

June 9, 2026

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

Attention: Mike McNiven
Board Secretary

Re: Application for Additional Early Execution Capital Work for Bay d'Espoir Unit 8 and Avalon Combustion Turbine – Bay d'Espoir Unit 8 – Hydro's Reply

On December 12, 2025, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") requesting approval of the capital expenditures related to additional early execution capital work for Bay d'Espoir ("BDE") Unit 8 and the Avalon Combustion Turbine ("CT") ("Additional Early Execution Application").

Hydro provided its responses to requests for information filed by the Board, Newfoundland Power Inc. ("Newfoundland Power"), and the Consumer Advocate on January 28, 2026.

On February 9, 2026, the Board established an expedited process for the additional early execution work proposed for the Avalon CT, reflecting the time-sensitive nature of the necessary approval to meet contractual obligations and fully secure production slots and overall price for the CT. After a settlement conference held on February 17, 2026, which resulted in an agreement among the parties that the additional early execution expenditures for the Avalon CT should be approved, a Settlement Agreement was filed on March 5, 2026. In that Settlement Agreement, the parties agreed that a delay in the proposed Avalon CT work would have impacts on the project schedule that could result in substantial financial consequences and that the determination of whether the additional early execution expenditures can be recovered from customers should be deferred.

The Board accepted the Settlement Agreement in Board Order No. P.U. 7(2026). As part of its reasons for decision, the Board stated that it was satisfied that the expenditures for the additional early execution work for the Avalon CT should be approved on the basis that these expenditures are reasonable and necessary in the circumstances and would not be recovered from customers if the 2025 Build Application¹ is not approved.

The Board set the remaining process for review of the additional early execution capital expenditures proposed for BDE Unit 8 on May 20, 2026, with the final steps being party submissions and Hydro's reply.

¹ "2025 Build Application – Bay d'Espoir Unit 8 and Avalon Combustion Turbine," Newfoundland and Labrador Hydro, March 21, 2025 ("2025 Build Application").

On May 29, 2026, Newfoundland Power and the Consumer Advocate filed comments with respect to Hydro's request for authorization to proceed with early execution capital work for BDE Unit 8. No submissions were received from any other parties.

Intervenor Submissions

Newfoundland Power

Newfoundland Power noted that the additional early execution capital work for BDE Unit 8 for which Hydro requests approval is approximately \$5.63 million. They state that when combined with the previously approved early execution capital expenditures, the total is approximately 2% of the estimated budget for the BDE Unit 8 project.

Newfoundland Power describes the history of its participation in the *Reliability and Resource Adequacy Study Review* ("RRA Study Review") process and affirms its agreement that new capacity on the Island Interconnected System is necessary as the Holyrood Thermal Generating Station ("Holyrood TGS") is not an appropriate long-term source of backup generation for the Labrador-Island Link ("LIL"). Newfoundland Power's submissions acknowledge BDE Unit 8 as an important part of Hydro's Minimum Investment Expansion Plan to address the capacity requirements for the Island Interconnected System and recognizes the need for the early execution work to mitigate schedule delays and increasing costs associated with market conditions. Noting Hydro's position not to seek recovery of the related costs from customers pending approval of the project, Newfoundland Power supports Hydro's application for the additional early execution expenditures as necessary to continue to advance critical work to protect against increased cost and schedule risk.

Consumer Advocate

The Consumer Advocate, in providing a chronology of events related to the BDE Unit 8 proposal in the 2025 Build Application and the early execution applications, referenced the report filed by the Board's experts, Bates White Economic Consulting, LLC ("Bates White"). Specifically, the Consumer Advocate references Bates White's statement that both the Avalon CT and BDE Unit 8 are not needed by 2031, conditional on Hydro's existing thermal assets remaining operational. Bates White's position is that the timing of the need for capacity in addition to the Avalon CT has not been determined.

The Consumer Advocate's submissions also reference Hydro's response to CA-NLH-004 of this proceeding, regarding the continued operation of the Holyrood TGS; specifically the submission characterized Hydro's statements that the Holyrood TGS cannot continue beyond 2035 due to the federal *Clean Electricity Regulations* and that each year of Holyrood TGS operation past 2030 would have a corresponding annual cost of \$100 million as suggesting that the Holyrood TGS could operate beyond 2030, albeit at a significant cost. The Consumer Advocate has referenced this in support of Bates White's conclusion noted above.

The Consumer Advocate further referenced Hydro's Avalon CT Evidentiary Update, filed on April 16, 2026, in which Hydro continued to recommend both the Avalon CT and BDE Unit 8 as the minimum investment necessary to maintain reliable service and enable the retirement of the Holyrood TGS. The Consumer Advocate specifically referenced Hydro's expansion plan analysis provided as part of that update, in which the Avalon CT was selected before BDE Unit 8 under the Slow Electrification Load Forecast (assuming no fuel burn-off) with BDE Unit 8 not needed until 2034, as being consistent with Bates White Phase 2 Report's view to defer BDE Unit 8.

The Consumer Advocate recommends that the Board reject Hydro's request for additional early execution approval for BDE Unit 8 on the basis that the project's need, timing, and cost remain uncertain and have not yet been fully reviewed in the 2025 Build Application proceeding. The Consumer Advocate argues that further early execution funding risks advancing the project prematurely and creating regulatory momentum toward approval without a complete evidentiary record. The specific concerns raised by the Consumer Advocate, in addition to the absence of demonstrated near-term need as described above, are significant cost escalation and uncertainty, unresolved technical issues, and potential rate impacts. In the Consumer Advocate's view, funding decisions should be deferred until the Board completes a full review of the 2025 Build Application.

Hydro's Response

As Newfoundland Power noted in their submissions, and as the Board referenced in its Order on the initial Early Execution Application,² the 2025 Build Application was filed requesting approval for both the Avalon CT and BDE Unit 8 after a substantial amount of process throughout the *RRA Study Review* proceeding that began in 2018. This process allowed for the scrutiny and analysis of the foundation of the proposals for the Avalon CT and BDE Unit 8 and their necessity as added sources of capacity for the Island Interconnected System. In a Settlement Agreement reached in the *RRA Study Review* proceeding, the parties agreed that both projects should be proposed for approval in a formal application.

Regulatory Precedent

In the original Early Execution Application, filed in March 2025 in advance of the 2025 Build Application, the Consumer Advocate's submissions detailed a variety of concerns regarding the Early Execution Application. The Consumer Advocate at that time queried whether the Board had the authority to approve funds requested in the Early Execution Application for projects that the Board has not yet approved.³ The Consumer Advocate's current submissions on the Additional Early Execution Application for BDE Unit 8 reference those submissions, in particular the Consumer Advocate's belief that approving early execution undermines the regulatory process by presuming Board approval of the overall projects. The Consumer Advocate's previous submissions argued that the cost pressures Hydro outlined in the original Early Execution Application that would lead to a higher total cost for the projects if delays are introduced as a "signal that projects require careful scrutiny by the Board" but do not justify early execution, and that Board approval of early execution before the project is fully reviewed by the Board would set "bad regulatory precedent."

The Board, in Board Order No. P.U. 17(2025), approved Hydro's Early Execution Application. The Board found that while the *Public Utilities Act* prohibits Hydro from proceeding with the construction, purchase or lease of improvements or additions to its property without the prior approval of the Board, the legislation does not limit the Board's authority with respect to the approval of capital expenditures. The Board found:

Given the broad authority provided to the Board and the requirement for a liberal interpretation of the legislation, the Board is satisfied that it has the authority to

² "Early Execution Capital Work – Bay d'Espoir Unit 8 and Avalon Combustion Turbine," Newfoundland and Labrador Hydro, March 12, 2025 ("Early Execution Application").

³ "NL Hydro – 2025 Capital Budget Supplemental Application – Application for Early Execution Capital Work for Bay d'Espoir Unit 8 and an Avalon Combustion Turbine – Refile – Comments of the Consumer Advocate," Office of the Consumer Advocate, April 11, 2025, p. 2.

approve the proposed capital expenditures for early execution work. In addition, the Board does not believe that approval of capital expenditures for early execution work would create a bad regulatory precedent if the Board finds that based on the evidence such approval is reasonable and necessary in the circumstances.⁴

The Board agreed that careful scrutiny must be given to the proposals to ensure that approval is reasonable and necessary in the circumstances but stated it was important to note that Hydro was not seeking recovery from customers of the capital expenditures proposed for the early execution work.

The Board also referenced the lengthy process throughout the *RRA Study Review* proceeding, with participation of a number of parties including the Consumer Advocate, and a great deal of information filed which gave rise to the Settlement Agreement in the *RRA Study Review* proceeding referenced above. The Board noted that the Settlement Agreement, and the information filed regarding the proposed projects, does not mean that the approval of the projects is a foregone conclusion. The Board noted the additional scrutiny of the projects that would be required, and issues that would need to be addressed, but acknowledged that delay of the early execution scope of work for the projects would have impacts on the schedule. The Board accepted that the approval of the early execution capital expenditures would allow Hydro to reduce risks to the schedule and costs to the projects, reducing risks of delays and higher costs for ratepayers. The Board also accepted that the financial consequences of delays in the projects could be substantial, related to price escalation, higher demand costs, and additional interest during construction. The Board found that the approval of the proposed capital expenditures in the Early Execution Application was reasonable and necessary in the circumstances.

Since that time, through the information Hydro has filed in the 2025 Build Application process and in the proceedings related to the early execution applications, as well as the reports provided by the Board's expert, there is substantial additional information available regarding the need for both the Avalon CT and BDE Unit 8. The impacts of changes in the global marketplace on the proposed projects became evident with respect to the Avalon CT when exponentially increased demand for CTs resulted in an unforeseen price increase and an increase in the proposed budget for that project of approximately \$100 million. If Hydro is unable to continue with the execution of the schedule and expenditures for BDE Unit 8 pending the completion of the review of that project and ultimate approval as part of the 2025 Build Application process, the risks to the schedule and the costs of that project increase substantially. The risks of higher costs to ratepayers and the risks of reduced reliability of supply to customers also increase.

The activities Hydro proposes to undertake as part of the additional early execution capital work, including procurement of the Turbine Generator package, are essential to aid in preserving the project schedule and cost estimate. Approval of the proposed Additional Early Execution Application is imperative to enable the initiation of contracts and acquisition of these long-lead items by securing manufacturing slots, thereby reducing risk to both schedule and cost.⁵

Holyrood TGS

The Consumer Advocate references the Bates White report and Hydro's previous filings as the basis for the suggestion that the availability of the Holyrood TGS reduces the need to advance BDE Unit 8 at this time. Hydro submits that while the *Clean Electricity Regulations* do not prohibit the Holyrood TGS from

⁴ Board Order No. P.U. 17(2025), p. 3/13–18.

⁵ As discussed in "Bay d'Espoir Unit 8 Project Early Execution Update," Newfoundland and Labrador Hydro, May 22, 2026.

operating up to 2035, its continued use results in increased reliability risks for the system. Continued use of the Holyrood TGS is not a cost-effective, environmentally responsible, or reliable long-term solution and does not negate the need to advance new capacity or the prudence of maintaining project schedules through early execution.

The 2024 Resource Adequacy Plan demonstrated that retirement of the Holyrood TGS cannot be fully enabled until both the Avalon CT and BDE Unit 8 are in service. The extension of the Holyrood TGS operations will result in combined fuel, capital, and operating costs exceeding \$100 million per year.⁶

While the Holyrood TGS is constrained by federal *Clean Electricity Regulations* which preclude its operation beyond 2035, Hydro's position is that the Holyrood TGS should be retired much earlier than 2035. That is not solely due to the costs that would be incurred. Hydro's mandate requires the balance of least-cost, environmental responsibility and reliability in providing electricity service to customers. In addition to the material financial risk and environmental considerations, the reliability risk of continued reliance on the Holyrood TGS is growing, as its performance is unpredictable.⁷

In Hydro's response to CA-NLH-004 of this proceeding, referenced by the Consumer Advocate in her submission, Hydro noted:

Continued operation of the Holyrood TGS beyond 2030 could also come at a reliability cost to customers as the plant continues to age. This is demonstrated in all analyses when the DAUFOP⁸ of the plant could be as high as 34%. This level of unreliability in a given year is plausible, as demonstrated by the performance of the generating units in recent years. As per the results of the near-term reliability analyses performed as part of this proceeding, such a level of unreliability at Holyrood results in violations of planning criteria.

Holyrood TGS is an aging thermal facility with increasingly unpredictable performance. The advanced age of the asset introduces a heightened risk of failure and increased costs associated with maintaining its operation. Over the last five years, as a result of annual reliability analysis to inform Hydro's near-term reliability analysis, Hydro has revised its base and sensitivity forced outage rate assumptions from 15% and 20% to 20% and 34%, respectively, indicating a trend of worsening reliability.^{9,10} Hydro anticipates this trend will continue as the asset continues to age and operate beyond its intended design life, consistent with the "Bathtub Curve" model of equipment failure, which predicts higher and accelerating rates of failure at or near the end of an asset's useful life.¹¹ The operational dependency on the Holyrood TGS is directly linked to overall system reliability: continued reliance on this aging thermal

⁶ "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," Newfoundland and Labrador Hydro, December 19, 2025, p. 3.

⁷ Please refer to CA-NLH-009 of this proceeding.

⁸ Derated Adjusted Utilization Forced Outage Probability ("DAUFOP").

⁹ Holyrood Forced Outage Rate assumptions were updated as part of the 2022 Reliability and Resource Adequacy Study update. Please refer to "Reliability and Resource Adequacy Study 2022 Update," Newfoundland and Labrador Hydro, October 3, 2022, vol. III, att. 4. These assumptions will be revised in advance of the next Reliability and Resource Adequacy Study update.

¹⁰ Near-term reliability assumptions are provided in Hydro's Near-Term Reliability Report, filed annually under the *RRA Study Review* proceeding.

¹¹ "2024 Resource Adequacy Plan – An Update to the Reliability and Resource Adequacy Study," Newfoundland and Labrador Hydro, rev. August 26, 2024 (originally filed July 9, 2024), 2024 Resource Plan Overview, p. 16.

facility increases exposure to unplanned outages, resulting in the increased likelihood of customer outages.¹² Reliance on an asset with decreasing reliability but high and increasing costs would not be consistent with good utility practice.

Bates White's conclusion, referenced by the Consumer Advocate, that both BDE Unit 8 and the Avalon CT are not necessary by 2031 is contingent on Hydro's existing thermal assets remaining operational. For the reasons described above, the availability of the Holyrood TGS as a meaningful capacity backup for the Island Interconnected System by 2031 is becoming increasingly uncertain. Hydro's position is that the proposed projects should be advanced as proposed, as the minimum investment required to ensure continued safe, reliable service, while also balancing cost and environmental considerations. As is set out in Hydro's application, and throughout this reply, the additional early execution capital expenditures are necessary to ensure the risks to schedule and costs for the proposed projects are minimized as much as possible.

Review of BDE Unit 8 Project

Aside from the issue of timing of the BDE Unit 8 project, Bates White and its independent reviewer Gruner Stucky AG ("Gruner"), both consider BDE Unit 8 as a technically viable and fundamentally reasonable project. Bates White referenced Gruner's opinion of BDE Unit 8 as a project that has been sufficiently developed and a reasonable project overall with no major concerns in design, scope, or specification. Bates White adopted that view, similarly noting no major technical red flags, but emphasized that approval should be deferred to address certain key issues that require further evidentiary support. Bates White made a number of recommendations of the additional analysis and evidence that Hydro should provide for a more fulsome review of the project and its timing. Hydro notes that there has not yet been process in the 2025 Build Application wherein other parties can pose questions on the application, nor has there been opportunity to date for Hydro to pose questions to Bates White or Gruner to clarify or test those assumptions or findings. Further process is needed to clarify and address the issues that have been raised regarding the project; however, Hydro submits that that supports rather than negates the need for approval of this Additional Early Execution Application to allow the projected schedule and costs to be maintained while the overall process continues.

The Consumer Advocate references Hydro's statement in its monthly reports that it would consider additional early execution applications if the expenditures for which approval have been granted are completed before full project approval is received. Hydro would much prefer to continue and complete the review of the 2025 Build Application, address the evidence, opinions, and questions on that record, and obtain fulsome review of BDE Unit 8. However, Hydro continues to believe that continuation of already approved work, by bridging previously approved scope with the overall project and avoiding disruption, is key to mitigate the risk of cost escalation and schedule impacts that would be borne by customers.

While Hydro may, depending on the circumstances, be required to consider whether further early execution applications are warranted, any such determination would be made based on the specific scope, timing, and evidentiary context at that time. Hydro submits that the possibility of a future application does not have any bearing on the assessment of the present application, which must be determined on its own merits as to whether the proposed expenditures are reasonable and necessary in the circumstances.

¹² Please refer to PUB-NLH-001 of this proceeding.

Expansion Plan Analysis

The Consumer Advocate references Hydro’s Avalon CT Evidentiary Update expansion plan analysis, as set out in Table 2 of that report, as supporting the determination that the Avalon CT should precede BDE Unit 8 under the Slow Electrification Load Forecast (assuming no fuel burn-off), with BDE Unit 8 not needed until 2034. Hydro notes in Section 5.2 of that report:

Across the expansion planning scenarios, the addition of BDE Unit 8 within the planning period is consistently identified as a least-cost supply addition, being selected in eight of the ten scenarios evaluated. This result indicates that the expansion of existing hydro capacity at BDE is robust to changes in input assumptions, including variations in load growth, LIL EqFOR,¹³ and capital cost assumptions.

The only exceptions to this outcome occur in low load scenarios where hydro capital costs are increased in combination with the fuel burn-off requirement removed, as well as in the scenario where incremental capacity is assumed from Newfoundland Power CT uprates and the fuel burn-off requirement is removed. In these scenarios, CT capacity is selected prior to the addition of BDE Unit 8. However, as demonstrated in the LIL shortfall analysis, scenarios that include the Avalon CT without a second significant generation resource such as BDE Unit 8 continue to experience material capacity shortfalls during a prolonged LIL outage, and additional capacity would be required to mitigate, highlighting the need for both resources to be constructed by 2031 to enable the retirement of the Holyrood TGS.¹⁴

BDE Unit 8 is selected to be in place by 2031 in six of the ten scenarios.

As noted above, an important context for the expansion analysis is the LIL shortfall analysis contained in the same report. Hydro notes in Section 4.0 of that report:

Under the slow electrification load forecast, where only BDE Unit 8 or the Avalon CT is constructed by 2032, significantly larger shortfalls are observed. Peak shortfalls exceed 300 MW under average conditions and approach 400 MW under severe conditions. Total energy shortfalls increase materially, with shortfalls occurring in up to 44 percent of outage hours. A notable portion of these hours exceeds 100 MW, indicating a substantial reliance on load shedding to maintain system stability.

Hydro’s Minimum Investment Expansion Plan, which includes the slow electrification load forecast with BDE Unit 8 and the Avalon CT both available in 2031, demonstrates improved system performance relative to the hydro-only expansion case. Peak shortfalls are reduced to approximately 174 MW under average conditions and 266 MW under severe conditions. Both the duration and magnitude of shortfalls are significantly reduced, although some hours with higher magnitude shortfalls remain.¹⁵

¹³ Equivalent Forced Outage Rate (“EqFOR”).

¹⁴ “2025 Build Application – Avalon Combustion Turbine Evidentiary Update,” Newfoundland and Labrador Hydro, April 16, 2026, sec. 5.2, p.11/10–22.

¹⁵ “2025 Build Application – Avalon Combustion Turbine Evidentiary Update,” Newfoundland and Labrador Hydro, April 16, 2026, sec. 4.0, p. 9/1–10.

The need for additional capacity on the Island Interconnected System has been established through the *RRA Study Review* process. Additional information filed within the 2025 Build Application continues to support the Avalon CT and BDE Unit 8 as the preferred foundational options to meet this additional capacity need.

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 BDE 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.

Summary

Hydro submits that the assessment of the overall approval of BDE Unit 8 is more suitable to take place within the 2025 Build Application process, but that the consideration of this Additional Early Execution Application must reflect the operational and market realities associated with large generation projects. The planning, procurement, and construction of major generation assets require multi-year timelines and advance commitments for long-lead equipment. If these early execution steps for the project, as set out in the filing to date, were to be delayed or halted pending full approval of the project, there would be significant impacts on the overall schedule for the project as well as the costs. Hydro's evidence demonstrates that pausing work pending completion of the 2025 Build Application could have significant consequences, including the loss of secured manufacturing slots for critical equipment, multi-year schedule delays due to market demand, and material cost increases driven by escalation, remobilization, and re-procurement, resulting in higher costs for customers.

As in the original Early Execution Application, approved by the Board, approval of the early execution capital expenditures would allow Hydro to reduce risks to the schedule and costs of the projects, not including the additional costs of extending the operation of the Holyrood TGS, which reduces risks of delays and higher costs for ratepayers. As noted by Newfoundland Power, the requested expenditures represent a very small proportion of the overall project cost, further supporting that the request is a measured step to preserve schedule and manage risk.

Hydro also emphasizes that customers are protected in this process, as it is not seeking recovery of these expenditures at this time and, in the event that the 2025 Build Application is not approved, the costs associated with early execution will not be recovered from ratepayers. This approach ensures that approval of the application does not transfer project approval risk to customers.

Conclusion

Hydro submits that the application is consistent with the Board's prior findings, that the proposed work is necessary to mitigate schedule and cost risks, that approval will not prejudice the Board's determination of the 2025 Build Application, and that appropriate safeguards are in place to protect customers. For these reasons, Hydro respectfully submits that the Additional Early Execution Application for BDE Unit 8 is reasonable and necessary in the circumstances and should be approved as submitted.

Mike McNiven
Board of Commissioners of Public Utilities

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Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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