



February 14, 2024

Michelle Francis, Vice President, Finance & Chief Financial Officer  
Maritime Electric Company, Limited  
180 Kent Street  
Charlottetown, PE  
C1A 7N2

Dear Ms. Francis:

**RE: Advanced Metering for Sustainable Electrification Project  
Commission Docket UE20737**

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On December 18, 2023, Maritime Electric Company, Limited ("MECL" or the "Company") filed responses to additional interrogatories ("IRs") from Commission staff with respect to the Advanced Metering for Sustainable Electrification Project (the "Project") in Docket UE20737 (the "Application").<sup>1</sup>

According to the IR responses, MECL's budget for the Project has increased from \$47.6 million to \$64 million.<sup>2</sup> This represents an increase of \$16.4 million – or almost 35 percent – from the costs as filed in the Application.

Despite this material cost increase, MECL has not filed any evidence regarding the impact on rate base, revenue requirement, or customer rates. MECL has also not provided any evidence of a positive business case for the Project based on the increased Project costs.

In addition to the substantial cost increase, MECL appears to have made material changes to certain components of the Project. These changes differ from the evidence filed by MECL in support of the Application, and some appear contrary to the recommendations made by MECL's own subject matter experts.

The Commission notes, for example, that in the Application, MECL proposed to use an On-Premise ("OnPrem") solution to replace the customer information system ("CIS"). This proposal was consistent with the recommendations made by MECL's expert, TMG Consulting.<sup>3</sup> In the Application, MECL advised that an OnPrem solution *"avoids the risk associated with internet connectivity issues, especially during extreme weather events when the CIS is critically important to outage management and restoration"*.<sup>4</sup>

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<sup>1</sup> Exhibit M-7

<sup>2</sup> Exhibit M-7, Response to IR-34

<sup>3</sup> Exhibit M-1, Appendix A, page 53

<sup>4</sup> Exhibit M-1, Tab 4, page 14

In response to the Commission's IRs, MECL now advises that it is proposing to use a cloud-based Software as a Service ("SaaS") solution, rather than an OnPrem solution for the CIS.<sup>5</sup> According to MECL, a SaaS solution has been selected, in part, because it is the lowest cost option. MECL does not, however, explain why it has failed to follow the advice of its expert, or addressed the reliability of a cloud-based CIS during extreme weather events, such as Hurricane Fiona.

### COMMISSION DIRECTION

Based on MECL's IR responses, it is clear that the Project and MECL's requests for approval are materially different than the Application as filed. This finding is supported by the fact that MECL has filed a revised Proposed Order as part of its December 2023 IR responses.<sup>6</sup>

It is not appropriate to address material changes to the Application through the IR process. Doing so provides the Commission with limited, piecemeal information, and does not adequately explain the impact of these changes on the Application as a whole. As noted, for example, although MECL is seeking approval to increase the Project costs by \$16.4 million, the Company has not provided any evidence regarding the impact on rate base, revenue requirement, customer rates, or the business case for the Project as a whole.

At an estimated cost of \$64 million, the Project is one of MECL's largest capital projects to date. The Project is complex, the cost is uncertain, and the systems to be replaced are integral to MECL's operations. It is imperative that the Commission be provided with all relevant evidence to ensure that the regulatory process is thorough and comprehensive.

The Commission therefore requires MECL to submit an amended and re-stated application that clearly explains the approvals sought, including a thorough explanation of any material changes to the Application as filed, and the financial implications for both MECL and its ratepayers. The amended and re-stated application must address and include, at a minimum:

- The requests for proposals issued by MECL with respect to both the CIS and Advanced Metering Infrastructure ("AMI") projects;
- MECL's process of evaluating the proposals received for both the CIS and AMI projects, including the involvement of MECL's subject matter experts in the evaluation and selection process including copies of all written reports and recommendations from the experts;
- Justification for the selected vendors for both the CIS and AMI projects;
- Details regarding the experience and qualifications of the selected vendors for both the CIS and AMI projects, specifically in relation to comparable projects of similar scale and scope;
- Explanation of MECL's due diligence performed with respect to the selected vendors, including the results of the due diligence;

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<sup>5</sup> Exhibit M-7, Response to IR-34

<sup>6</sup> Exhibit M-7, Response to IR-34 – Attachment 2



- Disclosure of any relationship (financial or otherwise) between MECL, its executives, its management, and/or its Board members, and either or both of the selected vendors;
- The full scope of work to be performed by each selected vendor;
- A copy of the contracts between MECL and each of the selected vendors;
- Particulars of liquidated damage protection related to late delivery or project execution included in the selected vendor contracts;<sup>7</sup>
- A comprehensive explanation of the resources used to complete the Project, including a clear explanation of roles and responsibilities. This must include, for example, a clear delineation of the functions to be performed by MECL staff, those to be performed by the selected vendors, and those to be performed by third parties, together with a clear explanation of the qualifications and the cost of each source of labour;
- Disclosure of the individual(s) responsible for the overall Project management, including their qualifications and experience on comparable projects of similar scale and scope;
- With reference to the subject matter expert reports filed in the Application, an explanation of any recommendations made by the subject matter experts that MECL is not following, together with an explanation of why the recommendation is not being followed, and the anticipated impact on the cost and scope of the Project;
- A calculation of the impact that the Project will have on rate base, revenue requirement and customer rates, together with all supporting calculations and assumptions;
- The business case for the CIS project based on the increased Project costs;
- The business case for the AMI project based on the increased Project costs; and
- A thorough accounting and detailed breakdown of the annual costs for CIS and AMI once the Project is completed, together with all supporting calculations and assumptions. This must include (but is not limited to) annual licensing fees, annual maintenance costs, and annual operating costs, including the cost of additional labour (internal and/or external) to support the CIS and AMI once operational.

This list is not exhaustive.

The Commission is aware that federal funding for the Project is available through the Natural Resources Canada ("NRCan") *Smart Renewables and Electrification Pathways Program, Grid Modernization Stream*. Based on the information provided by MECL, the NRCan funding must be used by March 31, 2025.

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<sup>7</sup> Exhibit M-2(b), Response to IR-16(b), (c)

MECL was approved for the NRCan funding in March 2022. Although subject to regulatory approval, MECL did not file an application with the Commission until November 2022 – eight months after the Company received funding approval. Once the Application was filed with the Commission, MECL asked that any reference to the NRCan funding be confidential pending a funding announcement by the federal government. This funding announcement did not occur until September 29, 2023 – ten months after the Application was filed. To date, MECL's actions and requests have delayed the regulatory review process as a whole, including the process of open and transparent public consultation.

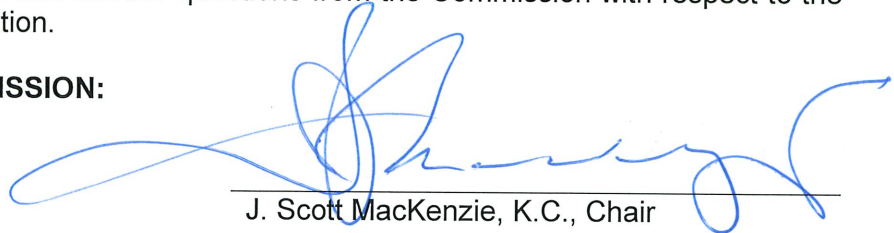
The Commission is mindful about any further delays with respect to this Application and the potential impact on the availability of NRCan funding. MECL is therefore required to submit the amended and re-stated application no later than March 15, 2024.

Finally, the Commission must address MECL's failure to voluntarily disclose the material changes to its Application as filed. MECL received vendor proposals in the first quarter of 2023,<sup>8</sup> and received the quote from the preferred CIS vendor on September 14, 2023.<sup>9</sup> However, MECL did not disclose the changes to the scope or cost of the Project in IR responses that were filed on July 21, 2023 or October 20, 2023.<sup>10</sup> The material changes – including the \$16.4 million cost increase – were not disclosed until expressly requested by the Commission.

The Commission expects that MECL will operate transparently in this and all future matters before the Commission. This duty of transparency includes the requirement to voluntarily disclose, in a timely manner, any material changes to the evidence filed and requests for approval made by the Company.

For all of these reasons, MECL is required to submit an amended and re-stated application no later than March 15, 2024. MECL is further required to attend a technical session on April 4, 2024, commencing at 9:30 a.m. in the Commission's hearing room. The purpose of the technical session is to provide further information and answer questions from the Commission with respect to the amended and re-stated application.

**BY THE COMMISSION:**



J. Scott MacKenzie, K.C., Chair



M. Douglas Clow, Vice-Chair



Kerri A. Carpenter, Commissioner

<sup>8</sup> Exhibit M-2(b), Response to IR-16(b)

<sup>9</sup> Exhibit M-7, Response to IR-10, Page 10, Footnote 39

<sup>10</sup> Exhibit M-2(a) and Exhibit M-4