



February 28, 2019

Ms. Cheryl Mosher  
Island Regulatory and Appeals Commission  
PO Box 577  
Charlottetown PE C1A 7L1

Dear Ms. Mosher:

***2018 Capital Budget Variance Report***

Please find attached six copies of the Company's 2018 Capital Budget Variance Report. An electronic version copy will follow shortly.

If you have any questions, please do not hesitate to contact me at 902-629-3641.

Yours truly,

MARITIME ELECTRIC



Gloria Crockett, CPA, CA  
Manager, Regulatory & Financial Planning

GCC11  
Enclosure



# **2018 Capital Budget Variance Report**

**Submitted February 28, 2019**

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2018 CAPITAL BUDGET VARIANCE REPORT**

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**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**INTRODUCTION**

On December 19, 2017, the Island Regulatory and Appeals Commission issued Order UE17-03 approving an Application by Maritime Electric Company, Limited (“Maritime Electric” or the “Company”) in respect of its 2018 Capital Budget. This report provides a description of the variances of the actual expenditures from the approved 2018 Capital Budget.

Total capital expenditures (net of contributions in aid of construction) for 2018 were \$29,599,846, or approximately 4 per cent, under the approved budget. The Company has deferred certain 2018 capital projects, totaling \$2,553,000, to 2019 (Appendix I). In addition, the Company has deferred a 2016 capital project, totaling \$60,000 to 2019 (Appendix I). Delays in construction timelines due to environmental factors such as migratory bird nesting season and weather, coordinating timing of a project with the proposal to relocate CT3 balance of plant (“BOP”) equipment to a new building, delays due to road construction work, IT priority changes due to cybersecurity projects and delays in delivery times for certain materials and equipment are the primary reasons for the deferral of projects until 2019.

The total capital expenditure variance for 2018, after consideration of projects deferred to 2019, is \$1,374,313 over budget (see Summary Table on Page 2-1). The Company experienced higher than planned expenditures on replacements due to storms and road alterations (\$1,350,221), higher than planned transformer costs (\$278,447), higher than planned expenditures on distribution investments due to increased customer driven demand for new services (\$728,198), higher than planned costs for transmission substations (\$63,497), higher than planned costs for information technology projects (\$66,339) and higher than budgeted Interest During Construction charges (\$32,111).

These over budget variances were partially offset by lower than planned expenditures on generation asset improvements (\$720,333), lower than planned costs for distribution line rebuilds (\$20,974), system meters (\$36,453), distribution equipment (\$53,676), corporate general projects (\$11,982) and capitalized general expense (\$51,632). The increase in customer driven demand for new services resulted in higher than planned contributions in aid of construction (\$277,905).

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INTRODUCTION**

In 2018, the Company completed \$2,171,989 of previously approved capital project work that was in progress at the end of 2017. A schedule of these projects is provided in Appendix II.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**

**SUMMARY**

	<u>Approved 2018 Budget</u>	<u>2018 Expenditures</u>	<u>Estimated Expenditures in 2019</u>	<u>Total Expected Expenditures</u>	<u>Variance From Budget</u>	<u>Approved 2019 Budget</u>
<b>Generation</b>	\$ 1,771,000	\$ 1,000,667	\$ 50,000	\$ 1,050,667	\$ (720,333)	\$ 1,746,000
<b>Distribution</b>	20,113,000	21,045,764	1,342,000	22,387,764	2,274,764	21,464,000
<b>Transmission</b>	6,240,000	5,528,951	774,000	6,302,951	62,951	7,327,000
<b>Corporate</b>	2,164,000	1,831,357	387,000	2,218,357	54,357	1,784,000
<b>Capitalized General Expense</b>	527,000	475,368	-	475,368	(51,632)	527,000
<b>Interest During Construction</b>	<u>400,000</u>	<u>432,111</u>	<u>-</u>	<u>432,111</u>	<u>32,111</u>	<u>429,000</u>
<b>Sub-Total</b>	31,215,000	30,314,218	2,553,000	32,867,218	1,652,218	33,277,000
<b>Less: Contributions in Aid of Construction</b>	<u>(400,000)</u>	<u>(677,905)</u>	<u>-</u>	<u>(677,905)</u>	<u>(277,905)</u>	<u>(400,000)</u>
<b>Net Total</b>	<u>\$ 30,815,000</u>	<u>\$ 29,636,313</u>	<u>\$ 2,553,000</u>	<u>\$ 32,189,313</u>	<u>\$ 1,374,313</u>	<u>\$ 32,877,000</u>

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**GENERATION**

**Generation – Summary**

	<u>Approved 2018 Budget</u>	<u>2018 Actual</u>	<u>2018 Variance</u>	<u>Approved 2019 Budget</u>
<b>4.1 Charlottetown Plant Buildings and Services Projects</b>	\$ 125,000	\$ 110,031	\$ (14,969)	\$ 171,000
<b>4.2 Charlottetown Plant Boiler Projects</b>	125,000	3,963	(121,037)	8,000
<b>4.3 Charlottetown Plant Turbine-Generator Projects</b>	1,311,000	700,908	(610,092)	1,424,000
<b>4.4 Borden Plant Projects</b>	<u>210,000</u>	<u>185,765</u>	<u>(24,235)</u>	<u>143,000</u>
<b>Total</b>	<u>\$1,771,000</u>	<u>\$1,000,667</u>	<u>\$ (770,333)</u>	<u>\$1,746,000</u>

**4.1 Charlottetown Plant Buildings and Services Projects** **Variance \$(14,969)**

The Generation 4.1 budget category for 2018 consisted of miscellaneous buildings and site services projects as well as a planned renovations at the Energy Control Centre (ECC). The ECC renovation was \$9,928 over budget due to unforeseen expenditures related to the fire alarm panel monitoring service and communications.

The budget amounts for miscellaneous buildings and site services projects were provisional based on past experience; however, no major issues materialized during the year resulting in lower than budgeted expenditures of approximately \$24,897. As a result, Category 4.1 was \$14,969 or 12 per cent under budget.

**4.2 Charlottetown Plant Boiler Projects** **Variance \$(121,037)**

The Generation 4.2 budget category was \$121,037 or 97 per cent under budget. With the planned decommissioning of the Charlottetown Thermal Generating Station, the Company is continuing to manage spending on the units by only performing work that is necessary for ongoing safety and reliability requirements. The budget amounts for tool replacements, boiler improvements and boiler insulation replacements and improvements were provisional based on past experience; however, no major issues

**MARITIME ELECTRIC COMPANY, LIMITED  
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GENERATION**

materialized during the year resulting in lower than budgeted expenditures of approximately \$21,037.

Additionally, Maritime Electric cancelled a \$100,000 project for Wastewater Compliance Upgrades after discussions with the City of Charlottetown's Water & Sewer Department in 2018 indicated that the Company may be able to shut down the Waste Water Treatment Plant in 2022 and send the Combustion Turbine 3 effluent to the City's sanitary sewer. Further review and assessment of this potential alternative solution will be conducted to determine viability.

**4.3 Charlottetown Plant Turbine-Generator Projects Variance \$(610,092)**

The Generation 4.3 budget category was \$610,092 or 47 per cent under budget. After considering the carryover noted below for the Reverse Osmosis Water Treatment Plant alterations project, the category will be under budget by \$560,092 or 43 per cent.

The CT3 Turbine Controls Upgrade project was \$491,833 under budget due to better than expected pricing from the Original Equipment Manufacturer (OEM) and a more favourable USD/CAD exchange rate as compared to budget. The OEM's project engineering costs for development of the software were lower than budget as the OEM's engineering team were provided sufficient lead time which allowed for better site execution of the work.

The budget amounts for turbine spare parts and miscellaneous turbine projects were provisional based on past experience; however, no major issues materialized during the year resulting in lower than budgeted expenditures of approximately \$118,259.

The following budget provision of \$50,000 for Category 4.3 will be deferred to 2019 (see Appendix I – Schedule of Deferred Budget Items).



**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**GENERATION**

- i. Alterations to the Reverse Osmosis Water Treatment Plant \$50,000

The engineering for this project commenced in 2018 (\$8,320 in labour costs were incurred in 2018 as shown in Appendix I – Schedule of Deferred Budget Items) but its completion has been deferred to 2019. The decision to defer the project was made in consideration of the Company’s proposal submitted with the CTGS Decommissioning Plan to relocate the CT3 Balance of Plant (BOP) equipment from the Steam Plant building to a new building on the Charlottetown Plant site. The CT3 BOP equipment includes the reverse osmosis water treatment plant equipment. The project deferral allows engineering to determine the best timing for completion of this work which will require \$50,000 in equipment related costs to complete.

**4.4 Borden Plant Projects** **Variance \$(24,235)**

The Generation 4.4 budget category was \$24,235 or 12 per cent under budget. The budget amount for Miscellaneous Combustion Turbine Improvements was provisional based on past experience. This provisional amount was used to address the failure of the Automatic Voltage Regulator on CT1. This failure, making CT1 inoperable, resulted in increased expenditures of \$11,225. This increase was offset by the CT1 Battery Bank and Battery Charger project which was \$15,036 under budget. The budget for Miscellaneous Buildings and Services Improvements was also provisional based on past experience; however, no major issues materialized during the year resulting in lower than budgeted expenditures of \$20,424.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**DISTRIBUTION**

**Distribution – Summary**

	<b>Approved 2018 <u>Budget</u></b>	<b>2018 <u>Actual</u></b>	<b>2018 <u>Variance</u></b>	<b>Approved 2019 <u>Budget</u></b>
<b>5.1 Replacements - Storms, Collision, Fire and Road Alterations</b>	\$ 1,432,000	\$ 2,782,221	\$ 1,350,221	\$ 1,418,000
<b>5.2 Distribution Transformers</b>	2,989,000	3,267,447	278,447	4,168,000
<b>5.3 Services and Street Lighting</b>	4,384,000	5,112,198	728,198	4,375,000
<b>5.4 Line Extensions</b>	3,310,000	2,622,794	(687,206)	2,928,000
<b>5.5 Line Rebuilds</b>	4,303,000	4,282,026	(20,974)	4,245,000
<b>5.6 System Meters</b>	591,000	532,047	(58,953)	655,000
<b>5.7 Distribution Equipment</b>	1,761,000	1,707,324	(53,676)	2,033,000
<b>5.8 Transportation Equipment</b>	<u>1,343,000</u>	<u>739,707</u>	<u>(603,293)</u>	<u>1,642,000</u>
<b>Sub-Total</b>	20,113,000	21,045,764	932,764	21,464,000
<b>Less: Contributions in Aid of Construction (CIAC)</b>	<u>(400,000)</u>	<u>(677,905)</u>	<u>(277,905)</u>	<u>(400,000)</u>
<b>Total</b>	<u>\$19,713,000</u>	<u>\$20,367,859</u>	<u>\$ 654,859</u>	<u>\$21,064,000</u>

**5.1 Replacements - Storms, Collision, Fire and Road Alterations Variance \$1,350,221**

The 5.1 budget category was \$1,350,221 or 94 per cent over budget. The over budget amount is primarily driven by storm related replacements which were approximately \$1,075,000 higher than budgeted. This over budget variance is associated with restoration work resulting from severe and successive wind, snow and/or ice storms that occurred in mid-October, early November and late November 2018.

These three storms resulted in approximately 225 broken poles, as well as damage to other equipment including 13 pole-mount transformers, a stepdown transformer, a metering tank and approximately 4 kilometres of conductor. The restoration period for the late November storm lasted 5 days and involved up to 42 crews, including contracted

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**2018 CAPITAL BUDGET VARIANCE REPORT**  
**DISTRIBUTION**

crews from H-Line Enterprises, Atlantic Reach and GSD Utility Services, and mutual aid crews from Nova Scotia Power, New Brunswick Power and FortisOntario. A detailed breakdown of the mutual aid and other restoration costs for this storm was provided to IRAC in the "Review and Report on the November 29, 2018 Storm and Restoration" filed on January 21, 2019.

The 2018 road and highway construction season was very busy with major projects (roundabouts, bypass highway construction and bridge work) requiring the relocation and replacement of lines in Oyster Bed Bridge, Newton, North River, Cornwall, Stratford and Murray Harbour. This increase in activity contributed to the over budget variance in the replacements due to road alterations category (5.1b) by approximately \$274,000. These projects were not known at the time of developing the 2018 Capital Budget and often times the Department of Transportation, Infrastructure and Energy does not give the final approval to proceed until early in the Spring of the budget year.

**5.2 Distribution Transformers** **Variance \$278,447**

The 5.2 Distribution Transformer category budget was developed early in 2017 based upon historical budget parameters up to 2016. From 2011 to 2016, actual costs were below budget which resulted in the Company reducing the distribution transformer budget for 2018 by approximately \$400,000. However, 2017 actual costs were close to the traditional budget amount due to increases in the number of new services.

In 2018, the number of new services was again comparable to 2017 when total costs for distribution transformers were approximately \$3.4 million. In addition, findings from the Distribution Inspection Program resulted in 25 more transformers than budgeted being replaced due to significant rust and the risk of spill which cost approximately \$55,000. These factors have required the Company to replace more transformers than anticipated resulting in expenditures of \$278,447 over budget (9 per cent).

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**2018 CAPITAL BUDGET VARIANCE REPORT**  
**DISTRIBUTION**

**5.3 Services and Street Lighting** **Variance \$728,198**

The 5.3 budget category was \$728,198 or 17 per cent over budget. A similar variance was experienced in 2017 when new Services activity was considerably higher than years prior. In 2018, the total new Service requests were 1,102 (533 overhead/569 underground) as compared to 1,091 (499 overhead/592 underground) in 2017 and 1,003 (526 overhead/477 underground) in 2016. With the 2018 budget for new Services being essentially the same as the 2017 budget for new Services, an over budget variance was again realized. Requests for new Services were partially offset by an increase of \$277,905 in Contributions in Aid of Construction (“CIAC”) from customers over budget (presented at the bottom of the Distribution Summary Schedule on Page 4-1).

**5.4 Line Extensions** **Variance \$(687,206)**

The 5.4 budget category was \$687,206 or 21 per cent under budget. The under budget variance is primarily the result of deferring the construction of two new Mount Albion Substation circuits, totaling \$715,000, to 2019 (see Appendix I – Schedule of Deferred Budget Items):

- i Project 5.4 (a) Trans Canada Highway to Brookside Drive Carryover \$411,000  
 The Trans Canada Highway to Brookside Drive line extension project was delayed to accommodate the completion of the new Mount Albion Substation. This carryover provides for the construction of a new 6.5 kilometre section of three phase line that will run eastward along the Trans Canada Highway from the Mount Albion Substation to Brookside Drive in Stratford.
  
- ii Project 5.4 (b) Trans Canada Highway to Mount Herbert Carryover \$304,000  
 The Trans Canada Highway to Mount Herbert line extension project was also delayed to accommodate the completion of the new Mount Albion Substation. This carryover provides for the conversion of a 2.9 kilometre section of single phase line to three phase between the Trans Canada Highway in Stratford and Mount Herbert.

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DISTRIBUTION**

After consideration of these carryover amounts, this project category will be approximately \$27,800 or less than 1 per cent over budget.

**5.5 Line Rebuilds Variance \$(20,974)**

The 5.5 budget category was \$20,974 or less than 1 per cent below budget.

**5.6 System Meters Variance \$(58,953)**

The 5.6 System Meters category was \$58,953 or 10 per cent under budget. This is partially due to the replacement of one less metering tank than budgeted. The remainder of this amount is due to a partial carryover of the Bridge Meter project of \$22,000 (see Appendix 1 – Schedule of Deferred Budget Items). This carryover was caused by a meter shipment delay from the vendor. After consideration of this deferral, this budget category will be under budget by approximately \$37,000 or 6 per cent.

**5.7 Distribution Equipment Variance \$(53,676)**

The 5.7 Distribution Equipment category was \$53,676 or 3 per cent under budget. This under budget variance is mainly due to budgeted tap changer and breaker contacts that were not replaced in 2018 because the existing contacts were found to be in relatively good condition.

**5.8 Transportation Equipment Variance \$(603,293)**

The Transportation 5.8 budget category was \$603,293 or 45 per cent under budget. After consideration of the carryovers noted below for the reel trailer and the two aerial device bucket trucks, the category will be substantially on budget.

The following budget provision of \$605,000 for Category 5.8 will be deferred to 2019 (see Appendix I – Schedule of Deferred Budget Items).

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DISTRIBUTION**

- i. Reel Trailer \$35,000  
A Reel Trailer was purchased instead of a Pole Trailer listed as Item 10 in the 2018 Capital Budget Application as it was decided that a Reel Trailer was needed more than the Pole Trailer at the time of purchase. This reel trailer was not ordered until late in 2018 and as such will not be delivered until 2019. The carryover amount represents the estimated remaining purchase cost of the unit.
  
- ii. Two Aerial Device Bucket Trucks \$570,000  
Due to recent changes in the Company's minimum approach distance safe working procedures, digger trucks are now less suitable for some types of work. The two tandem digger trucks indicated in the Capital Budget Application will be replaced with two aerial device bucket trucks which are more suitable considering the changes to the safe working procedures. These trucks were ordered and a payment of \$245,000 was made on the truck chassis in 2018 however, due to a 12-month delivery lead time, these trucks will not be received until the second quarter of 2019. The carryover amount represents the estimated remaining cost of the units.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**TRANSMISSION**

**Transmission – Summary**

	<b>Approved 2018 Budget</b>	<b>2018 Actual</b>	<b>2018 Variance</b>	<b>Approved 2019 Budget</b>
<b>6.1 Substation Projects</b>	\$ 2,876,000	\$ 2,235,497	\$ (640,503)	\$ 5,002,000
<b>6.2 Transmission Projects</b>	<u>3,364,000</u>	<u>3,293,454</u>	<u>(70,546)</u>	<u>2,325,000</u>
<b>Total</b>	<u>\$ 6,240,000</u>	<u>\$ 5,528,951</u>	<u>\$ (711,049)</u>	<u>\$ 7,327,000</u>

**6.1 Substation Projects** **Variance \$(640,503)**

The 6.1 budget category was \$640,503 or 22 per cent under budget. The under budget variance is primarily the result of deferring three substation related projects, totaling \$704,000 to 2019 (see Appendix I – Schedule of Deferred Budget Items):

- i. Mount Albion Substation \$110,000  
 The commencement of the Mount Albion Substation project was delayed as a result of migratory bird nesting activity within the substation footprint. Based on the biologist's recommendation, tree clearing was delayed until August 17, 2018. As well, wet weather hampered the civil work and substation construction during the Fall. As a result of these delays, the project will not be completed until 2019.
  
- ii. Mount Albion Transformer \$480,000  
 The Mount Albion Transformer was originally scheduled for delivery to the site on November 1, 2018. The project was delayed as the transformer manufacturer ordered the incorrect step blocks for this unit. The transformer supplier had to re-order this part which resulted in a delay in the transformer delivery to January 31, 2019.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**TRANSMISSION**

- iii. Crossroads Control Building \$114,000

The construction of the control building in Crossroads was deferred because of the inability to relocate the transmission lines required to accommodate the building construction. An alternative plan is being developed to complete the necessary work in 2019.

After consideration of these carryover amounts, this project category will be approximately \$63,500 or 2 per cent over budget. This over budget variance is primarily the result of increased expenditures on the O'Leary Power Transformer Expansion project due an increase in scope of work. During the project, it was determined that a new low voltage bus had to be installed to allow for flexibility with the existing and future loads of the station once the second transformer was in service.

**6.2 Transmission Projects** **Variance \$(70,546)**

The 6.2 budget category was \$70,546 or 2 per cent below budget. This under budget variance is primarily the result of deferring \$70,000 to 2019 for the completion of the T-2 line extension to the new Mount Albion Substation (see Appendix I – Schedule of Deferred Budget Items):

- i. Project 6.2 (c) T-2 Line Extension Carryover \$70,000

The T-2 line extension project was delayed to accommodate the completion of the new Mount Albion Substation. This carryover provides for the construction of the line extension to connect T-2 to the Mount Albion Substation upon its completion.

After consideration of this carryover amount, this project category will be substantially on budget.



**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**CORPORATE**

**Corporate – Summary**

	<b>Approved 2018 Budget</b>	<b>2018 Actual</b>	<b>2018 Variance</b>	<b>Approved 2019 Budget</b>
<b>7.1 Corporate General</b>	\$ 1,090,000	\$ 830,018	\$ (259,982)	\$ 573,000
<b>7.2 Information Technology</b>	<u>1,074,000</u>	<u>1,001,339</u>	<u>(72,661)</u>	<u>1,211,000</u>
<b>Total</b>	<u>\$ 2,164,000</u>	<u>\$ 1,831,357</u>	<u>\$ (332,643)</u>	<u>\$ 1,784,000</u>

**7.1 Corporate General** **Variance \$(259,982)**

The 7.1 budget category was under budget by \$259,982 or 24 per cent and is primarily the result of deferring two components of the West Royalty Service Centre Upgrade Plan project totalling \$248,000 to 2019 (see Appendix I – Schedule of Deferred Budget Items). Early snowfall and frost, which increased the cost of foundation and cement work, caused the balance of the project, mainly Item 6 - Racking and Storage and Item 8 - Building on Foundation complete with travel floor, to be deferred until Spring 2019. The budget category will be approximately \$11,982 or 1 per cent under budget after consideration of the deferral.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**CORPORATE**

**7.2 Information Technology** **Variance \$(72,661)**

	<b>Approved 2018 <u>Budget</u></b>	<b>2018 <u>Actual</u></b>	<b>2018 <u>Variance</u></b>	<b>Approved 2019 <u>Budget</u></b>
<b>7.2 (a) Hardware Acquisitions</b>	\$ 232,000	\$ 232,074	\$ 74	\$ 289,000
<b>7.2 (b) Purchased Software and Upgrades</b>	295,000	349,653	54,653	380,000
<b>7.2 (c) Other IT Services/Projects</b>	<u>547,000</u>	<u>419,612</u>	<u>(127,388)</u>	<u>542,000</u>
<b>Total</b>	<u>\$ 1,074,000</u>	<u>\$ 1,001,339</u>	<u>\$ (72,661)</u>	<u>\$ 1,211,000</u>

**7.2 (a) Hardware Acquisitions** **Variance \$74**

The 7.2 (a) category was on budget.

**7.2 (b) Purchased Software and Upgrades** **Variance \$54,653**

The 7.2 (b) category was \$54,653 or 18 per cent over budget. This is primarily attributed to a software licensing true up with Microsoft (MS). An internal assessment of the MS agreement revealed licensing deficiencies in two areas totaling \$50,000.

**7.2 (c) Other IT Services/Projects** **Variance \$(127,388)**

The 7.2 (c) category was \$127,388 or 23 per cent under budget. This is primarily due to the partial deferral of three projects to 2019 in the amount of \$139,000 (see Appendix I – Schedule of Deferred Budget Items):

i. Turbine Maintenance Software \$55,000

This project was evaluated and a product/vendor selected, however, due to other work commitments, internal Production and Energy Control Centre resources were unable to begin the project. The project is scheduled for completion in the second quarter of 2019.

**MARITIME ELECTRIC COMPANY, LIMITED  
2018 CAPITAL BUDGET VARIANCE REPORT  
CORPORATE**

- ii. Customer Self Service \$44,000  
Progress in this project was partially delayed due to vendor contract negotiations and availability. The project is scheduled for completion in the first quarter of 2019.
  
- iii. Email and Database Software Enhancements \$40,000  
Progress in this project was partially delayed due to a re-prioritization of work dedicated to network cybersecurity projects.

After consideration of these carryover amounts, this project category will be approximately \$11,600 or 2 per cent over budget.

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**CAPITALIZED GENERAL EXPENSE**

This amount includes a portion of administrative costs that are properly recognized as part of the Company's overall capital expenditure program. These expenditures represent an allocation of administrative costs, not specific to any one capital project, but rather as part of the overall development, implementation and management of the Company's approved annual Capital Budget.

**Capitalized General Expense**

	<b><u>Approved 2018 Budget</u></b>	<b><u>2018 Actual</u></b>	<b><u>2018 Variance</u></b>	<b><u>Approved 2019 Budget</u></b>
<b>Capitalized General Expense</b>	<b><u>\$ 527,000</u></b>	<b><u>\$ 475,368</u></b>	<b><u>\$ (51,632)</u></b>	<b><u>\$ 527,000</u></b>

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**INTEREST DURING CONSTRUCTION (“IDC”)**

This amount represents an allowance for funds used during the construction of certain assets. It is reflected in the Company’s financial results as an offset to financing costs, charged to fixed assets and recovered through amortization over the life of the assets. The actual IDC for 2018 was \$432,111 or 8 per cent over budget which reflects a conservative estimate for 2018 budget purposes. The budgetary provision in 2019 for the IDC category has been increased to \$429,000 to better reflect forecast costs for IDC.

**Interest During Construction**

	<b><u>Approved 2018 Budget</u></b>	<b><u>2018 Actual</u></b>	<b><u>2018 Variance</u></b>	<b><u>Approved 2019 Budget</u></b>
<b>Interest During Construction</b>	<b><u>\$ 400,000</u></b>	<b><u>\$ 432,111</u></b>	<b><u>\$ 32,111</u></b>	<b><u>\$ 429,000</u></b>

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**  
**SCHEDULE OF DEFERRED CAPITAL BUDGET ITEMS**

The following schedule outlines the 2018 projects (approved in Order UE17-03) and certain 2016 capital projects (approved in Order UE15-01) deferred from 2018. Certain expenditures associated with these projects were incurred in 2016 and 2018 as noted. Outlined are expenditures to complete the projects in 2019.

Original Project Year - ID	Description	Budget	Costs Incurred In		Deferred to 2019	Comments
			2016	2018		
2016-6.1 (d)	Substation Automation	\$ 61,000	\$ 1,504	\$ -	\$ 60,000	Design, purchase, installation and commissioning of equipment for the automation program.
<b>Subtotal 2016</b>		<b>\$ 61,000</b>	<b>\$ 1,504</b>	<b>\$ -</b>	<b>\$ 60,000</b>	
2018-4.3(a)	Alterations to the Reverse Osmosis Water Treatment Plant	\$ 50,000	-	\$ 8,320	\$ 50,000	Delayed to coincide with proposal to relocate CT3 Balance of Plant ("BOP") equipment from Steam Plant to new BOP building.
2018-5.4	Brookside Drive to Hazelbrook Extension	411,200	-	-	411,000	Delayed to accommodate completion of the Mount Albion Substation.
2018-5.4	TCH to Mt. Herbert Extension	303,500	-	-	304,000	Delayed to accommodate completion of the Mount Albion Substation.
2018-5.6(a)	Bridge Meter Pilot Project	50,000	-	28,128	22,000	Delay in delivery from vendor.
2018-5.8	Transportation Equipment	1,343,000	-	739,707	605,000	Delay in delivery from vendor.
2018-6.1(a)	Mount Albion Substation	1,338,000	-	1,227,960	110,000	Project commencement delayed due to bird nesting activity.
2018-6.1(b)	Mount Albion Transformer	822,000	-	342,404	480,000	Delay in delivery from the vendor.
2018-6.1(e)	Crossroads Control Building	117,000	-	3,417	114,000	Project delayed due to road construction in the area.
2018-6.2(c)	T-2 Line Extension to Mount Albion Substation	141,000	-	72,368	70,000	Delayed to accommodate completion of the Mount Albion Substation.
2018-7.1(b)	West Royalty Service Centre Upgrade Plan	940,000	-	692,130	248,000	Delay in construction of detached building for storage of equipment and storage racking due to weather.
2018-7.2(e)	Turbine Maintenance Software	60,000	-	4,758	55,000	Delayed due to resource constraints of Production and Energy Control Centre staff.
2018-7.2(f)	Customer Self Service	150,000	-	105,827	44,000	Delay due to sourcing and availability of vendor.
2018-7.2(h)	Email and Database Software Enhancements	49,000	-	9,246	40,000	Delayed due to IT resource constraints.
<b>Subtotal 2018</b>		<b>\$ 5,774,700</b>	<b>\$ -</b>	<b>\$ 3,234,265</b>	<b>\$ 2,553,000</b>	
<b>TOTAL</b>		<b>\$ 5,835,700</b>	<b>\$ 1,504</b>	<b>\$ 3,234,265</b>	<b>\$ 2,613,000</b>	

**MARITIME ELECTRIC COMPANY, LIMITED**  
**2018 CAPITAL BUDGET VARIANCE REPORT**

**SCHEDULE OF CAPITAL BUDGET EXPENDITURES FROM PRIOR YEARS COMPLETED IN 2018**

Original Project ID	Description	Budget	Cost Incurred			Total	Variance
			2016	2017	2018		
2016-6.1 (c)	Transmission System Capacitors	\$ 1,661,000	\$ 303,491	\$ 737,792	\$ 609,840	\$ 1,651,123	\$ (9,877)
2016-7.1 (b)	West Royalty Service Centre Improvement Plan	200,000	70,000	103,921	-	173,921	(26,079)
2017-5.6	System Meters	542,000	-	441,884	86,000	527,884	(14,116)
2017-5.7 (a)	Distribution Equipment	1,373,000	-	1,183,781	184,418	1,368,199	(4,801)
2017-5.8	Hiab Boom Truck	250,000	-	127,325	129,305	256,630	6,630
2017-6.1 (a)	Wellington Substation	976,000	-	448,159	655,582	1,103,741	127,741 <sup>1</sup>
2017-6.1 (b)	Wellington Transformer	992,000	-	861,770	107,719	969,489	(22,511)
2017-6.1 (d)	Mount Mellick Substation	82,000	-	-	87,438	87,438	5,438
2017-7.1 (a)	Server Room HVAC Replacement	50,000	-	-	48,625	48,625	(1,375)
2017-7.1 (b)	West Royalty Service Centre Improvement Plan	200,000	-	-	187,360	187,360	(12,640)
2017-7.2 (f)	Call Recorder System	35,000	-	1,975	30,564	32,539	(2,461)
2017-7.2 (h)	Field Inspection System	50,000	-	2,000	45,138	47,138	(2,862)
	<b>TOTAL</b>	<b>\$ 6,411,000</b>	<b>\$ 373,491</b>	<b>\$ 3,908,607</b>	<b>\$ 2,171,989</b>	<b>\$ 6,454,087</b>	<b>\$ 43,087</b>

<sup>1</sup> The variance is the result of increases in the cost of materials for the foundation and control building as well as increases in the scope of the project including:

- purchase and installation of security cameras as a deterrent for copper theft.
- change in design of feeder exits from the substation from overhead to underground to allow better switching for reliability and improve safety as well as operational access along the Route 2 highway.