

**NEWFOUNDLAND AND LABRADOR
BOARD OF COMMISSIONERS OF PUBLIC UTILITIES**

AN ORDER OF THE BOARD

NO. P.U. 17(2025)

**IN THE MATTER OF the Electrical Power
Control Act, 1994**, SNL 1994, Chapter E-5.1
(the “**EPCA**”) and the **Public Utilities Act**,
RSNL 1990, Chapter P-47 (the “**Act**”), as
amended, and regulations thereunder; and

IN THE MATTER OF an application by
Newfoundland and Labrador Hydro for
approval of capital expenditures for early
execution work related to the future
construction of the Avalon Combustion
Turbine and Bay d’Espoir Unit 8, pursuant
to section 41(3) of the **Act**.

DECISION SUMMARY

The Board approves the application filed by Newfoundland and Labrador Hydro for approval of capital expenditures in the amount of \$30,710,000 for early execution work for the Avalon Combustion Turbine Project and \$16,670,000 for early execution work for the Bay d’Espoir Unit 8 Project on the basis that these expenditures were shown to be reasonable and necessary in the circumstances and will not be recovered from customers if the Build Application is not approved.¹

APPLICATION

On March 12, 2025 Newfoundland and Labrador Hydro (“Hydro”) filed an application seeking approval of capital expenditures for early execution work related to the future construction of the Avalon Combustion Turbine and Bay d’Espoir Unit 8 (the “Early Works Application”). The proposed capital expenditures for the early execution work for the Avalon Combustion Turbine Project are estimated to be \$30,710,000 and the proposed capital expenditures for the early execution work for the Bay d’Espoir Unit 8 Project are estimated to be \$16,670,000, for total estimated capital expenditures of \$47,380,000 for both projects.²

¹ The Build Application, filed on March 21, 2025, requests approval of Avalon Combustion Turbine expenditures of \$891 million and Bay d’Espoir Unit 8 expenditures of \$1.08 billion.

² The Early Works Application, dated March 12, 2025, page 2.

The Early Works Application stated that it is necessary to advance work and analysis that will allow the Avalon Combustion Turbine Project and the Bay d’Espoir Unit 8 Project to proceed while the application for approval of these projects is proceeding through the regulatory process (the “Build Application”).³ The early execution scope of work consists of detailed engineering, geotechnical studies, environmental assessment activities, preparation of requests for proposals and procurement activities. The Early Works Application stated that the ability to proceed with this work in advance of approval of the Build Application would provide risk mitigation by maintaining the overall project schedule and budget.⁴

PROCESS

The Early Works Application was copied to Newfoundland Power Inc. (“Newfoundland Power”), the Consumer Advocate, Mr. Dennis Browne, KC (the “Consumer Advocate”), the Island Industrial Customer Group⁵ and the Labrador Interconnected Group.⁶

On April 2, 2025 requests for information were filed by the Board, Newfoundland Power and the Consumer Advocate, which were answered by Hydro on April 8, 2025.

On April 11 and 14, 2025 submissions and comments were filed. On April 15, 2025 Hydro filed its reply.

SUBMISSIONS AND COMMENTS

Newfoundland Power did not object to the Early Works Application and stated that it agreed that new capacity is needed on the Island Interconnected system. Newfoundland Power recognized that delays in advancing the Avalon Combustion Turbine Project and the Bay d’Espoir Unit 8 Project are likely to result in increased costs to customers. Newfoundland Power noted that Hydro is not seeking cost recovery in relation to the Early Works Application at this time.⁷

The Consumer Advocate was opposed to the Early Works Application stating that it undermines the regulatory process and that the Build Application raises questions about the merits of the Avalon Combustion Turbine Project and the Bay d’Espoir Unit 8 Project.⁸

The Island Industrial Customer Group had no comments on the Early Works Application.

³ The Early Works Application, dated March 12, 2025, Schedule 1, page 2.

⁴ The Early Works Application, dated March 12, 2025, Schedule 1, page 10.

⁵ The members of the Island Industrial Customer Group are Corner Brook Pulp and Paper Limited, Braya Renewable Fuels (Newfoundland) GP Inc., and Vale Newfoundland and Labrador Limited.

⁶ The members of the Labrador Interconnected Group are the communities of Sheshatshiu, Happy Valley-Goose Bay, Wabush, and Labrador City.

⁷ Newfoundland Power Submission, dated April 11, 2025, page 3.

⁸ Consumer Advocate Submission, dated April 11, 2025, page 4.

1 BOARD DECISION

2
3 The Early Works Application seeks the approval of the Board to proceed with early execution work
4 for both the Avalon Combustion Turbine Project and the Bay d’Espoir Unit 8 Project while the
5 Build Application is being reviewed. The Consumer Advocate questioned whether the Board has
6 the authority to approve the proposed capital expenditures in advance of the conclusion of the
7 Build Application and suggested that such approval would set a bad precedent. The Board notes
8 that the **Act** sets out that Hydro cannot proceed with the construction, purchase or lease of
9 improvements or additions to its property without the prior approval of the Board.⁹ The
10 legislation does not limit the Board’s authority with respect to the approval of capital
11 expenditures. In addition, the legislation is to be interpreted liberally to accomplish its purposes
12 and the Board has all additional, implied and incidental powers appropriate or necessary to carry
13 out the powers specified in the **Act**.¹⁰ Given the broad authority provided to the Board and the
14 requirement for a liberal interpretation of the legislation, the Board is satisfied that it has the
15 authority to approve the proposed capital expenditures for early execution work. In addition, the
16 Board does not believe that approval of capital expenditures for early execution work would
17 create a bad regulatory precedent if the Board finds that based on the evidence such approval is
18 reasonable and necessary in the circumstances.

19
20 The Board acknowledges that the capital expenditures proposed in the Early Works Application
21 are substantial, totaling approximately \$47.4 million. These expenditures are a small part of the
22 very substantial capital expenditures proposed in the Build Application which have now escalated
23 to almost \$2 billion. As a result, the Board believes that the proposed capital expenditures in the
24 Early Execution Application must be given careful scrutiny to ensure that approval is reasonable
25 and necessary in the circumstances. At the same time, it is important to note that Hydro is not
26 seeking recovery from customers of the capital expenditures proposed in the Early Works
27 Application. Hydro stated that this matter would be deferred to the Build Application and
28 confirmed that the costs associated with the early execution work would not be recovered from
29 customers if the Build Application is not approved by the Board.¹¹

30
31 The Board notes that prior to the filing of the Early Works Application there was a lengthy process
32 addressing matters related to the supply of power on the Island Interconnected system, the
33 Reliability and Resource Adequacy Review. This process included the participation of a number of
34 stakeholders, including the Consumer Advocate, Newfoundland Power and the Island Industrial
35 Customer Group. Through this process there was a great deal of information filed, including
36 numerous reports from Hydro and experts on a variety of topics related to the issues to be
37 addressed in the Build Application. As a result of this process a Settlement Agreement was filed
38 setting out that, among other things, a recommendation that a combustion turbine on the Avalon
39 Peninsula and an additional unit at Bay d’Espoir is appropriate as part of the first step in
40 addressing the requirement for additional capacity for the Island Interconnected system.¹² The
41 Settlement Agreement also set out that Hydro should file an application for approval of these

⁹ Section 41(3) of the **Act**.

¹⁰ Section 118 of the **Act**.

¹¹ The Early Works Application, dated March 12, 2025, Schedule 1, page 2 and CA-NLH-002.

¹² The Early Works Application, dated March 12, 2025, Schedule 3.

1 projects. This does not mean that the approval of the capital expenditures associated with these
 2 projects is a foregone conclusion. The Settlement Agreement does not set out that the parties
 3 agree with approval of the Build Application just that it should be filed and reviewed. The Build
 4 Application seeks approval of substantial capital expenditures which are now higher than the
 5 capital cost estimates at the time that the Settlement Agreement was signed. The specific
 6 proposals in the Build Application must now be reviewed by the Board as part of a comprehensive
 7 process with the participation of the interested stakeholders. The issues noted by the Consumer
 8 Advocate in relation to costs, rate impacts, load forecasts and demand side management are
 9 among the issues to be addressed as a part of the review of the Build Application.

10
 11 The Early Works Application seeks approval of expenditures in advance of the conclusion of the
 12 Build Application on the basis that certain advance work and analysis needs to be done in 2025
 13 to allow the projects to proceed as planned. According to Hydro pausing this work until the
 14 conclusion of the Build Application would have significant implications for the schedule and costs
 15 of these projects.¹³ Hydro stated that the project estimates are time sensitive and supply chain
 16 pressures continue to increase so that any delay during the regulatory proceeding or project
 17 execution increases the risk of higher costs to rate payers.¹⁴ According to Hydro if critical activities
 18 are not advanced as planned in 2025 the overall project will be delayed and project costs will
 19 increase. Hydro also noted the potential impacts of an overlap with the recently announced
 20 planned work for the Churchill Falls Expansion and Upgrades and the Gull Island project. Other
 21 benefits of early approval of these expenditures cited by Hydro include the ability to engage
 22 equipment manufacturers at this time and maintain the continuity of key project staff.¹⁵

23
 24 The early execution scope of work for the Avalon Combustion Turbine Project includes:

- 25 i) preparation, issuance and award of the tenders for the combustion turbine and the
- 26 GSU transformers;
- 27 ii) completion of the environmental assessment report and registration and continued
- 28 stakeholder engagement;
- 29 iii) engaging an EPCM contractor to complete geotechnical investigations and surveys and
- 30 detailed execution planning activities;
- 31 iv) Avalon Combustion Turbine assessments in areas such as fire water supply and overall
- 32 site fuel utilization; and
- 33 v) Preparation of early execution requests for proposals and engaging with early
- 34 execution contractors to complete initial geotechnical work and minor excavations to
- 35 support line relocation and new line installations.¹⁶

36
 37 The Board accepts that delay of the proposed early execution scope of work for the Avalon
 38 Combustion Turbine Project would have impacts on the schedule.¹⁷ In particular early
 39 procurement of the combustion turbine is critical to secure production capacity and maintain the
 40 project's in-service date. Based on the evidence a delay in the issuance of the award of the

¹³ The Early Works Application, dated March 12, 2025, Schedule 1, page 2.

¹⁴ The Early Works Application, dated March 12, 2025, Schedule 1, page 10.

¹⁵ The Early Works Application, dated March 12, 2025, Schedule 1, pages 10-11.

¹⁶ The Early Works Application, dated March 12, 2025, Schedule 1, pages 4-5.

¹⁷ PUB-NLH-001.

combustion turbine contract could lengthen the project schedule by 12 to 24 months which could impact the availability of standby or peaking power in 2029.¹⁸

The early execution scope of work for the Bay d’Espoir Unit 8 Project includes:

- i) Engaging an EPCM contractor to support execution planning activities and the completion of geotechnical investigations and surveys and engineering and specifications for long lead or early equipment such as the turbine and generator;
- ii) Engaging equipment manufacturers to complete computational fluid dynamics modelling and model testing; and
- iii) Completion of environmental assessment registration and continued stakeholder engagement process.¹⁹

The Board accepts the evidence that delay of the proposed early execution scope of work for the Bay d’Espoir Unit 8 Project would have impacts on the schedule.²⁰ In particular, there is risk in relation to turbine generator procurement given the high demand in the hydroelectric industry and that the estimated timelines for delivery are around 4 years.²¹

The Board accepts that the approval of the proposed early execution work in advance of the conclusion of the Build Application would serve to reduce risks to the schedule and costs of the projects. Based on the evidence the project estimates are time sensitive and increasing supply chain pressures increase the risk of delays and higher costs for ratepayers.²² The Board accepts that the financial consequences of delays in these projects could be substantial, including price escalation, higher demand costs and additional interest during construction. These costs could be between \$30 to \$50 million per year plus the potential costs associated with the extension of steam operations at the Holyrood Thermal Generating Station of over \$120 million per year.²³ The Board finds that the approval of the proposed capital expenditures for the early execution work is reasonable and necessary in the circumstances. Given the significance of these expenditures the Board will require Hydro to provide monthly updates on the early execution work, including the ongoing activities, procurement milestones, project control schedules, budget and expenditures. Updates are to be filed with the Board starting June 16, 2025 and continue each month thereafter.

The Board is satisfied that the proposed capital expenditures for the early execution work for the Avalon Combustion Turbine Project, in the amount of \$30.7 million, and the proposed capital expenditures for the early execution work for the Bay d’Espoir Unit 8 Project, in the amount of \$16.7 million, should be approved on the basis that these expenditures were shown to be reasonable and necessary in the circumstances and will not be recovered from customers if the Build Application is not approved.²⁴

¹⁸ PUB-NLH-001.

¹⁹ Application, dated March 12, 2025, Schedule 1, page 8.

²⁰ PUB-NLH-004.

²¹ PUB-NLH-004.

²² The Early Works Application, dated March 12, 2025, Schedule 1, page 2.

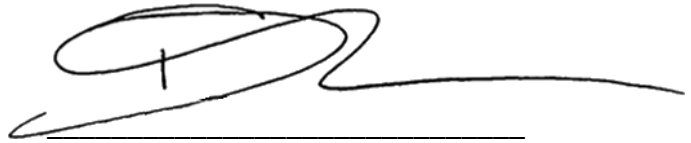
²³ CA-NLH-001.

²⁴ CA-NLH-002

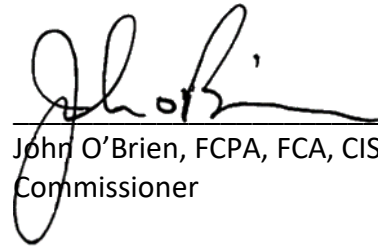
IT IS THEREFORE ORDERED THAT:

1. Capital expenditures, in the amount of \$30,710,000, for the proposed early execution work for the Avalon Combustion Turbine Project, are approved.
2. Capital expenditures, in the amount of \$16,670,000, for the proposed early execution work for the Bay d'Espoir Unit 8 Project, are approved.
3. Hydro shall provide monthly updates on the early execution work for the Avalon Combustion Turbine Project and Bay d'Espoir Unit 8 Project, starting June 16, 2025.
4. Newfoundland and Labrador Hydro shall pay the expenses of the Board arising from this application.

DATED at St. John's, Newfoundland and Labrador this 25th day of April, 2025.



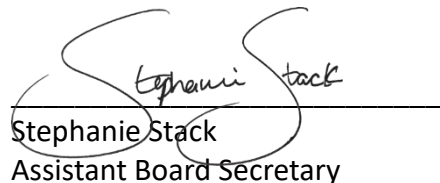
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Commissioner



Christopher Pike, LL.B., FCIP
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Stephanie Stack
Assistant Board Secretary