

1 Q. **Reference: Program 4 Distribution System In-Service Failures, Miscellaneous Upgrades and**  
2 **Street Lights (2025)**

3 Page 12 of the Provisional Guidelines states “Generally, programs comprise assets with  
4 individual asset values significantly less than the lowest materiality threshold (e.g., distribution  
5 pole top transformer replacements, *but not substation transformer replacements*), but  
6 evidentiary requirement is based on the overall program budget.” The Distribution System In-  
7 Service Failures, Miscellaneous Upgrades and Street Lights (2025) program includes the  
8 purchase of a spare power transformer at an estimated budget of approximately \$1 million.  
9 Please explain how this program conforms with the materiality threshold established in the  
10 Provisional Guidelines, and more specifically the inclusion of a power transformer in the  
11 program.

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14 A. With respect to the Distribution In-Service Failures, Miscellaneous Upgrades and Street Lights  
15 Program, the inclusion of a substation power transformer replacement capital spare is  
16 appropriate, given the main definition of the program scope. It is indicated, that the Distribution  
17 In-Service Failures, Miscellaneous Upgrades and Street Lights Program will include the  
18 procurement of critical capital spares and replacements for actual failures, both of which are  
19 applicable in this case. The spare power transformer in question has been identified to be at risk  
20 of imminent failure and deteriorated to the point where refurbishment is economically non-  
21 viable, requiring replacement with a new unit. This spare is considered a critical piece of  
22 distribution equipment; these large transformers are subject to long lead times but are required  
23 quickly during an emergency.

24 While Newfoundland and Labrador Hydro (“Hydro”) is committed to continuous improvement in  
25 the formulation of its capital budget application (“CBA”), and recognizes the value of the  
26 materiality thresholds established in the provisional CBA Guidelines (“Guidelines”)<sup>1</sup> that will aid  
27 in enabling a fulsome review of Hydro’s capital investments by its stakeholders, it is Hydro’s

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<sup>1</sup> “Capital Budget Application Guidelines (Provisional),” Board of Commissioners of Public Utilities, January 2022.

1 opinion that it has met the spirit and intent of the Guidelines for all programs or projects  
2 proposed in the 2025 CBA and that the evidence provided in support of this application fully  
3 supports proposed investments.