

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 Approval of Capital Expenditures for Section Replacement and Weld Refurbishment for Bay d'Espoir Hydroelectric Generating Facility Penstock 3 – Hydro's Reply

On March 13, 2026, Newfoundland and Labrador Hydro ("Hydro") filed an application with the Board of Commissioners of Public Utilities ("Board") requesting approval of capital expenditures of approximately \$77,462,128 for section replacement and weld refurbishment of Penstock 3 at the Bay d'Espoir Hydroelectric Generating Facility ("Bay d'Espoir") ("Application"). As part of the Application, Hydro requested approval to proceed with certain aspects of the work in advance of overall project approval ("Early Execution") to allow for regulatory review of the overall application without impacting the overall construction timeline for the proposed project. The Early Execution capital expenditures for which approval was requested are estimated at \$1,942,814; Hydro confirmed that it is not requesting recovery of the Early Execution Expenditures prior to the review and approval of the overall Application.

The Board established a schedule for the review of the Early Execution component of the application, requesting intervenor comments by April 2, 2026, with Hydro's reply due by April 7, 2026. The Consumer Advocate and Newfoundland Power Inc. ("Newfoundland Power") filed submissions in which they acknowledged the importance of the Bay d'Espoir plant to the Island Interconnected System and supported approval of Early Execution, subject to the condition that costs will be recovered from customers only if Hydro receives approval of the overall project. In Board Order No. P.U. 11(2026), issued on April 9, 2026, the Board approved the Early Execution work, finding that the expenditures are reasonable and necessary in the circumstances.

The Board issued a schedule for the review of the overall Application that allowed for Requests for Information ("RFI") to be filed, and a further review schedule with deadlines for parties to file submissions on the Application. Hydro received RFIs from Newfoundland Power, the Consumer Advocate, and the Board. Hydro filed its responses to those RFIs on May 11, 2026. Party comments were received from the Consumer Advocate and Newfoundland Power on June 3, 2026.

Hydro's Response

The evidence that Hydro has provided through the Application and responses to RFIs supports the approval of the Application. The evidence establishes that Penstock 3 is critical to the reliable operation of the Island Interconnected System, but is an aging and deteriorating asset that has been in continuous operation for more than five decades. Penstock 3 allows for the supply of approximately 153 MW of generation from Bay d'Espoir, and its continued reliability is essential to maintaining adequate system capacity.

The inspection history and engineering evidence filed in support of the Application demonstrate an increasing trend of weld-related defects, including recurring indications in locations that have already undergone repair.¹ Hydro's responses to the Board's RFIs confirm that while ongoing inspection and localized repair programs have been effective in managing risk to date, those measures are no longer sufficient to provide confidence in the asset's continued safe and reliable operation. The rate of deterioration is uncertain, and the recurrence of defects undermines the long-term effectiveness of incremental repair strategies.² In these circumstances, continued reliance on inspection and repair would expose the system to an increasing probability of failure and associated operational constraints.

The proposed timing of the project reflects a system-wide optimization of outage coordination, resource availability, and reliability risk. The 2027 execution window is aligned with maintaining adequate reserve margins and avoiding overlap with other major planned outages, including work at Bay d'Espoir and elsewhere on the system.³ Hydro has explained that deferral would compress future outage schedules, increase execution complexity, and elevate system risk, particularly given the number of significant generation projects planned over the same period.

Four alternatives were considered; only the proposed combination of section replacement and weld refurbishment adequately addresses the underlying asset condition and associated risks.⁴ Lesser interventions, including continued repair or partial refurbishment, would not eliminate the need for operating restrictions, would not resolve the root causes of deterioration, and would leave Hydro exposed to a continued risk of failure. Hydro's independent engineering assessments from Hatch Ltd., SNC-Lavalin Group Inc., and Kleinschmidt Associates, as well as lessons learned from the previously-approved Penstock 1 project, support the conclusion that the proposed solution represents the lowest lifecycle cost and risk option.

Newfoundland Power

Newfoundland Power does not object to the approval of the application, describing the project as necessary to maintain system reliability in an already capacity-constrained Island Interconnected System. Newfoundland Power's submission highlights increasing reliability pressures, including the declining performance of the Holyrood Thermal Generating Station and the risk that a failure of Penstock 3 would exacerbate supply constraints, increase costs, and reduce reliability for customers. Newfoundland Power accepts Hydro's evidence that the condition of Penstock 3 presents an increasing asset risk and that refurbishment is necessary to prevent unplanned outages. It also notes that lessons learned from the earlier Penstock 1 project are expected to reduce execution and cost risk for this project. Further, Newfoundland Power supports proceeding with the work in coordination with other major projects to avoid additional system strain.

Consumer Advocate

The Consumer Advocate recommends approval of the Application. The Consumer Advocate emphasizes that Bay d'Espoir is critical to the reliable operation of the Island Interconnected System, and that Penstock 3 is an essential component in supplying 153 MW of generation. While positing the possibility of a potential deferral of the project, the Consumer Advocate accepts Hydro's evidence that the proposed timing is appropriate in light of broader system maintenance requirements, outage coordination, and resource constraints across multiple planned generation projects through 2031. The

¹ Please refer to Hydro's responses to PUB-NLH-002 and PUB-NLH-003 of this proceeding.

² *ibid*

³ Please refer to Hydro's response to PUB-NLH-005 of this proceeding.

⁴ "Section Replacement and Weld Refurbishment – Bay d'Espoir Penstock 3," Newfoundland and Labrador Hydro, sch. 1, s. 5.0.

Consumer Advocate's submission references Hydro's evidence that current reserve margins provide a suitable window to complete the work with reduced reliability risk.⁵ The submission also highlights the broader context of Hydro's significant planned capital spending on new generation, highlighting the Consumer Advocate's position that existing generation assets should be maintained to reduce or defer the need for new generation.

No comments were received from any other party.

Hydro respectfully submits that the evidence demonstrates that the expenditures are necessary to ensure safe, reliable service, that the proposed approach is the appropriate solution to alleviate the identified asset risks, and that the timing and cost of the proposed project are justified. Hydro therefore requests that the Board approve the proposed Bay d'Espoir Penstock 3 Section Replacement and Weld Refurbishment Project, as submitted.

Should you have any questions, please contact the undersigned.

Yours truly,

NEWFOUNDLAND AND LABRADOR HYDRO



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⁵ Please refer to Attachment 1 to Hydro's response to CA-NLH-001 of this proceeding.