



UE20718

IN THE MATTER of an application of
by Maritime Electric Company, Limited for approval
of a 2011 Capital Budget.

- and -

IN THE MATTER of capital budget
variances for 2009.

Interrogatories of Commission Staff

September, 2010

Commission staff hereby requests a response to the following written questions:

Question No. **Description**

Re: 2011 Capital Budget

- S-1 • Please provide the Commission with an update on the discussions with the various government agencies related to the possibility of a third cable interconnection with New Brunswick.
- Is there a date which can be identified that final decision will become public?
- Please update the Commission on the status of the existing cable interconnections with NB Power – life expectancy, capacity constraints, maintenance inspection updates, etc.
- S-2 • Please provide further details on the G-1 Charlottetown Plant Buildings and Services Projects (\$299,000), G-2 Charlottetown Plant Boiler Projects (\$470,000) and G-3 Charlottetown Plant Turbine-Generator Projects (\$364,000). What projects are planned, what is the cost per project and what are the consequences of delaying this expenditure? For projects specifically identified please provide an assessment of the consequences of delaying these projects.
- S-3 • Please update the Commission on the role of both the Charlottetown plants and the Borden plant within the Company's energy supply system. Taking into consideration the limited Company use of these facilities, what is the business case which supports the continued use of these facilities in their current role? Will this role change if an investment is made in a third cable interconnection with New Brunswick? What is the business case that supports these changed role?

- Please identify what Maritime Electric considers the main benefit of the proposed third cable interconnection and the implications on existing Maritime Electric operations.
- S-4 • The PEI Seniors Federation has provided the Commission with comments (see attached) concerning this budget application. Please provide the Commission with a response to the issues identified in the Seniors Federation filing.
- S-5 • What is the budget breakdown between the various categories included in the request for D-1 Replacements due to Storms, Collision, Fire and Road Alterations (\$1,091,000)?
- S-6 • Please provide the unit cost price changes in the last five (5) years for pole and pad mounted transformer. How many transformers were replaced in each of those years.
- S-7 • For aged service lines to be replaced under budget item D-3 Services and Street Lighting (\$3,425,000), please provide reliability and service interruption statics which support replacement expenditures.
- S-8 • Please provide Company policy for the amount of customer contribution associated with line extensions (D-4). What value to customers can be associated with closing the gaps in the distribution system on the MacIsaac Road in West Prince and on Route 12.
- S-9 • Please provide further details concerning the line rebuilds (single and three phase) planned for 2011. What is the age of the planned line rebuilds? What are the recent reliability statistics?
- S-10 • What is the approximate age of the pole for pole replacements (\$700,000) planned? The plan calls for 200 less pole for pole replacements, why? What implications will this have on reliability statistics?
- S-11 • How many porcelain cutouts will be replaced in 2011 and how many are in the system? What was the original life expectancy of these cutouts and how many years have they lasted?
- S-12 • What savings per year can be identified with the 10,500 RI meters installed? Has Maritime Electric considered electronic billing in an effort to further reduce billing costs?
- S-13 • Please provide a detail list of the system equipment planned for replacement (\$1,289,000) and the implications for delaying these expenditures.
 • Please provide an estimate of each item that will be purchased for the indicated costs.
- S-14 • What are Company plans for vehicles replaced?
- S-15 • What is the anticipated customer take up of payments by kiosk system? What other options currently exist for customer payments? Please

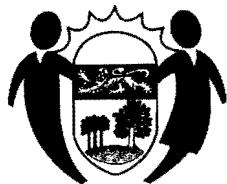
provide a summary of approximately how many customers use each of the payment options. Will the kiosk system affect other businesses?

- S-16
 - During the ice storm of 2008, the Company informed the Commission that some metal supports on poles failed prematurely. Have these supports, used in other parts of the PEI transmission system, been replaced?
- S-17
 - Please provide a general status report on the transmission system including age of lines, condition, planned upgrades in next 5 years.
- S-18
 - Please provide the Commission with information on the percentage of the Kent Street office building used by Maritime Electric and other tenants. How many staff does Maritime Electric house at this location? How many staff do other tenants employ at this location? Has the Company considered if there are any economic benefits and cost saving that could accrue to ratepayers if downtown staff were located elsewhere? What is the value of the downtown office location?
- S-19
 - How old is the mobile meter reading device technology and what is the life expectancy of the proposed replacement (\$185,000)?
- S-20
 - Please provide an analysis of the benefits of the proposed inventory management system versus the cost (\$100,000).
- S-21
 - Please provide a more complete description of the benefits of the customer services training software and related cost savings, if any.

DATED at Charlottetown, Prince Edward Island, this 28st day of September, 2010.



Mark Lanigan, CA
Analyst, Technical & Regulatory Services
Island Regulatory & Appeals Commission

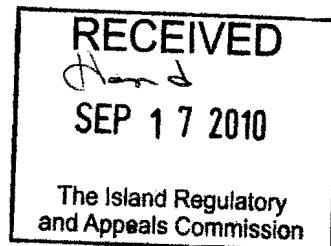


PEI SENIOR CITIZENS' FEDERATION INC.

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September 15, 2010

Island Regulatory and Appeals Commission
Attention: Commission Docket UE20718 & UE20716
P.O. Box 577
Charlottetown, PE C1A 7L1



Sirs,

Filing for IRAC Notice of Application – UE20718 & UE 20716

Our sub-committee has reviewed the content of the Maritime Electric Co. Ltd. (MECL) 2011 Capital Budget evidence document submitted to IRAC on July 15, 2010 and has received responses to six (6) questions relating to this application from MECL.

In summary, we must again register our concern that this application (as with previous applications), requests year-to-year increases in capital expenditures for what is essentially a static business. Each year, the annual capital expense exceeds the annual capital depreciation which increases capital holdings and indirectly increases MECL profit. The increased capital expense and resulting increasing profit is all paid for by Maritime Electric customers.

We also conclude from the recent rate application process and the content of the Capital budget application, that MECL is focused on increasing capital expenditures each year. It appears to us that without adopting standard objective business analyses or rationales, MECL simply rejects any opportunities to reduce the annual capital expenditure or apply funds in a more optimum way.

For example:

- 1) **Re-ranking projects:** The funds relieved as a result of deferring/postponing certain Charlottetown Plant projects pending funding for a third PEI and NB transmission cable have simply been distributed to other "re-ranked" projects. How has MECL justified (to IRAC) an increased investment, by a factor of five times, in the Borden Plant? This Plant historically generates negative net energy which costs over two times the cost of energy from the Charlottetown Plant.
- 2) **Services and Street Lighting:** MECL originally forecasted an expenditure for 2011 that was similar to 2010; now the explanation for a 23% (net) increase for 2011 is that the average for the years 2007 to 2009 has now been adopted.

- 3) **Wind energy integration and smart metering:** In response to our suggestion to assign a proportion of the capital investment planned for continued Remote Interrogation (RI) meter deployment to a smart metering project, MECL consume three pages of explanation to reject this opportunity and describe its passive approach to smart metering and increased wind energy integration. Summerside Utility is investing \$2.0M and embracing the concept of offering consumers the opportunity of lower cost off-peak (wind) energy. Whereas our monopoly, major utility is content to watch and invest an "entry fee" of \$350,000 over a five year period in a \$32M Atlantic Load Control project.
- 4) **Organic Growth:** This is a (new) term used by MECL in our interrogatories response document to describe one basis for capital expenditure allocation. This section of the response document describes "new construction, industrial/commercial expansion and Government infrastructure initiatives" as requiring increased capital but does not quantify the specific budget item that applies to each requirement. It appears that MECL adopts simple subjective criteria to the allocation of capital funds assuming a perpetual annual increase in capital budget and without any affordability restraints. This approach is particularly disturbing when the total energy demand for PEI is actually declining every year.
- 5) **Framework for evaluation of capital budget expenditures:** Without any publicly available information on the IRAC processes used to evaluate the annual applications from MECL, we respectfully suggest the following framework as a basis for evaluation:

Commercial industries, for affordability and shareholder accountability, are required to objectively evaluate the coverage of business risk and opportunities that drive capital expenditures. Typically these capital expenditures are objectively, not subjectively, evaluated by:

- a. The operating maintenance cost of capital is exceeding depreciation hence replacement may be warranted
- b. Introduction of new capital reduces short term operating and/or supply expenses, i.e. a short term payback applies
- c. Introduction of new project capital reduces longer term operating and/or supply expenses, i.e. a long term payback applies.
- d. For each of the above three categories of capital request, we propose that IRAC seek an assessment of each capital budget line item by posing the questions:
 - i. What impact would result by reducing the line item by 30%
 - ii. What impact would result by reducing the line item by 50%
- e. Finally, capital expenditures required to mitigate risk are often the most difficult to quantify. Here a simple objective two-question ranking system helps to prioritize: On a scale of 0 to 1 "what is the probability of the risk occurring?" followed by, again on a scale of 0 to 1, "what would the impact

or severity to the business if this risk was to occur?" By multiplying these two factors a simple ranking order, again on a scale of 0 to 1, is provided that sets an affordability versus risk decision scale.

We urge the IRAC Commissioners to seriously consider the above as "evidence" enough to warrant a detailed evaluation of this capital expenditure application and we further recommend that the historical pattern of annual increases for approved capital budgets be halted.

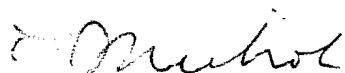
Finally, we request that our correspondence to/from MECL and this filing be posted for public review on the IRAC web site upon receipt.

We thank you in advance for your attention,

Sincerely,



John Kenny
President



JK Roger King
Chairman, Maritime Electric/IRAC Sub-committee

cc: Premier Robert Ghiz
Minister Richard Brown
Hon. Mike Currie
John Jeffries – Political Correspondent, CBC News
Wayne Thibodeau – Guardian Senior Political Correspondent