

1 **Q. When selecting vendors for the provision of assets and supplies, has the company**
2 **considered whether the use of multiple vendors would reduce the risk encountered**
3 **by purchasing faulty equipment or reduce the problems caused by obsolescence?**
4 **Please provide any reports that have been produced.**
5

6 A. The Company has considered this issue.
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8 For example, in information technology, the Company tends to reduce the risk of
9 obsolescence by purchasing from leading information technology vendors. Increased
10 diversity can tend to increase obsolescence risk and also increase certain other costs (i.e.,
11 training, spare parts, etc.). This issue is canvassed in the prefiled evidence at
12 Exhibit PJC-2, pp. 8 *et. seq.*
13

14 The same logic would generally be applicable to other assets. Diversity of vendors may
15 tend to reduce the magnitude of risk associated with obsolescence or faulty equipment
16 but may increase the likelihood of risk (i.e., because one of a larger group of vendors may
17 be more likely not to continue in business than a single vendor). Diversity also carries
18 possible increased other costs as described above. On the other hand, use of a single
19 vendor may increase the magnitude of risk involved simply by having all of one's eggs in
20 a single basket.
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22 Newfoundland Power believes that the judgements as to the appropriateness of multiple
23 vendors vs. single vendors must be made in the context of the specific assets being
24 acquired and the particular risks associated with those assets.
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26 Newfoundland Power has produced no reports on this matter.