

All our energy.
All the time.



March 12, 2021



Hand Del
4:17 PM
MLA

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

Dear Ms. Mosher:

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 as required by your letter of direction dated January 20, 2021.

The cost associated with this special engagement audit were not known at the time the Company submitted its final submission for approval of rates effective January 1, 2021 and therefore not included in the 2021 Company's forecast revenue requirement. The Company respectfully requests that the costs associated with the audit be approved for deferral until the next rate application for rates effective on or after March 1, 2022.

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

Yours truly,

MARITIME ELECTRIC

A handwritten signature in blue ink, appearing to read "Michelle Francis".

Michelle Francis
Vice President,
Finance & Chief Financial Officer

MF11
Enclosures

The Schedules of Maritime Electric Company, Limited

December 31, 2020

Independent Auditor's Report	1-2
Schedule 1 - calculation of rate base	3
Schedule 2 - calculation of return on average rate base	4
Schedule 3 - calculation of average common equity and return on average common equity	5
Note to the Schedules	6

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, 2020, (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.

In preparing the schedules, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the schedules or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the schedules, including the disclosures, and whether the schedules represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Deloitte LLP

Chartered Professional Accountants
Moncton, New Brunswick
March 12, 2021

Maritime Electric Company, Limited
Schedule 1 - calculation of rate base
As at December 31, 2020

	2020 \$
Property, plant and equipment	710,793,362
Less: Capital work in progress	(2,946,394)
Less: Accumulated amortization	(274,481,047)
Less: Contributions - net	(23,313,772)
Less: Future income taxes - net of long-term tax receivable	(24,318,217)
Less: Regulatory liabilities - Other	(1,435,751)
Less: Employee future benefits liability	(7,415,156)
Add: Deferred financing costs	947,640
Add: Regulatory assets - other	3,054,231
Add: CTGS unrecovered depreciation	10,672,276
Add: Intangible assets	3,984,390
Add: Deferred charge	1,548,450
Add: Working capital allowance	
Fuel inventory	3,050,557
Cash working capital	5,661,484
Income taxes paid	71,096
Total rate base	405,873,148
Average rate base*	399,560,252

* Average rate base calculated using total rate base for the year ended December 31, 2019 amounting to \$393,247,356.

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, 2020

	2020
	\$
	<hr/>
Revenue	219,432,156
Operating expenses	(155,930,609)
	<hr/>
	63,501,547
Amortization - financing costs	(13,642)
Amortization - property, plant and equipment and intangible assets	(29,223,781)
Amortization - deferred charges	(221,047)
	<hr/>
Earnings before income taxes and interest	34,043,077
Income taxes	(6,666,061)
	<hr/>
Earnings on average rate base - interest expense excluded (A)	27,377,016
	<hr/>
Average rate base (B)	399,560,252
	<hr/>
Return on average rate base - % (A/B)	6.85%

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, 2020

	2020 \$
Net Earnings Non Regulated	14,382,353
Fortis Inc. recoveries (net of tax)	440,220
Part VI.1 Tax, adjustments on loss carryback	<u>(149,877)</u>
Net earnings regulated (A)	14,672,696
Average debt (B)	244,291,569
Average common equity (C)	<u>157,695,610</u>
Total (D)	401,987,179
 Return on average common equity (A/C)	 9.30%
Capital structure	
Debt (B/D)	60.77%
Equity	39.23%

The accompanying note is an integral part of the schedules.

Maritime Electric Company, Limited

Notes to the Schedules

December 31, 2020

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.