SC2”) rotor poles. Table 1 below shows the variances against the original budget as submitted in the 2025 CBA. Table 2 shows the variances against the updated budget as submitted in the 2026 CBA. The Expenditures and Forecast in both tables include those costs associated with the unexpected failure of the SC2 rotor poles.

Table 1: Expenditures and Forecast Compared to the Original Approved Budget – Perform Major Inspection – Synchronous Condenser 2 (2025–2026)

Variance Type	Original Approved Budget ($000)	Expenditures and Forecast ($000)	Variance ($000)
2025	22.8	850.5	827.7
2026	572.8	421.3	(151.5)
Project	595.6	1,271.8	676.2

Table 2: Expenditures and Forecast Compared to the Updated Approved Budget – Perform Major Inspection – Synchronous Condenser 2 (2025–2026)

Variance Type	Updated Approved Budget ($000)	Expenditures and Forecast ($000)	Variance ($000)
2025	22.8	850.5	827.7
2026	1,249.0	421.3	(827.7)
Project	1,271.8	1,271.8	-

Newfoundland and Labrador Hydro's ("Hydro") Expenditures and Forecast remains consistent with the Updated Budget approved in the 2026 CBA; however, there is emerging indication that the total project budget may be exceeded by approximately 20%. Hydro will provide a variance explanation in the Capital Expenditures and Carry Over Report for the Year Ending 2026 if the actual expenditures exceed the approved budget by greater than 10%, as required.

b) The SC2 project was approved by the Board of Commissioners of Public Utilities ("Board"). The approved expenditures included the major inspection of SC2 and completion of necessary refurbishment work. Following the rotor-pole failure, Hydro incorporated the required rotor refurbishment into that existing program and reforecast the program cost through the subsequent CBA rather than establish a separate unforeseen project.

The purpose of an Allowance for Unforeseen Items is to provide Hydro with the ability to respond expeditiously to unforeseen events affecting the electrical system that cannot wait for specific Board approval. In this case, Hydro considered it appropriate to manage the additional work within the existing approved SC2 program and report the resulting increase through the established multi-year project reforecasting process.