



Energy
Corporation

Société de
l'énergie



Office of the Chief Executive Officer

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August 10, 2012

Mr. Steve Loggie, CA
Vice-President, Finance &
Chief Financial Officer
Maritime Electric Company, Limited
PO Box 1328
Charlottetown, PE C1A 7N2

Dear Mr. Loggie,

Please find enclosed Government's interrogatories to Maritime Electric's application for their 2013 capital budget. Do not hesitate to contact me if you require clarification on any questions that have been posed.

Sincerely,

Wayne MacQuarrie

cc: Mark Lanigan, CA
Island Regulatory & Appeals Commission

Attach.

2013 Maritime Electric Company, Limited's Capital Budget Application - UE20720
Interrogatories Filed by PEI Government

- Q 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% increase and is there some possibility of deferring some of the proposed expenditures?
- Q2. 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?
- Q3. On page 3-4 it has been stated that operations have been changed at the Energy Control Centre (ECC). What are these changes?
- Q4. 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?
- Q 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 (MECL) 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 MECL 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 MECL 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?
- Q 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?
- Q 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 MECL is fully compensated for this amount, please confirm that this expense would be deducted from the equity base.
- Q 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?
- Q 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?

- Q 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 \$3,150,00 and \$297,000, respectively. Approximately, how many kilometers of each may be constructed from these amounts?
- Q 11. What is the difference between D - 3 and D - 4 activities?
- Q 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?
- Q 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?
- Q 14. As a general comment, D - 7 expenditures experienced nearly a 50% 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?
- Q 15. On page 5 - 5 the amount for Environmental Impact Assessment appear to be excessive. What environmental issues are typically encountered for the siting of transmission lines that justify this level of expenditure?
- Q 15. The C - 2 expenditures, particularly those that are described on page 6 - 2 for Hardware Acquisitions, appear to be excessive. What is MECL's policy on replacing personal computers and other hardware items?