

September 21, 2012

Mr. Wayne MacQuarrie
PEI Energy Corporation
PO Box 2000
Charlottetown, PE C1A 7N8

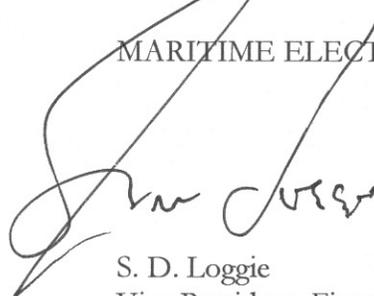
Dear Mr. MacQuarrie:

**Responses to Interrogatories
Maritime Electric 2013 Capital Budget**

Please find attached the Company's response to the Interrogatories filed by the PEI Government with respect to the 2013 Capital Budget.

Yours truly,

MARITIME ELECTRIC



S. D. Loggie
Vice President, Finance and Corporate Services
and Chief Financial Officer

SDL36

Enclosure

cc: M. Lanigan, IRAC

1. As an overall comment there has been noted a \$3 million increase during the past two capital budgets as compared to the period of 2007 to 2011 when the budget was in the \$21 to \$22 million range. What is the justification for this 14 per cent increase and is there some possibility of deferring some of the proposed expenditures?

Response:

1. The increased capital expenditure activity the Company requested in 2012, and seeks in 2013, versus the level of expenditures incurred over the 2007 – 2011 period is a result of necessary capital spending requirements in the areas of generation, distribution and transmission. The factors driving these requirements are discussed for each of these areas below.

a) Generation

Planned generation related capital spending (Section G) is expected to increase, on average, approximately \$.8 million annually in the 2012/2013 period versus the approved capital expenditure levels over the 2007 – 2011 period.

In 2013, the Company seeks approval to spend approximately \$0.6 million to undertake engineering and environmental activities in advance of the installation of Submarine Cable #3. While filed within Section G, this is not an expenditure directly attributable to the capital improvement of the Company's generation fleet. Excluding the requested expenditure in 2013 to begin preparation work on Submarine Cable #3 the incremental expenditures in 2012/2013 will be, on average, approximately \$0.5 million higher annually versus approved capital expenditures over the 2007 – 2011 period.

Maritime Electric's three on-Island generation facilities provide critical standby capabilities for the Island's reliable supply of electricity and are comprised as follows:

Charlottetown Thermal Generating Station (CTGS)	5 Generators	60 MW
Borden Generating Station (CT1 & CT2)	2 Generators	40 MW
Combustion Turbine #3 (CT3)	1 Generator	50 MW

The primary role of Maritime Electric's generation fleet is backup for the existing submarine cables, for on-island supply in times of supply curtailment from off-island energy suppliers or during transmission line outages in New Brunswick or PEI.

The Generation Capital Budget is made up of projects required to keep the generating facilities in a state of readiness to meet reliability obligations and operating considerations as required by the Company's Energy Purchase Agreement with NB Power, safety regulations, boiler inspection branch recommendations, cable overloading, contingency planning and insurance requirements.

The CTGS continues to be relied upon to provide services which are beneficial to customers. Management has been deferring major life extension investments for three years as it seeks to implement an economic replacement for the CTGS.

During 2012 and 2013 certain significant generation-related projects were required for necessary capital refurbishments or replacements and to ensure a reliable fleet of generation equipment will be in place in the event of a disruption in the primary source of supply including:

2012 (Approved)

Refurbish Air Preheaters (units 9 & 10) (CTGS)	\$ 506,000	G-2
Replace Generator Voltage Regulation (CT3)	\$ 225,000	G-3
Mechanical Overhaul (CT2)	<u>\$1,178,000*</u>	G-4
Total 2012 Major Projects under Section G	<u>\$1,909,000</u>	

* *deferred until 2013 due to need to operate facilities during submarine cable repairs in 2012.*

2013 (Requested)

Roof Refurbishment (CTGS)	\$ 123,000	G-1
Boiler Improvements (CTGS)	\$ 105,000	G-2
Boiler Insulation Replacement (CTGS)	\$ 130,000	G-2
Turbine Insulation Replacement (GT3)	\$ 125,000	G-3
Off Base Oil Cooler Replacement (CT1)	\$ 188,000	G-4
Replacement of Fuel Pump/ Lube Oil Cooler (CT1)	<u>\$ 350,000</u>	G-4
Generation-Related subtotal	\$1,021,000	
Submarine Cable #3 Preparatory Work	<u>\$ 618,000</u>	G-5
Total 2013 Major Projects under Section G	<u>\$1,639,000</u>	

The Company will continue to balance the need to ensure reliable back up generation is available and the need to defer generation related costs related to CTGS until an economical replacement is in place. Management feels the capital spending requirements set out in the 2012/2013 capital budgets are necessary and prudent.

b) Distribution

Distribution related capital spending (Section D) is expected to increase, on average, approximately \$1.4 million annually in the 2012/2013 period versus the approved capital expenditure levels during the 2007 – 2011 period. Management feels the capital spending requirements set out in the 2012/2013 capital budgets under Section D are necessary and prudent.

The various areas of capital spending incorporated into the Company's Capital Budget evidence under Section D (including vehicles, contractor labour, internal labour, poles, etc.) have been subject to annual inflationary level increases. Some equipment costs, such as conductor, have risen more substantially due to the escalating costs of metal. Some customer driven categories within the Distribution capital budget, including the provision for storms, customer services, transformers

and line extensions have been increased over the 2007 to 2013 period to reflect historical actual costs. However, the increases in capital spending in the Distribution area can be substantially attributed to Distribution Rebuilds (D-5). Planned expenditures in 2012/2013 will average \$4.1 million while approved expenditures in the 2007 to 2011 period in this category averaged \$2.9 million annually.

The Distribution Rebuild section (D-5) of the Company's Capital Budget evidence currently has 3 components: i) single phase/three phase rebuilds, ii) pole for pole replacement and iii) porcelain cutout replacement program. Each of these components are discussed below:

i) Single Phase / Three Phase Rebuilds (2012 - \$3.0 M; 2013 - \$3.0M)

The Company owns and maintains approximately 4,871 km of distribution lines.

In 2009 the Company undertook an extensive assessment of all distribution plant assets including poles, conductor, transformers and other electrical equipment in the Company's distribution system. The assessment confirmed the Company has over 120,000 distribution poles and the extensive assessment of these structures undertaken in 2009 determined that there were roughly 19,400 untreated eastern cedar poles in the system. The majority of these poles, and the cross arms, insulators and conductor that they support, have an age of 40 years or older, and are approaching the end of their useful life. Over 2,600 poles were assessed as poor or rejected during this field assessment.

The Company compiled an extensive database of all distribution lines and for each of these lines a weighted criteria is applied to determine the priority of distribution rebuilds the Company should undertake. Distribution lines with aged eastern cedar poles and aged conductors receive the highest priority for rebuilds within the weighted criteria. The complete criteria weighting used to prioritize rebuilds is as follows:

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Weighting	Criteria
40%	Condition, age and size of conductor
30%	Condition and age of pole/Density of Eastern Cedar poles
15%	Customers affected by an outage on distribution line
10%	Reliability history (Hours of outage associated with the line)
2.5%	State of vegetation management
2.5%	Density of porcelain cutouts

The 2012 and 2013 rebuild budget, for single phase and three phase distribution lines will allow for approximately 50 km (or approximately 875 poles) of aged distribution line to be rebuilt with new poles.

ii) Pole for Pole Replacement (2012 - \$.7 M; 2013 - \$.7 M)

Since 2007 the Company has proposed, in its budget applications, the pole for pole replacement of between 700 to 900 poles annually. This area of the Distribution Rebuild Capital budget has not seen significant change since 2007.

Individual poles are replaced when they are deemed not to meet an acceptable utility standard for reliability or safety. Poles are identified for replacement through the process of upgrading transformer services, through visual inspection programs such as the Field Assessment Program, Spill Prevention Program or as a result of a customer service visit. Untreated cedar poles represent the vast majority of pole for pole replacements and these poles have an estimated age of 40 years or older and are approaching the end of their useful life.

In considering the pole for pole replacement program discussed above and the number of poles replaced under the rebuild program discussed in i) above, approximately 1,575 poles will be replaced annually under current capital spending levels in 2012 and that proposed for 2013. This represents approximately 1.3 per cent of the approximate 120,000 distribution poles the Company maintains within its 4,871 km of distribution system.

iii) Porcelain Cutout Replacement Program (2012 - \$.4M; 2013 - \$.4 M)

The Company has approximately 40,300 cutouts in the Distribution System. The Porcelain Cutout Replacement Program was initiated in 2008 to accelerate the conversion of porcelain cutouts to polymer cutouts at annual capital budget expenditure levels of \$100,000 in the 2008 – 2009 period, and then increased to approximately \$400,000 annually over the 2010 – 2013 period.

Life expectancy can vary for porcelain cutouts depending on the environmental factors under which they operate including winter temperature fluctuations, cold temperature extremes and salt and dirt contamination, as these are key factors in premature failure. PEI's environment is considered to be challenging with respect to all of these factors. In particular, northern climates like PEI's subject porcelain cutouts to a "freeze thaw" cycle which can lead to the development of hairline cracks which are then subject to mechanical forces when opening, closing and re-fusing these porcelain cutouts.

All of the Atlantic Province's electric utilities have experienced premature failures with porcelain cutouts and have stopped purchasing them in favor of polymer synthetic cutouts. Maritime Electric has experienced a significant number of premature cutout failures and many of the failures have resulted in pole fires. Suppliers of cutouts estimate life expectancies in the 40 year range; however, Maritime Electric is experiencing failures in cutouts well before the estimated life expectancy is reached. Porcelain cutouts represent both a key reliability and safety issue for the Company.

The Company is targeting specific areas, under the Program, where porcelain cutout failures are occurring more frequently. The Company's intention is to continue with this program until all porcelain cutouts are removed. Of the approximate 40,300 cutouts in the system currently roughly 23,500 are porcelain and 16,800 are synthetic polymer. The Porcelain Cutout Program, in

conjunction with the regular replacement of porcelain cutouts associated with ongoing construction and refurbishment programs results in the conversion of approximately 2,100 cutouts to polymer on an annual basis.

c) Transmission

The area of capital spending that is expected to see the greatest increase in capital spending is Transmission. Transmission related capital spending (Section T) is expected to increase, on average, approximately \$2.2 million annually in the 2012/2013 period versus the approved capital expenditures during the 2007 – 2011 period.

The increase in capital spending within the Transmission category is substantially attributed to costs associated with the Y-104 transmission line project over the 2012-2013 time frame while maintaining necessary capital programs to refurbish or replace 69 kV and 138 kV lines, switches and substations. In the 2012-2013 period, the budgeted average annual expenditures related to the Y104 project are \$1.94 million.

The 69 kV transmission line T-4 between the Charlottetown Plant and the Lorne Valley Substation was built in 1965 and is approaching the end of its life. The Company has developed a plan to replace this line with a new 138 kV transmission line. The new 138 kV transmission line (Y-104) will connect West Royalty Substation to the Church Road Substation.

The Y-104 project is a complex multi-year project (2012-2018) spanning 84 kms which will substantially reduce electrical losses and:

- Ensure system reliability in eastern PEI;
- Accommodate future load growth in the eastern part of PEI; and
- Enable additional wind power to be installed in the eastern part of PEI.

A new 138 kV transmission line (Y-104) will be constructed from the West Royalty Substation to the Church Road Substation. A 45/60/75 MVA transformer will be installed at the Church Road Substation to support the 69 kV system in the Dingwells Mills area. The existing line T-12 from the Church Road Substation to the Eastern Kings Wind Farm will then be energized at 138 kV. A route is currently in the process of being selected to construct the 138 kV transmission line from Church Road to the West Royalty Substation, a distance of approximately 84 kilometres.

The above total estimated cost may vary in future years depending on the final transmission route and system configuration.

The capital expenditure set out in the Company's 2012 and 2013 capital budget for the Y014 project and other related transmission capital projects, are seen as necessary and prudent.

2. The word “provisional” has been widely used to describe budgeted sums in the G1 and G2 items. Does provisional amount mean a worst case scenario or best case scenario or is it based on historical averages or some other metric?

Response:

2. The third item under Miscellaneous Buildings and Services under the G-1 category would provide for on-going replacements that arise and are based upon both the history of expenditure and a number of small initiatives to improve the safety and security of the facility. The G-2 amounts are more provisional in the sense that unless there are upgrades or replacements required during the year, expenditures will be limited.

Due to the uncertainty of the Charlottetown Plant’s future, Management has deferred projects that otherwise would proceed for an operational facility. The tradeoff is the potential exposure to increased unplanned events that require resources. The provisional allocations are intended to address this possibility.

3. On page 3-4 it has been stated that operations have been changed at the Energy Control Centre (ECC). What are these changes?

Response:

3. There are three drivers for the renovations at ECC:
- 1) A new work station has been established to accommodate the ECC Day Shift Operator, a new position created in 2012. Temporary arrangements have been made however further renovations are required.
 - 2) The 2011 project that allowed for a SCADA system display has made the existing analog mimic board redundant. The removal of the mimic board will free up office space that can be used but requires renovation.
 - 3) SCADA equipment currently in the Control Room will be relocated, freeing up space and will allow for redevelopment of the ECC Control Room.

To enable the mirroring of the ECC Control Room, the back up control centre requires a work station for the recently created Day Shift Operator position.

4. A budget of \$350,000 has been allocated for the replacement of a fuel pump and lube oil cooler at the Borden Plant. What is the component breakdown for this amount?

Response:

4. The material breakdown for this project is as follows:

<u>Item</u>	<u>Quantity</u>	<u>Unit Cost (\$)</u>	<u>Total</u>
New Foundation	1	1,000	\$ 1,000
New Structural Steel Skid	1	5,000	5,000
Required Controls Changes	1	25,000	25,000
New Power Supply	1	10,000	10,000
New Fuel Pump & Fuel Control	1	105,000	105,000
New Gas Generator Lube Oil System	1	125,000	125,000
Miscellaneous	1	5,000	<u>5,000</u>
Sub-Total			\$ 276,000
Contingency	20%		55,200
Estimated Labour			<u>18,800</u>
Total			\$ 350,000

5. G-5, on page 3-10 describes the proposed budget to prepare for a third submarine cable. It is noted in the first paragraph of 3-10 that the management of Maritime Electric Company, Limited (Maritime Electric) have concluded that extending the life of the Charlottetown generating plant is not a viable option. Government supports that decision. At the bottom of page 3-10, and continuing on the following page, are a number of items which Maritime Electric wishes to pursue as necessary preparatory work, particularly in regards to routing a third cable. While a submarine option appears to be the most likely scenario, has Maritime Electric considered the possibility of the third cable being externally attached to the Confederation Bridge? What are the breakdown costs of a seabed examination? How critical is it that the seabed examination take place in 2013?

Response:

5. The Company does realize that a third cable attached externally to the Confederation Bridge is a possibility but at this time no decision has been made by the bridge owner on whether this is feasible. Until such time that a firm commitment is received with respect to attaching externally to the Confederation Bridge the Company believes it must pursue the submarine cable option as a parallel activity.

At this point specific costs are not known for a seabed examination and the amount proposed is provisional. Stantec has been retained to perform an environmental gap analysis which will detail the environmental study requirements and the associated timelines. The seabed examination would be performed first as the results will dictate many things including cable route, substation locations (based on cable route) and transmission line routing. The substation and transmission line routing also requires Environmental Impact Assessments and any delays in the seabed examination will delay the other components of the project.

6. In the third bullet at the top of page 3-11 it is stated that Maritime Electric would seek IRAC’s approval for their “component” of the project? What is this component?

Response:

6. Maritime Electric believes that it is necessary to install a third cable within the next several years in order for the Company to continue to be able to provide reliable service to customers at reasonable costs. In order to ensure this outcome, the Company believes the project must proceed regardless of the level of government funding and Maritime Electric is prepared to provide the funding to complete the project if necessary.

The engineering, planning and environmental studies for the land and marine aspects that the \$618,000 will provide for are an essential first step for the project.

The component referred to in the Company’s evidence relate to the expenditures required to interconnect the new cable, whether attached to the Confederation Bridge or submarine cable, to Maritime Electric’s existing transmission facilities at Borden in the form of substation expansion and modifications to existing transmission lines.

7. Given that the existing submarine cables are owned by Government and the third cable is also likely to be owned by Government, how will the \$618,000 for the cable preparatory work described in G-5 be financially treated? Would the \$618,000 earn a return on equity as a deferred expense? In the event that Maritime Electric is fully compensated for this amount, please confirm that this expense would be deducted from the equity base.

Response:

7. The Application proposes to treat the planned expenditure of \$618,000 plus an allowance for interest during construction as a deferred charge on the Company's balance sheet until such time as the cable installation financing arrangements have been finalized. The allowance for interest during construction is also referred to as an allowance for funds used during construction (AFUDC), which represents the Company's weighted cost of financing (debt and equity) a particular expenditure. Reducing the Company's current year financing costs by the AFUDC and adding it to the deferred costs will result in the Company not earning a return on this expenditure, until such time as there is a final determination as to the ownership or disposition of the costs. In addition, the deferral of the AFUDC will result in electricity customers not bearing any costs related to the project until a determination is made as to who will be responsible for recovery of the costs.

This treatment is the same as that given to construction work in progress in which the cost of financing (debt and equity) the expenditure is removed each year from the Company's Revenue Requirement (i.e. a reduction in financing costs) and added to the deferral as an allowance for interest during construction (or AFUDC) until the asset is placed into service. Likewise, this accumulated deferral will be excluded from the calculation of the Company's Rate Base for purposes of determining the Return on Average Rate Base until the project is completed and the ownership of the deferral amount is determined. Should the Company be fully compensated for both the expenditure and the associated AFUDC, the funds would be utilized to offset the debt and equity associated with funding the expenditure.

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8. It is noted in the second paragraph of page 4-1 that Management is seeking to increase its efforts to replace aged Distribution Equipment. What is this based upon?

Response:

8. Up until recently, the Company's main reliability focus has been on the replacement of aged transmission and distribution lines. The equipment covered by this account includes equipment such as mobile radios, remote terminal units, teleprotection, protective relays, reclosers, SCADA control, voltage regulation equipment etc. which are vital in ensuring that the distribution system is operating safely and reliably. The distribution equipment initiatives together with other planned equipment replacements and upgrades will contribute to maintaining reliability of these systems, which will result in providing customers with an appropriate level of reliable electricity service. For example failure of a voltage regulator or recloser in a substation will result in wide spread outages in a community, therefore it is vital that aged distribution equipment be upgraded before a failure occurs.

Much of this equipment in service is approaching the end of its useful life and Management has begun to develop longer term plans to address the timely replacement of the aged assets. Over the years many installations were upgraded or replaced to address load growth, however there is a significant percentage of original installations in service.

For 2013 the replacement of a 1990s vintage mobile radio system is the largest single project.

9. The D-1 expense on page 4-1 is described to be \$1,195,000. Please provide an explanation as to how this amount has been formulated. Is it based on historical averages or some other method?

Response:

9. This budget request is a combination of two types of expenditures; government road work related and replacements due to storm, motor vehicle accidents and fire. The road work component is derived from consultations with government officials while the other category is trended based upon historical expenditures.

In 2013, the Company has included an allocation for costs to be incurred as a result of the road alternations in Strathgartney and the two proposed roundabouts on Belvedere Avenue and Brackley Point Road. These budgetary estimates were determined based on discussion with the Department of Transportation and Public Works.

10. On page 4-3 in which D-3 budget items are described, the estimate for Service Lines and Underground Service Lines are stated to be \$3,150,000 and \$297,000 respectively. Approximately, how many kilometers of each may be constructed from these amounts?

Response:

10. The budget amount in D-3 (Services and Street Lighting) provides for the construction or replacement of overhead service lines for new or upgraded services where overhead secondary conductor such as duplex, triplex or quadraplex is installed. The budget amount also provides for the construction or replacement of underground service lines for new or upgraded services where insulated underground cable such as #2 aluminum or 1/0 aluminum is installed. Over the past 5 years, approximately 60 kilometers of overhead and 3 km of underground cable have been installed annually and the budget amount reflects these quantities.

11. What is the difference between D-3 and D-4 activities?Response:

11. The budget amount in D-3 (Services and Street Lighting) provides for the construction or replacement of overhead and underground service lines that are a few spans (i.e. less than 0.5km) and are usually low voltage construction with possibly a short length of primary distribution line on private property. The budget amount in D-4 (Line Extensions) provides for the construction of single phase and three phase primary line extensions along public right of ways. Line extensions (D-4) are typically required as a result of load growth in the area or as a result of new customers requiring single phase or three phase service in an area that does not have overhead primary lines. An example of an activity budgeted for in D-3 would be a new residential home, apartment building or commercial establishment built along the road where overhead lines exists, whereas an example of an activity budgeted for in D-4 would be a new residential home, apartment building or commercial establishment built in an area where no single or three phase overhead line exists. A line extension from a nearby overhead line would be required to be built.

If the construction is driven by a customer request a contribution is required; if the Company has determined the need for the construction it must budget for the cost.

12. What is the criteria or determinant(s) for necessitating line rebuilds as described in D-5? Specifically, it does not appear that the lines scheduled for replacement experience lost service hours. The age of cedar poles appears to be the determinant. Has there been an analysis to show that the cedar poles are good for only 40 years or is replacement predicated on the depreciation schedule for this item?

Response:

12. The Company uses several criteria to prioritize distribution rebuilds. Reliability history, represented by the hours of outage (lost service hours) provided for reference as part of the Capital Budget evidence, is just one of these criteria. The following weighted criteria are applied to determine the priority distribution rebuilds the Company should undertake:

Weighting	Criteria
40.0%	Condition, age and size of conductor
30.0%	Condition and age of pole/Density of Eastern Cedar poles
15.0%	Customers affected by an outage on distribution line
10.0%	Reliability history (Hours of outage associated with the line)
2.5%	State of vegetation management
2.5%	Density of porcelain cutouts

Untreated eastern cedar poles have an estimated age in the range of 35 – 45 years and represent the vast majority of pole replacements as most have reached the end of its useful life. The Company has not completed an analysis on the strength of the eastern cedar poles currently in service; however these poles have been identified for replacement through visual inspection programs such as the Field Assessment Program and Spill Prevention Program. In addition, eastern cedar poles represent the majority of the Company’s pole failures. The Company is being proactive in replacing aged eastern cedar poles approaching the end of its useful life before they fail.

13. Within the D-7 category, the table on page 4-15 estimates the total labour cost to be \$525,000. Is this labour to be externally or internally sourced?

Response:

13. These costs are for internal labor related to the procuring, handling and installing distribution equipment.

14. As a general comment, D-7 expenditures experienced nearly a 50 per cent increase in 2009 from the previous year and, since that time, have steadily increased. Please provide more information in regards to these escalations and comment on the possibility of a continued trend of increasing expenditures in this category.

Response:

14. The ongoing investment in upgrading distribution equipment is fundamental to providing reliable service to customers. Management believes increased expenditures for distribution equipment are required to maintain reliability, meet customer growth, address projected overload conditions and to replace aging assets.

Some distribution equipment expenditures such as mobile communication recur periodically. Currently, there are four repeater sites, which are located in Alberton, Sherbrooke, ECC and Summerville and the radio equipment is 20 years old. The mobile radio coverage is poor in certain areas. In 2013, 5 additional repeater sites are proposed to be added in O’Leary, Glen Valley, Rollo Bay and East Point., which will improve mobile radio coverage in these areas. In 2014, all nine repeater sites will be then upgraded to provide a more reliable and flexible mobile radio network for Maritime Electric’s operations. After 2014, the expenditures for mobile communication equipment will diminish until they need to be replaced because of age or they become technologically obsolete.

Other equipment such as remote terminal units, teleprotection, protective relays, reclosers, SCADA control, voltage regulation equipment etc. need to be gradually replaced because of age or they become technologically obsolete. Remote terminal units, teleprotection, protective relays will be replaced with digital technology that will diminish until they need to be replaced because of age or they become technologically obsolete.

As this equipment represents a smaller number of components than is the case with poles, the time to replace aged assets should be considerably less. Management believes that a replacement plan for these assets can be initiated over a 10 year period as that will cover a large percentage of the installations. Management recognizes the challenges this will present in terms of capital spending and is currently exploring ways to establish overall reliability priorities by comparing expenditures in this area to the other capital reliability programs already in place.

15. On page 5-5 the amount for Environment Impact Assessment appear to be excessive. What environmental issues are typically encountered for the siting of transmission lines that justify this level of expenditure?

Response:

15. The amount in 2012 for the Environmental Impact Assessment (EIA) was based upon EIA costs from previous transmission line projects. The transmission line Y104 from West Royalty to Church Road is 85 km and will be located predominantly in areas with the potential of environmental challenges (bridge and stream crossings and areas with heavy tree growth). Several routing options were selected which add to the cost of the EIA. In addition, 29 km of the new transmission line is being constructed within an existing right-of-way and the Company anticipated that an EIA would have to be completed for this section as well. The Department of Environment and Energy have recently confirmed that this will not be required, which will result in cost savings.

The EIA work approved in the 2012 Capital Budget is currently underway and the number of potential routes has been narrowed down to two main options which will further reduce overall EIA costs. Also, the preliminary migratory bird, rare plants, watercourses and wetland surveys have been completed. Stantec Consulting Ltd., the Company's EIA consultant for this project does not anticipate any major environmental concerns.

16. The C-2 expenditures, particularly those that are described on page 6-2 for Hardware Acquisitions, appear to be excessive. What is Maritime Electric's policy on replacing personal computers and other hardware items?

Response:

16. While the total annual Information Technology budget proposed for 2013 has decreased \$91,000 (or -9.5 per cent) from 2012, the planned expenditure for Hardware Acquisitions has increased by \$45,000, primarily in the category of Servers. As a result of improvements in server technology, the Company is migrating to a virtual server environment wherein multiple servers can be hosted on a small number of powerful computers. This shift in technology will yield many benefits including more efficient use of computing resources across the Company, reduced energy consumption as well as improved disaster recovery capabilities.

The proposed additional Server expenditure in 2013 will allow the Company to increase its available server resources by 25 per cent enabling the IT Department to continue the transition towards the virtual server environment during the years 2013 – 2015. It is anticipated that the planned level of server expenditures in 2014 and 2015 will return to more traditional levels.

The Company deploys either desktop or portable laptop computers as well as related equipment (communications and printing) depending upon each employee's job requirements and the nature of the work performed. It is the Company's practice to replace computers and related equipment as they fail or when their performance begins to significantly affect the employee's productivity.