



September 27, 2011

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

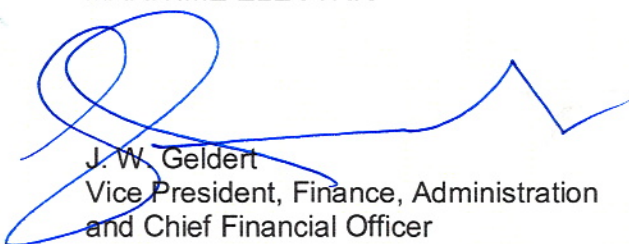
Dear Mr. MacQuarrie:

Maritime Electric 2012 Capital Budget

Please find enclosed Maritime Electric's responses to your information requests dated September 22, 2011.

Yours truly,

MARITIME ELECTRIC



J. W. Geldert
Vice President, Finance, Administration
and Chief Financial Officer

JWG58
Enclosure

cc: Mark Lanigan - IRAC

1. **Re: Response 8**

You have described the cost of owning and maintaining Maritime Electric’s on-Island generating facilities as \$6,600/MW-month. This is considerably higher than \$2,100/MW-month for capacity supplied under the Energy Purchase Agreement of the PEI Energy Accord. Based on your response, the only justification for owning and maintaining on-Island generation is to provide “cable load management”. With the installation of a third cable that will satisfy PEI’s peak load now, and well into the future, on-Island generation could be more expensive than capacity purchased from the mainland and, possibly, redundant. Please confirm this could be the case or more fully elaborate on the need for cable load management with a third cable.

Response:

1. The installation of a third interconnection would positively impact the reliability of off-Island energy supply purchases. The Company’s capacity requirements would essentially remain the same, however, off-Island purchases of these requirements could be acceptable options from reliability and contingency perspectives. The long term availability of off-Island capacity cannot be guaranteed. Availability and cost are a function of market conditions and generation surpluses. The reduction in NB Power’s load due to plant closures and the current price of natural gas contribute to the current pricing situation. When a third interconnection cable becomes a reality, Maritime Electric will seek out supply sources for capacity through long-term contracts. If successful the Charlottetown Plant may become redundant.

The combustion turbines would remain valuable assets that offset approximately \$3.25 million in annual off-Island capacity purchase and provide:

- 10 and 30 minute non spinning reserve
- Quick start generation
- Contingency planning capability
- Voltage support
- Backstop for non-firm energy purchases
- Back stop for wind purchases
- Planning reserve

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2. Re: Response 9

You provided a clear explanation of the heading “Customer Hours” that was used in the tables on pages 4-7 to 4-10, inclusive in the Application. However, the evidence in the tables does not support the reasoning for upgrading the designated distribution lines. For example, most of the designated lines have incurred no or very few outages. It would appear that there must be other criteria for indicating which lines should receive immediate upgrade. Is there other criteria for scheduling distribution line upgrades? If so, please provide this criteria.

Response:

2. The Company uses a number of criteria to determine the priority of distribution rebuilds. Reliability history, represented by the hours of outage provided for reference as part of the Company’s 2012 Capital Budget evidence, is just one of these criteria and represents just 10% of the total weighted criteria used in prioritizing rebuilds. Good utility practice should identify the replacement of infrastructure approaching the end of its useful life before the infrastructure fails and represents a reliability or safety issue.

The Company maintains a data base of all distribution lines and for each of these lines the following weighted criteria is applied to determine the priority distribution rebuilds the Company should undertake:

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 age, condition and size of the conductor has a relatively high weighting as aged conductor is more prone to fail (representing both a reliability issue and a

safety issue). Through the rebuild process there is an opportunity to use larger conductor to reduce line losses and improve voltage quality.

The age and condition of the poles also receive a relatively high weighting. The Company has over 120,000 distribution poles and the extensive assessment of these structures undertaken in 2009 determined that there were roughly 20,000 untreated eastern cedar poles in the system. The majority of these poles, and the crossarms and insulators that they support, are 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 'comments' section of the tables on pages 4-7 to 4-10 provides commentary on the nature of the conductor and poles on the lines proposed for rebuilding.

Other important criteria used in prioritizing rebuilds include the number of customers serviced by the line, the state of vegetation management and the density of porcelain cutouts.

The lines proposed for rebuild outlined on page 4-7 to 4-10 of the 2012 Capital Budget evidence were ranked as priority rebuilds using the weighted criteria above.

3. Re: Response 22

It was stated that the expenditures for Information Technology were consistent with previous budgets. If these expenditures represent the annual norm, it still appears to be an excessive amount. Please provide a more detailed description of the \$956,000 allocated for “Information Technology”, i.e. new software purchases, hardware purchases, software license renewals, etc.

Response:

3. Maritime Electric's IT department is comprised of seven individuals. This staff supports over 50 different pieces of software, approximately 160 personal computers and 25 servers. A significant portion of the IT budget is comprised of hardware replacements/upgrades or software licenses etc. The amounts for hardware/software will fluctuate depending on the age of the equipment. The following schedule outlines the hardware/software requirements for 2012, as shown below, required to meet the continued growth in data collection and storage, the replacement/upgrade of older inefficient servers, improve data security and increase information access for the Company's mobile work force. The majority of the hardware is purchased at reduced rates through the bulk purchasing power of the Fortis group.

Hardware Acquisitions

Servers	\$ 60,000
Communications Equipment	30,000
Personal Computers	55,000
Printers	20,000
Installation Costs	<u>30,000</u>
Total	\$ 195,000

The software purchases/upgrades are shown in the following table. These systems are integral to the daily operations of the Company. Purchased software requires annual maintenance agreements providing for user support, technical upgrades and on-line help. Maritime Electric participates in a number of bulk purchasing initiatives with other Fortis subsidiaries, resulting in substantial savings to Maritime Electric.

Purchased Software and Upgrades

Microsoft Agreements (renewal)	\$	80,000
EPICOR Financials (renewal)		28,000
ESRI Mapping System (renewal)		20,000
Maximo Maintenance (renewal)		15,000
Anti-Virus, Firewall Software (renewal)		7,000
Form Printing Software		3,000
GPS Unit Software		10,000
Development Tools		15,000
Installation Costs		<u>18,000</u>
Total	\$	196,000

The balance of the 2012 Capital Budget for IT represents projects designed to improve operational efficiency. The majority of the costs in these projects (with the exception of the Financial Reporting System) are internal IT labour costs.