

1 **Q. (Reference Application Schedule B, page 14 of 98) Why have the costs of the**  
2 **Replacements Due to In-service Failures (Pooled) project increased so dramatically**  
3 **in recent years, by 73% in 2018 and 103% in 2019 over 2017 levels?**  
4

5 A. The *Replacements Due to In-Service Failures* project is necessary to replace substation  
6 equipment that has been removed from service due to storm damage, lightning strikes,  
7 vandalism, electrical or mechanical failure, corrosion damage, technical obsolescence, or  
8 failure during maintenance testing. Addressing in-service failures of substation  
9 equipment in a timely manner is necessary to maintain the condition of the Company's  
10 substations and provide reliable service to customers.

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12 The annual budget estimates for the *Replacements Due to In-Service Failures* project are  
13 calculated by taking the average of the adjusted costs for the previous 5-year period and  
14 inflating it using the GDP Deflator of Canada. Given annual budget estimates are based  
15 on historical averages, variances from budget are simply the result of work requirements  
16 in a given year being above or below average.

17  
18 In 2017, the actual cost of the *Replacement Due to In-Service Failures* project was  
19 approximately \$1,600,000 below budget. This variance was primarily the result of lower  
20 than expected inventory equipment requirements.<sup>1</sup>

21  
22 In both 2018 and 2019, the number and cost of in-service failures increased over 2017  
23 levels. This included the repair of 2 failed power transformers in 2019.<sup>2</sup> In addition, the  
24 number of in-service failures drew down the Company's inventory of corporate spares,  
25 which in turn had to be replenished.

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<sup>1</sup> See 2017 *Capital Expenditure Report, Appendix A, page 2* filed with the Board February 28, 2018.

<sup>2</sup> See 2019 *Capital Expenditure Report, Appendix A, page 3* filed with the Board February 28, 2020.