

In reference to Schedule “B”, page 41 of 82 – Transformers, with a project cost of \$4,975,000:

Q. Please advise if a cost analysis has been completed to determine if the transformers to be replaced could be repaired and at what cost. Please advise if there is a rating as to the degree of deterioration and how that rating is conducted.

A. In March 2002 the Company completed a transformer refurbishment analysis. This analysis evaluated the economic feasibility of continuing to refurbish transformers based on new information with respect to:

- The contract entered into with ABB in 2001 to supply Newfoundland Power with stainless steel tanks at reasonable cost, with a 20 year warranty against premature rusting;
- Costs associated with refurbishment, including the increased cost of replacement tanks;
- The Company’s experience with respect to premature rusting of epoxy coated refurbished units, particularly in salt contaminated areas;
- Environmental risks and concerns associated with storage of rusty units; and,
- Reduced energy losses associated with new versus older transformers.

Based on this analysis, the Company has discontinued the refurbishment of transformers, except for those units 50 KVA or greater which were manufactured after 1993. A contract has been entered into with Enercom Inc. of Nova Scotia for the refurbishment of these larger units.

Minor repairs (such as paint touch-ups and bushing replacements) continue to be done in-house with respect to all size units.