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All the time.



February 28, 2025



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

Dear Commissioners:

Audited Schedules of Maritime Electric Company, Limited

Please find attached five copies of the Company's audited schedules of rate base, return on average rate base, average common equity and return on average common equity for the year ended December 31, 2024. An electronic copy will follow.

In accordance with the Commission Order UE23-04, paragraphs 11(a) and (b), Maritime Electric achieved a regulated rate of return on common equity ("ROE") of 9.17 per cent in 2023, which is 0.18 per cent lower than the ROE of 9.35 per cent that is reflected in customer rates and 0.53 per cent lower than the ROE of 9.70 per cent allowed in the determination of the Company's annual return.¹ The decrease from the 9.35 per cent ROE was due primarily to the Company's higher regulated equity.²

In accordance with paragraph 11(c) of Order UE23-04, the Company provides the following discussion on how management decisions and financial results in 2024 are neutral or beneficial to ratepayers.

During 2024 the Company delivered 7.8 per cent more energy to customers than budgeted in the last approved General Rate Application ("GRA"), increasing revenue and energy supply costs by approximately \$19.0 million and \$10.9 million, respectively. As the Company continues to experience increased demand for energy, increased resources are required across the Company to maintain adequate delivery of service to customers. This increased margin allowed the Company to respond to these various cost pressures within the approved customer rates.

The Company experienced higher costs of approximately \$1.7 million for transmission and distribution ("T&D") activities, \$2.6 million for general and administrative costs, \$1.0 million in amortization expense, \$2.1 million in financing charges and \$0.2 million in income tax expense. Together, these variances resulted in regulated net earnings of \$19.1 million compared to a GRA budget of \$18.6 million.³

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¹ Order UE23-04 approved the Company's allowed ROEs.

² Average regulated equity for 2024 multiplied by 0.18% (\$208.89 million * 0.0018 = \$0.4 million)

³ Regulated net earnings variance of \$0.5 million is composed of \$0.9 million related to a higher average regulated equity balance offset by \$0.4 million related to a lower return on equity.

With respect to T&D costs, the Company experienced several cost pressures that were covered by the increased margin. The Company continued to take action to enhance its vegetation management activities in 2024 for the benefit of customers by spending \$3.3 million, which was \$0.5 million more than budgeted in customer rates. Line maintenance costs were \$0.8 million higher than expected. Together, substation and meter maintenance costs were \$0.2 million higher than budgeted in the GRA. In addition, other T&D costs were \$0.2 million higher.⁴

Over budget variances in general and administrative costs were the result of various cost increases and decreases. The notable budget variance increases over the GRA include:

- Customer service costs were \$0.3 million over the GRA budget as a result of increased uncollectable accounts of \$0.2 million and increased labour costs of \$0.1 million;
- Finance and accounting labour costs increased by \$0.2 million;
- Corporate communications costs were \$0.5 million over budget primarily associated with unplanned sustainability costs of \$0.4 million and increased donations of \$0.1 million;
- Information technology costs were \$0.5 million over budget due to a change in accounting standards for certain software costs that require costs previously capitalized to be expensed of \$0.4 million and increased labour costs of \$0.1 million;
- Property maintenance and operating costs were \$0.6 million over budget mainly due to the lease of additional space at the West Royalty Service Centre to accommodate additional staff needed to support the execution of capital and maintenance programs; and
- Increased costs associated with system planning and engineering of \$0.1 million and corporate services of \$0.8 million.

These over budget variances were partially offset by lower regulatory costs of \$0.1 million and lower employee future benefit costs of \$0.4 million compared to the GRA budget.⁵

Amortization expense was \$1.0 million higher than budgeted due to the timing of capital expenditures. Total capital expenditures for 2024, net of contributions in aid of construction, were \$66.4 million.⁶ The Company continues to respond to the needs of its customers by investing in the electrical system for the future, which demands the reliable delivery of more energy to customers.

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⁴ Other T&D costs include insurance, property tax and training costs.

⁵ The Company's budget for employee future benefit costs was prepared in the spring of 2022 before the results of the Company's 2022 annual actuarial report were known. The report recognized an unexpected actuarial gain on December 31, 2022, that began being amortized in 2023 as a result of an increase in the discount rates used to estimate employee future benefit obligations and is amortized over 10 years in accordance with Commission Order UE14-02.

⁶ As reported in the 2024 Capital Variance Report, filed with the Commission on February 28, 2025.

Interest rates have increased significantly since Order UE23-04 established customer rates. This combined with increased investment in the electrical system resulted in 2024 finance charges that were approximately \$2.1 million higher than budgeted in customer rates.

All of the Company's activities and decisions throughout the year were intended to support customers as they electrify their lives. In 2024 the Company facilitated the delivery of 7.8 per cent more energy to its customers compared to the GRA budget, connected approximately 1,400 additional customers to the grid, and facilitated the connection of approximately 1,100 rooftop solar installations.

The Company responded to the increasing needs of its customers and delivered an overall customer service level consistent with 2023 as demonstrated by several key performance indicators. The Call Centre grade of service was 82 per cent compared to 85 per cent in 2023, abandoned service calls was 4.7 per cent as compared to 5.2 per cent in 2023, and speed of answering calls was 32.6 seconds compared to 40.2 seconds in 2023. The Company's e-billing initiative reached 68.3 per cent, up 5.7 per cent over 2023, with an additional 5,654 customers converted to e-billing.

If you have any questions or concerns with this submission, please do not hesitate to contact me at 902-629-3701.

Yours truly,

MARITIME ELECTRIC



Michelle Francis
Vice President,
Finance & Chief Financial Officer

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Enclosures

The Schedules of Maritime Electric Company, Limited

December 31, 2024

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Independent Auditor's Report

To the Management of
Maritime Electric Company, Limited

Opinion

We have audited the calculation of rate base, calculation of return on average rate base, and the calculation of average common equity and return on average common equity of Maritime Electric Company, Limited (the "Company") as at December 31, 2024, (collectively referred to as the "schedules").

In our opinion, the financial information in the schedules of the Company is prepared, in all material respects, in accordance with the basis of presentation described in Note 1.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Schedules* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the schedules in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter – Basis of Accounting and Restriction on Use

We draw attention to Note 1 to the schedules, which describes the basis of accounting. The schedules are prepared to assist the Company to meet the requirements of the Island Regulatory and Appeals Commission (the "Commission"). As a result, the schedules may not be suitable for another purpose. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance for the Schedules

Management is responsible for the preparation of the schedules in accordance with Note 1, and for such internal control as management determines is necessary to enable the preparation of the schedules that is free from material misstatement, whether due to fraud or error.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Schedules

Our objectives are to obtain reasonable assurance about whether the schedules as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these schedules.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the schedules, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, and related disclosures made by management.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Stephen Lund.

Deloitte LLP

Chartered Professional Accountants
February 28, 2025

Maritime Electric Company, Limited
Schedule 1 - Calculation of rate base
As at December 31, 2024

	2024 \$
Property, plant and equipment	866,156,465
Less: Capital work in progress	(14,759,546)
Less: Accumulated amortization and future site removal and restoration provision	(270,735,312)
Less: Contributions - net	(29,456,367)
Less: Future income taxes	(43,625,764)
Less: Employee future benefits liability	(4,307,844)
Less: Regulatory liabilities - other	(1,077,400)
Add: ECAM costs due from customers	20,550,915
Add: Deferred financing costs	1,714,605
Add: Regulatory assets - other	3,880,975
Add: CTGS unrecovered depreciation	6,403,368
Add: Intangible assets	4,019,745
Add: Deferred charge	1,028,587
Add: Working capital allowance	
Fuel inventory	3,914,020
Cash working capital	8,060,492
Income taxes paid	67,500
Total rate base	551,834,439
Average rate base*	531,405,670

* Average rate base calculated using total rate base for the year ended December 31, 2023 amounting to \$510,976,900

The accompanying note is an integral part of the schedules.

Maritime Electric Company, Limited
Schedule 2 - Calculation of return on average rate base
Year ended December 31, 2024

	2024 \$
Revenue	280,409,855
Operating expenses (net of ECAM)	(204,469,589)
	75,940,266
Amortization - financing costs	(31,167)
Amortization - property, plant and equipment and intangible assets	(31,643,552)
Amortization - deferred charges	(89,956)
Earnings before income taxes and interest	44,175,591
Income taxes	(8,659,206)
Earnings on average rate base - interest expense excluded (A)	35,516,385
Average rate base (B)	531,405,670
Return on average rate base - % (A/B)	6.68%

The accompanying note is an integral part of the schedules.

Maritime Electric Company, Limited**Schedule 3 - Calculation of average common equity and return on average common equity**

Year ended December 31, 2024

	2024 \$
Net Earnings Non Regulated	18,590,664
Non Regulatory Expenses (net of tax)	556,712
Net earnings regulated (A)	19,147,376
 Average debt (B)	 363,835,871
 Average common equity (C)	 209,145,070
Average revenue shortfall (D)	(259,869)
Total Equity (E=C+D)	208,885,201
Total (F=B+C+D)	572,721,072
 Return on average common equity (A/E)	 9.17%
 Capital structure	
Debt (B/F)	63.53%
Equity (E/F)	36.47%

The accompanying note is an integral part of the schedules.

1. Basis of preparation

The schedules of the Company are prepared in accordance with the requirements as presented in Section 1 and 21 of the Electric Power Act, utility orders issued by the Commission and prior schedule submissions made to the Commission.