

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

3 It is stated *“The estimated cost for work executed under this program in 2025 is \$6,397,000,*
4 *which is based on the average expenditures over the past three years, from 2021 to 2023, and*
5 *includes an addition of \$1,042,442 for the purchase of a new capital spare substation power*
6 *transformer.”*

7 a) In light of increased levels of inflation and extended lead times for procurement, is use
8 of average historical expenditures in recent years without adjustment reasonable?

9 b) Is it reasonable to purchase a spare power transformer at this time given the very high
10 cost increases?

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13 A. a) As discussed in Schedule 7, Newfoundland and Labrador Hydro’s (“Hydro”) In-Service Failure
14 Programs—including Distribution System In-Service Failures, Miscellaneous Upgrades, and
15 Street Lights (2025) Program—serve to address unknown scopes of work, permitting Hydro
16 to act immediately upon failure to ensure an efficient and timely return to service of the
17 assets. Hydro uses a three-year average, with cost escalation as required, to estimate all
18 established¹ In-Service Failure Program estimates in its 2025 Capital Budget Application
19 (“CBA”). This practice was evaluated and updated from a five-year average in the 2023 CBA
20 due to inflation trends. Analysis of the expenditures has shown that a three-year average
21 generates an accurate estimate for these programs as it better reflects price variability.
22 However, this could change year-over-year as costs vary greatly depending on the quantity
23 and nature of requests received under the program.

24 b) Hydro believes the proposed purchase of the spare distribution power transformer at this
25 time is of critical importance for customer supply reliability. Hydro completed a cost-benefit

¹ Established In-Service Failure Programs include Hydraulic Generation, Thermal, Terminal Station, and Distribution System In-Service Failures, Miscellaneous Upgrades, and Street Lights, where there is three years of data available. Newer In-Service Failure Program estimates are based on the historical expenditures and technical experience within these areas.

1 analysis which compared refurbishment of the existing unit to the purchase of a new unit,
2 and refurbishment was determined to be the more expensive option compared to the
3 purchase of a new unit. Given the deteriorated state of the existing spare, Hydro does not
4 currently have a usable replacement for distribution substation power transformers over
5 4 MVA. If a failure was to occur in the near future, temporary diesel/gas turbine generation
6 would be required for considerable time until a new transformer can be sourced and
7 installed. While inflation has begun to stabilize, Hydro notes that it does not have reason to
8 believe that this will result in disinflation and associated reduction in transformer costs.