

June 29, 2018

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The Island Regulatory
and Appeals Commission

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Island Regulatory and Appeals Commission
PO Box 577
Charlottetown PE C1A 7L1

Dear Commissioners:

2017 Depreciation Study

Under Order UE16-04, Maritime Electric Company, Limited (the "Company") was directed by the Island Regulatory and Appeals Commission (the "Commission") to file a Depreciation Study based on financial results ending on December 31, 2017. Please find attached a copy of Maritime Electric's 2017 Depreciation Study (the "Study"). The Company retained the services of Gannett Fleming to prepare the 2017 Depreciation Study.

The Study results present a point in time determination, as at December 31, 2017, of the depreciation of the Company's various fixed capital asset groups or accounts by comparing Gannett Fleming's calculated accrued depreciation to the amounts recorded by the Company based upon the approved depreciation rates in effect. As stated by Gannett Fleming on Page I-5 of the Study:

The calculated accrued depreciation is used as a measure to assess the adequacy of the Company's book accumulated depreciation amount. The calculated accrued depreciation should not be viewed in exact terms as the correct reserve amount. Rather it should be viewed as a benchmark or a tool used by the depreciation professional to assess the standing of the book accumulated depreciation amount based on the most recent available information.

Similar to the 2014 Depreciation Study filed with the Commission on July 23, 2015, the results of the 2017 Study indicate that the current rates of depreciation require adjustment. Gannett Fleming has calculated the accumulated reserve variance at December 31, 2017 to be approximately \$43.973 million as compared to \$33.357 million from the 2014 Depreciation Study. The accumulated reserve variance represents the difference between the depreciation recorded by the Company to December 31, 2017 and the amount calculated by Gannett Fleming based upon their analysis of the original cost, age, estimated service life and net salvage value of the Company's fixed capital assets. The increase in the accumulated reserve variance can be attributed to changes in those factors since the previous study for 2014, in particular as related to the Charlottetown Thermal Generating Station ("CTGS") assets. The increase in the accumulated reserve variance is also due to the fact that the current depreciation rates were not implemented until 2016, resulting in 2015 depreciation being less than what was recommended in the 2014 Depreciation Study.

The 2017 Study recognizes that the Charlottetown Thermal Generating Station ("CTGS") is approaching the end of its useful life and has calculated the estimated depreciation rates required to ensure recovery of the original book value and estimated decommissioning and removal costs for the facility.

The table below provides a comparison of the results from the 2014 and 2017 Depreciation Studies as they relate to the accumulated reserve variance at each point and the resulting depreciation rates as approved since 2016 and as calculated in the 2017 Study.

Depreciable Electrical Plant	Accumulated Reserve Variance (\$ Millions)			Depreciation Rates (%)	
	2014	2017	Change	2014 Approved ¹	2017 Study ²
Total Steam Production Plant	14.560	18.007	3.447	7.99 ³	13.06 ³
Borden Generating Station	3.767	3.044	(0.723)	4.81	4.12/5.83 ⁴
Combustion Turbine #3	1.113	1.834	0.721	2.28	2.34/2.49 ⁴
Total Transmission Plant	(5.978)	(2.129)	3.849	2.27	2.45/2.42 ⁴
Total Distribution Plant	16.630	22.931	6.301	3.32	3.41/3.72 ⁴
General Plant	<u>3.265</u>	<u>0.286</u>	<u>(2.979)</u>	5.96	5.81/6.0 ⁴
	33.357	43.973	10.616		

1 Depreciation rates effective January 1, 2016 as per Order UE16-04, Appendices 5 and 6; and 2014 Depreciation Study, Part VI, Tables 1 and 3

2 2017 Depreciation Study, Part VI, Tables 1 and 3

3 Rates for the Steam Production Plant include amortization of the accumulated reserve variance

4 The first rate excludes the amortization of the accumulated reserve variance for comparison to approved rates from the 2014 Depreciation Study whereas the second rate includes the amortization of the accumulated reserve variance

The Company's recommendations and proposals with respect to the 2017 Depreciation Study will be presented in the Company's General Application to be filed later this Fall.

If you have any questions, please do not hesitate to contact me at 902-629-3696.

Yours truly,

MARITIME ELECTRIC



Jason Roberts
Vice President, Finance &
Chief Financial Officer

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Enclosure