



Energy
Corporation

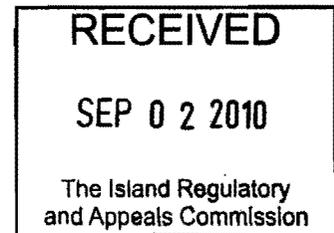
Société de
l'énergie



Office of the Chief Executive Officer
PO Box 2000, Charlottetown
Prince Edward Island
Canada C1A 7N8

Bureau du président-directeur général
C.P. 2000, Charlottetown
Île-du-Prince-Édouard
Canada C1A 7N8

August 31, 2010



Mr. J.W. Geldert
Vice-President, Finance &
Chief Financial Officer
Maritime Electric Company, Limited
PO Box 1328
Charlottetown, PE C1A 7N2

Dear Mr. Geldert:

RE: Maritime Electric Company, Limited 2011 Capital Budget Evidence

Please find attached Government's requested responses in regards to the evidence that Maritime Electric has filed for their 2011 Capital Budget Evidence.

Yours truly,

Wayne MacQuarrie

C. Mr. Mark Langan
Island Regulatory & Appeals Commission

Attach.

**REQUESTED RESPONSES: MARITIME ELECTRIC COMPANY, LIMITED
2011 CAPITAL BUDGET**

- Question 1. In *Section 1 - Introduction*, it is stated that Maritime Electric will transition to the International Financial Reporting Standards (IFRS) from the Generally Accepted Accounting Principals (GAAP). Please describe the main differences between these two standards in regards to capital expenditures.
- Question 2. It is further stated in *Section 1 - Introduction* (paragraph 2 on page 1-1) that Maritime Electric has, “..... assumed a direct assignment to capital work orders of costs previously captured under the heading Capitalized General Expense.” Is this not a case of recovering a cost in a rate base and then having it rolled into capital expenditures to become shareholder equity? Is this considered to be acceptable accounting practice?
- Question 3. Within *Section 3 - Generation*, there are numerous capital expenditures for refurbishing on-Island generation. It is noted in the evidence that Maritime Electric is aware that the Province has submitted an application to the federal Green Infrastructure Fund for a third cable interconnection to the mainland that would make these facilities redundant. How are the capital improvements to these generating assets justified in light of plans for a third cable? Please provide further explanation as to why these expenditures are necessary in the short term?
- Question 4. The budget item in *Section 4 - Pole for Pole Replacement*, estimates the requirement to replace 700 poles. It would appear, from the estimated life of these items, that only 3% of the stock require replacing which amounts to 360 poles. Why is it anticipated that additional poles will require replacing in the upcoming year? Has, in the past, more than 3% of the distribution poles been replaced on an annual basis? If so, why has this been required and how long has it been required?
- Question 5. It regards to *Section 4 - Distribution*, it was noted that the total capital budget for distribution expenses rose to approximately \$15 million in 2007. It is assumed that this level of spending was a result of the catastrophic ice storm in that year. Why has this level of spending persisted for capital expenditures on distribution infrastructure?
- Question 6. Within *Section 4* it is also noted under the category “Single Phase and Three Phase Rebuilds” that there are provisions for pole replacement. How many poles are expected to be replaced as a result of this budget item? Are these the same poles that are described under the category “Pole for Pole Replacement”?
- Question 7. Are the meters described in D-6 able to be interrogated from the meter shop in Charlottetown or regional offices? If not, what is the approximate range (distance) from which a meter can be read?

**REQUESTED RESPONSES: MARITIME ELECTRIC COMPANY, LIMITED
2011 CAPITAL BUDGET**

- Question 8. Is the anticipated capital expenditure in *Section 6 - Information Technology* (\$909,000) consistent with the level of spending from previous years? As a general question that was also posed above, are not some of these expenditures (i.e. labour costs) included as constituents to form the rate base, as well as being included in shareholder equity for the purpose of receiving a return on equity? Please provide comment on the appropriateness of this practice.
- Question 9. Within *Section 8 - Interest During Construction* , \$210,000 is allocated. Please describe what projects are anticipated that would accrue this amount of interest. Please provide an explanation as to how interest is calculated and the interest rate that will be used.
- Question 10. It is noted that Maritime Electric is expecting \$265,000 in Customer Contributions. What is the breakdown or sources of this amount? Why is it significantly lower than previous years?