

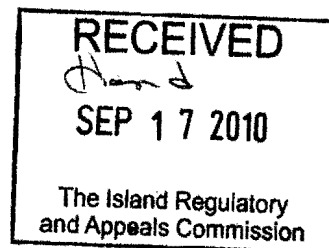


# PEI SENIOR CITIZENS' FEDERATION INC.

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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 respectively 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

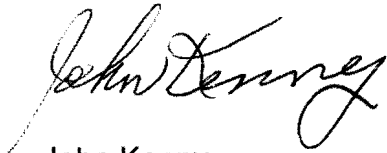
or severity to the business if this risk was to occur?" By multiplying these two factors a simple ranking order, again on a scale of 0 to 1, is provided that sets an affordability versus risk decision scale.

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



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