

- 1 **Q. (Reference Application, Schedule B, page 37) It is stated "In addition, the**
2 **2025 budget reflects increases to maintain required inventory levels."**
3 **a) How is the required inventory level determined?**
4 **b) Please provide a table showing average annual inventory of transformers**
5 **held by NP since 1994?**
6 **c) Are transformers held in inventory considered part of the rate base?**
7 **d) Does NP have arrangements with other utilities to obtain transformers in**
8 **case their inventory is insufficient?**
9 **e) Substantial increases in purchase prices are signals to economize on**
10 **inventory holdings and adapt/innovate inventory management. Has NP**
11 **explored this?**
12
13 **A. a) Newfoundland Power determines its transformer inventory based on historical usage**
14 **data and vendor lead times while ensuring adequate stock to provide reliable service**
15 **to their customers.**

- 1 b) Table 1 - Average Annual Inventory of Transformers from 2005-2023.¹

| Table 1: Average Transformer Inventory 2005-2023 | |
|--|-------------------|
| Year | Average Inventory |
| 2005 | 2,757 |
| 2006 | 2,454 |
| 2007 | 2,167 |
| 2008 | 2,618 |
| 2009 | 2,475 |
| 2010 | 2,057 |
| 2011 | 2,445 |
| 2012 | 2,738 |
| 2013 | 2,538 |
| 2014 | 2,793 |
| 2015 | 2,916 |
| 2016 | 2,463 |
| 2017 | 2,441 |
| 2018 | 2,076 |
| 2019 | 1,980 |
| 2020 | 1,954 |
| 2021 | 1,798 |
| 2022 | 1,928 |
| 2023 | 1,588 |

- 2 c) Yes, transformers held in inventory are capitalized on purchase and included in the
3 Company's rate base.²

¹ Data prior to 2005 is not available.

² Newfoundland Power's capitalization practices conform to accounting principles generally accepted in the United States ("U.S. GAAP"), as well as industry best practices. Additional guidance is provided in the Federal Energy Regulatory Commission ("FERC") Uniform System of Accounts, which utilizes U.S. GAAP, but is specific to the utility industry and widely used throughout North America.

- 1 d) Newfoundland Power is currently exploring opportunities with other Fortis Utilities to
2 standardize specifications and allow for a level of inventory exchange as a
3 contingency to guard against a supply shortage during a severe weather event or
4 other unforeseen circumstances.
5
- 6 e) Newfoundland Power manages its capital investments to ensure the delivery of
7 reliable, least-cost service to customers in all operating environments.³ Balancing
8 the cost and reliability of the service provided to customers is consistent with the
9 provincial power policy and customers' service expectations.⁴ Maintaining a sufficient
10 inventory of distribution transformers is required to enable routine corrective and
11 preventative maintenance of the distribution system as well as to connect new
12 customers to the electricity system. This is consistent with the Company's obligation
13 to provide a reasonably adequate level of service to customers.⁵ Newfoundland
14 Power does consider inventory management to manage costs with respect to
15 distribution transformers. For more information, see part d) above and part c) of the
16 response to Request for Information CA-NP-094.

³ For a fulsome discussion on how Newfoundland Power balances cost and service reliability, see Newfoundland Power's *2025 Capital Budget Application, 2025 Capital Budget Overview*, section 2.3 *Balancing Cost and Service*. See also the response to Request for Information CA-NP-015.

⁴ Section 3(b)(iii) of the *Electrical Power Control Act, 1994* requires that customers receive reliable service at the lowest possible cost, in an environmentally responsible manner. Quarterly surveys indicate the two most important issues to customers are reliability and price. See also part c) of the response to Request for Information CA-NP-014.

⁵ See the response to Request for Information CA-NP-081.