All our energy.
All the time.

MARITIME ELECTRIC
A FORTIS COMPANY

October 28, 2025

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

Dear Ms. Bradley:

Deferral of Hurricane Fiona Costs – Equity Injection Request
Docket UE21505
Response to Additional Interrogatories from Commission Staff

Please find attached the responses to additional Interrogatories from Commission Staff with respect to the Company's request for interim approval of the equity injection related to the Hurricane Fiona deferral account.

An electronic copy of this submission will be forwarded shortly.

Yours truly,

MARITIME ELECTRIC

Gloria Crockett

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

GCC19
Enclosure

A D D I T I O N A L I N T E R R O G A T O R I E S

Responses to Additional Interrogatories of Commission Staff

Deferral of Hurricane Fiona Costs – Equity Injection Request (UE21505)

Submitted October 28, 2025

The Island Regulatory and Appeals Commission (the "Commission"), in its assessment of Maritime Electric Company, Limited's ("Maritime Electric" or "MECL") Application in Docket UE21505 — seeking approval to recover costs related to Hurricane Fiona, including an immediate equity contribution of $16.0 million — requests responses to the following interrogatories:

Equity Ratio Restoration

IR-8 Provide the full rationale for restoring the equity ratio to 40%, including an explanation why 40% is preferred over 37%, 38% or 39% which is within the legislated 35-40% range under the Electric Power Act.

Response:

To address the Commission's request for the "full rationale for restoring the equity ratio to 40%" the Company refers the Commission to the "regulatory bargain", which is the implicit exchange that underpins utility regulation. The utility accepts an obligation to serve, meaning it must provide reliable service to all customers within its franchise area at regulated (not market) rates. The regulator, in turn, allows the utility a reasonable opportunity (not a guarantee) to earn a fair return on its prudently incurred investments and a timely recovery of prudently incurred costs.

Simply stated, in Order UE23-04 the Commission approved the equity component of the Company's capital structure to be 40%. Therefore, the Company should be allowed every reasonable opportunity to return its capital structure to the approved level.

As stated in our letter dated September 25, 2025, the Company's equity component of its capital structure has deteriorated since 2022, largely due to the cash outlay for Hurricane Fiona restoration efforts and Commission Order UE22-08 which has required the Company to debt finance these costs until the final decision is issued by the Commission. Since the restoration efforts were completed in November 2022, debt financing costs of $5.4 million have increased the deferral balance to $40 million, resulting in the requested equity injection of $16.0 ($40.0 x 40% = $16.0 million).

Also stated in our letter dated September 25, 2025, this equity injection will not bring the Company's equity component of its capital structure to the approved 40% level. The forecast capital structure on December 31, 2025, with this equity injection is still only 37.8%, which is well below the approved 40%.

This requested equity injection will not bring the equity component back to the approved 40% level because the required capital investment in recent years has been significant and is contributing to the reduced equity component. The Company plans to address this remaining gap in a future application.

IR-9 Provide detailed justification for why immediate approval of the equity injection is necessary at this stage, rather than awaiting the outcome of the broader cost recovery proceeding.

Response:

It is the Company's preference that the Commission come to a decision on the broader cost recovery proceeding.

However, it has been 24 months since the Company's application was filed and 7 months since the Commission's expert issued their final report indicating that the costs were prudently incurred. Given this time frame along with the fact that an order remains outstanding, the Company has no way of knowing how much longer it will take the Commission to reach a decision on the broader cost recovery proceeding.

More critically, as stated in our letter dated September 25, 2025, there is significant risk that further delay in approving the requested equity injection will force the Company to be in violation of Section 12.1 of the *Electric Power Act* before the end of 2025. The Company and the Commission have an obligation to ensure compliance with governing legislation. As a result, the Company has requested immediate approval of the equity injection to avoid being in violation of the *Electric Power Act*.

IR-10 Provide analysis of how the proposed $16.0 million equity injection will affect MECL's return on equity (ROE), ratepayer impacts, and overall earnings in the current year and forecast period, compared to the status quo.

Response:

The Company is forecasting to achieve its allowed ROE of 9.7% in 2025 with or without the requested equity injection.

The Company is not proposing a 2025 rate change to accompany the equity injection. As such, the rate impact for customers in 2025 is nil.

Regulated earnings in 2025 are forecast to be $755,000 higher with the equity injection.
It should be noted that the higher regulated earnings achieved with the equity injection is still within the range of what was approved by the Commission in Order UE23-04.

It is difficult to accurately estimate the earnings impact for a future forecast period as the Commission has yet to approve a ROE beyond 2025. However, based on the current approved ROE of 9.35% included in rates, the impact on earnings for a future forecast period could be in the range of $1.5 million.[1] It should be noted that the Company is not guaranteed to earn a minimum ROE and actual earnings may be below this amount.

The increase in earnings will also increase income tax expense by approximately $0.6 million and lower debt financing costs by approximately $0.7 million such that the net increase in future year revenue requirement is $1.4 million. Based on expected sales of 1,652 gigawatt hours in 2026, the rate impact of the equity injection would be $0.0009 per kilowatt hour ("kWh") or approximately $6.77 per year for a residential customer using 650 kWh per month, an increase of 0.28% for a rural residential customer using 650 kWh per month.

Support for the 2025 earnings and ROE calculations are provided in IR-10 - Attachment 1 as well as the estimated rate impact for a future period.

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[1] A full year impact of an equity injection of $16,000,000 multiplied by 9.35% is $1,496,000.

IR-11 Identify and assess all alternatives considered, including staged equity restoration, or deferral of non-critical capital projects. Provide financial analysis comparing each alternative to MECL's proposal, including ratepayer impacts.

Response:

As indicated in response to IR-8 herein, the regulatory bargain provides a utility with a reasonable opportunity to earn a fair return on its prudently incurred investments. That fair return is determined by the equity component of the capital structure and the rate of return on that equity component, both of which are approved by the regulator.

In Order UE23-04 the Commission approved the Company's equity component of its capital structure to be 40%. Therefore, in accordance with the regulatory bargain, the Company should not be required to consider alternatives to an already approved capital structure. Maintaining a healthy capital structure is crucial for the financial stability of the Company.

Nonetheless, as indicated in the letter dated September 25, 2025, and in response to IR-8 herein, the equity injection requested is a staged equity restoration, which is forecast to achieve an equity component of 37.8% if approved before December 2025.

To address the consideration of whether non-critical capital projects should be deferred, the Company would like to remind the Commission that the annual capital budgets submitted for approval do not include any non-critical projects. Further, the Company does not consider the deferral of its capital projects to be a prudent option to restore the equity component of its capital structure. It is not considered good utility practice to defer necessary capital investments, as the Company has a public duty to provide service on demand. Deferring essential investments would contradict this mandate and could lead to service disruptions.

However, it should be noted that $3.2 million of the 2025 Capital Budget Application is currently being deferred while we await Commission approval to proceed on these critical projects. Deferring approval of these projects will not negate or reduce the required equity injection approval requested.

IR-12 Provide analysis of the implications for MECL's debt-to-equity ratio if government funding is received in the future for Fiona-related costs. Explain how MECL would ensure continued compliance with the legislated equity range.

Response:

The Company has not received any indication that government funding may be forthcoming from either Provincial or Federal Government sources since filing the Application on November 3, 2023. As more than three years have passed since Hurricane Fiona impacted the Island, it seems highly unlikely that such funding will occur.

That being said, should government funding be provided to Maritime Electric in the future, that cash would be used to repay short-term borrowings, reducing the debt component of the Company's capital structure. If the resulting annual equity component of the capital structure is forecast to exceed maximum 40%, as legislated in the *Electric Power Act,* a dividend would be issued to ensure the annual equity component for the year does not exceed 40%. Issuing a dividend in this manner is normal utility practice, keeps the Company in compliance with the Electric Power Act and ensures that the utility only earns its allowed regulated return on the level of equity previously approved by the Commission.

IR-13 Identify any precedents in other Atlantic Canadian or Canadian jurisdictions where equity injections were approved (or not approved) under similar circumstances. How does MECL's request align with those precedents?

Response:

The fair return standard is a regulatory principle that allows a public utility to earn a rate of return on its invested capital that is comparable to the returns available from other investments of similar risk. The purpose of the standard is to balance fair rates for customers with protecting the shareholder's interests by maintaining the utility's financial stability and ability to attract capital. Regulators must consider the equity ratio and the rate of return together, approving both to ensure the fair return standard is being met.

As such, equity injections to maintain an approved equity ratio are commonplace among electric utilities across the country while the regulatory processes for approval may differ. While the Company lacked the time to engage an external resource to do a detailed analysis of equity injection processes in Canada, the Company was able to request information from some its sister utilities to supplement this response.

In Alberta, under Rule 031, the Alberta Utilities Commission ("AUC") provides "conditional exemptions…" from having to obtain AUC approval in advance of initiating certain issuances of equities and long-term debt. Under this rule, routine equity injections can proceed without prior AUC application if the utility meets specific conditions such as staying within financial metrics/limits and filing the required notice, etc.

The British Columbia Utilities Commission ("BCUC") does require an application for prior approval of equity injections and such requests are relatively common. In recent years, the BCUC provided a list of suggested inclusions to the application that has streamlined the process and allows for quicker approval of such requests.

More similar to Maritime Electric's situation, Newfoundland Power ("NP") has traditionally managed its capital structure by increasing or decreasing dividends. However, in 2023 cost pressures and delays in recovering costs led to a decline in the approved equity component of their capital structure. In 2024, NP determined that further equity investment was required to return the equity component of their capital structure to the regulator-approved level. Based on a legal review of the legislation in place, NP determined that approval by the Public Utilities Board of Newfoundland and Labrador was not required. In comparison, Maritime Electric took a more conservative approach and sought regulatory approval of its equity injection instead.

IR-10 - Attachment 1

Maritime Electric
Ratio Analysis
Forecast For the Twelve Months Ending December 31, 2025

Regulated			
2025 Forecast Earnings Non-regulated			22,420,000
Forecast Non Regulatory Expenses (net of tax)			575,000
2025 Forecast Net Earnings Regulated			22,995,000
	Beginning of Year (Actual)	End of Year (Forecast)	Average (Forecast)
Total Debt	376,922,481	423,626,000	400,274,241
Common Equity - Non Regulated	218,440,401	256,860,000	237,650,201
UE 20-06 Revenue Shortfall/RORA	(520,497)	(520,000)	(520,248)
Common Equity	217,919,904	256,340,000	237,129,952
			637,404,193
Total Debt			62.8%
Common Equity			37.2%
Return on Equity			9.70%

Non-Regulated			
Forecast Net Earnings			22,420,000
	Beginning of Year (Actual)	End of Year (Forecast)	Average (Forecast)
Total Debt	376,922,481	423,625,713	400,274,097
Common Equity	218,440,401	256,860,401	237,650,401
	595,362,882	680,486,114	637,924,498
Total Debt	63.3%	62.3%	62.7%
Common Equity	36.7%	37.7%	37.3%
Return on Equity			9.43%

Maritime Electric
Ratio Analysis
Forecast For the Twelve Months Ending December 31, 2025

Regulated			
2025 Forecast Earnings Non-regulated*			21,665,000
Forecast Non Regulatory Expenses (net of tax)			575,000
2025 Forecast Net Earnings Regulated			22,240,000
	Beginning of Year (Actual)	End of Year (Forecast)	Average (Forecast)
Total Debt	376,922,481	439,626,000	408,274,241
Common Equity - Non Regulated	218,440,401	240,680,000	229,560,201
UE 20-06 Revenue Shortfall	(520,497)	-	(260,248)
Common Equity	217,919,904	240,680,000	229,299,952
			637,574,193
Average Total Debt			64.0%
Average Common Equity			36.0%
Return on Average Common Equity			9.70%

* Without $16M equity injection, debt financing costs will be

Non-Regulated			
Forecast Net Earnings			21,665,000
	Beginning of Year (Actual)	End of Year (Forecast)	Average (Forecast)
Total Debt	376,922,481	439,626,000	408,274,241
Common Equity	218,440,401	240,680,000	229,560,201
	595,362,882	680,306,000	637,834,441
Average Total Debt	63.3%	64.6%	64.0%
Average Common Equity	36.7%	35.4%	36.0%
Return on Average Common Equity			9.44%

			2026
Total Amount Financed	A	$	16,000,000
Cost of Equity @ 9.35%	B = A x 9.35%	$	1,496,000
Income Taxes on Additional Earnings (roundeC = B / 69.8% x 30.2%			647,000
Avoided cost of debt financing (rounded)	D = A x 4.43%		(709,000)
Total Impact on 2026 Revenue Requirement	E = B + C + D	$	1,434,000
Forecast kWh sales in 2026	F		1,652,044,327
Forecast Increase in per kWh Energy Charge	G = E / F		0.000868
Forecast Increase in Annual Cost for Residential Customer using 650kWh per month	H = 650 kWh x G x 12 months	$	6.77
Current Annual Cost for a Rural Residential Customer Using 650 kWh per Month	I	$	2,390.16
Per cent Rate Impact for a Rural Residential Customer Using 650 kWh per Month	J = H / I		0.28%