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December 19, 2025

Board of Commissioners of Public Utilities
Prince Charles Building
120 Torbay Road, P.O. Box 21040
St. John's, NL A1A 5B2

Attention: Jo-Anne Galarneau
Executive Director and Board Secretary

Re: Newfoundland and Labrador Hydro - Application for Capital Expenditures for the Purchase and Installation of Bay d'Espoir Unit 8 and Avalon Combustion Turbine, and Bay d'Espoir Unit 8 Project and Avalon Combustion Turbine Project Early Execution Updates for October 2025 – Request for Further Information – Hydro's Reply

In correspondence to Newfoundland and Labrador Hydro ("Hydro") on December 19, 2025, the Board of Commissioners of Public Utilities ("Board") advised that the Board had questions arising from their review of Hydro's Application for Additional Early Execution Capital Work for Bay d'Espoir Unit 8 ("BDE Unit 8") and Avalon Combustion Turbine ("Avalon CT"),[1] as well as Hydro's monthly updates for the ongoing early execution work approved in March 2025. The Board advised that certain questions will be issued in January 2026; however, the Board did detail a specific request for information in its correspondence.

The Board advised that, related to Hydro's reference to current pricing in the marketplace being significantly higher than the initial cost estimates, Hydro is required to provide its updated costs for the Avalon CT Project. The Board also specified that Hydro is to provide this information, including the impacts on indirect costs, contingency and management reserve, prior to the Monte Carlo analysis Hydro had referenced in its reports. Hydro has provided the updated actual costs for the major procurement packages and work completed during the 2025 early execution work on the Avalon CT Project in Table 1.

The cost information and related notes provided in Table 1 contains commercially sensitive information. An unredacted version of this correspondence is being provided to the Board on a confidential basis. The parties will be provided with a version in which this information has been redacted. Hydro requests that this information be kept confidential and not be made publicly available. Hydro requests that the Board use the redacted version for posting to its website.

[1] "Additional Early Execution Capital Work – Bay d'Espoir Unit 8 and Avalon Combustion Turbine," Newfoundland and Labrador Hydro, December 12, 2025.

**Table 1: Avalon Combustion Turbine Project –
Updated Costs for Major Procurement Packages and 2025 Early Execution Work Scope**

Category	Build Application Estimate ($ Million)	Contract Cost ($ Million)	Cost Variances Actual vs Build Application ($ Million)	Notes for the Estimate to Complete Costs and Potential Ranges[2]
Combustion Turbine Package	[redacted]	[redacted]	[redacted]	[redacted]
Generator Step-Up Transformers	[redacted]	[redacted]	[redacted]	[redacted]
2025 Site Clearing	[redacted]	[redacted]	[redacted]	[redacted]
2025 Geotechnical Investigation	[redacted]	[redacted]	[redacted]	[redacted]
2025 Early Engineering Studies	[redacted]	[redacted]	[redacted]	[redacted]
2025 Power Line Relocation	[redacted]	[redacted]	[redacted]	[redacted]

At this stage, Hydro is unable to provide a revised figure for contingency and management reserve prior to completion of a Monte Carlo simulation.

The reason for this is that the Monte Carlo simulation forms a critical part of the QRA process. QRA is designed to assess the potential impact of identified risks on project cost and schedule by applying probabilistic modeling techniques. Rather than relying on single-point estimates, QRA uses a range of possible outcomes and their associated probabilities to provide a more realistic view of uncertainty.

Through the Monte Carlo simulation, thousands of iterations are run to model the combined effect of risks and uncertainties. This allows us to calculate the appropriate level of project contingency and management reserve based on statistical confidence levels. These reserves are essential for safeguarding the project against unforeseen events and ensuring that we maintain alignment with risk tolerance and governance requirements.

[redacted]

Once the simulation is complete, Hydro will be able to provide an informed update on the contingency and management reserve values. Essentially, the Monte Carlo is a prerequisite to determine the contingency and management reserve.

A refreshed estimate of the overall project budget will be completed to update the proposed value of Hydro's contingency and management reserve. As noted above, this refresh will require conducting a new QRA and Monte Carlo Simulation. In addition, Hydro's analysis will require:

- Incorporating realized costs from early execution; and
- Layering in additional unknowns such as:
  - Geotechnical risk, based on the results of the geotechnical investigation program;
  - EPCM[3] costs; and
  - Remaining project scope, including terminal station, civil construction, transmission line, breakers, controls and other outstanding elements from detailed design.

This approach ensures that our contingency and management reserve reflect the most accurate and comprehensive view of project risks and remaining scope.

The 2025 Build Application: Required Assets to Ensure System Reliability

Hydro appreciates the opportunity to continue to clarify and supplement the record with additional information required for the analysis underway by the Board's experts. In its 2025 Build Application, Hydro seeks approval for two critical projects: Avalon CT and BDE Unit 8, totaling approximately 300 MW of new capacity, which form the basis for its Minimum Investment Expansion Plan put forth in the 2024 Resource Adequacy Plan filing ("2024 RAP"). The 2024 RAP demonstrated that both projects must be in service to enable the retirement of the Holyrood Thermal Generating Station ("Holyrood TGS"). Until both projects are in service, Holyrood TGS operation must be extended and combined fuel, capital and operating costs for the facility will continue to exceed $100 million per year. Beyond 2035, the operation of Holyrood TGS units would not be permitted due to non-compliance with federal *Clean Electricity Regulations*.

The proposed projects also represent the first step to meeting Hydro's Reference Case for expected load on the Island Interconnected System. BDE Unit 8 will expand the existing Bay d'Espoir hydroelectric complex, providing dependable, renewable capacity that leverages proven infrastructure and supports maintenance outages. The Avalon CT will deliver fast-start, dispatchable capacity, ensuring Hydro can meet peak demand and respond to contingency events.

These projects are not standalone projects; rather, they are both needed to ensure reliable operation and to permit the retirement of the Holyrood TGS. Together, they provide diversity of supply and serve to mitigate long-term risks, enabling the provision of electricity at the lowest possible cost, in an environmentally responsible manner, consistent with reliable service.

Should you have any questions, please contact the undersigned.

[3] Engineering, Procurement and Construction Management ("EPCM").

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO

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