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All the time.

MARITIME ELECTRIC
A FORTIS COMPANY

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The Island Regulatory
and Appeals Commission

June 4, 2025

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

Dear Commissioners:

2025 Debt Issuance Application

Please find enclosed five copies of the Company's responses to Interrogatories from Commission Staff on the 2025 Debt Issuance Application (UE21319). An electronic copy will be forwarded as well.

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

Yours truly,

MARITIME ELECTRIC

Michelle Francis
Vice President,
Finance & Chief Financial Officer

MF11
Enclosures

180 Kent Street • PO Box 1328 • Charlottetown, PE C1A 7N2
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RESPONSES TO INTERROGATORIES
OF
THE COMMISSION STAFF

2025 Debt Issuance Application
(UE21319)

Submitted June 4, 2025

IR-1 The application has indicated funds from the issuance of $120 million bond will be used to repay the short term unsecured revolving credit facility of $62.9 million, $15 million will be used to repay the first mortgage bond series that matures in November 2025 and cover the debt issuance costs of $765,000. What will the remaining $41.34 million be used for?

Response:

After repaying the credit facility balance and reserving $15 million to repay the first mortgage bond that matures in November 2025, the remainder of the proceeds will be used to fund approved capital budgets.

IR-2 On page 6 of the application, MECL indicates the proceeds net of the debt issuance costs of approximately $765,000 (or 0.85 per cent of principal), will be used to repay outstanding short-term borrowings. The estimation of debt issuance costs of $765,000 is actually 0.64 per cent of the proposed principal. Please explain the variance.

Response:

The estimated debt issuance costs noted in the application (i.e., $765,000) was a typo and should have been “$1,020,000”, which is 0.85 per cent of the principle.

IR-3 According to MECL's December 31, 2025 financial statements, MECL's debt accounted for 63.53% of total debt and equity; where equity accounted for 36.47%. According to the Electric Power act:

> *Section 12.1 Common Equity – Maritime Electric Company, Limited shall, ad determined in accordance with generally accepted accounting principles,*
>
> *(a) Maintain at all times not less than 35 per cent of its capital invested in the power system in the form of common equity; and*
> *(b) Ensure that, for the year, not more than 40 percent of its capital is invested in the power system in the form of common equity.*

How will the issuance of $120 million in asset backed, or secured, long-term first mortgage bonds affect MECL's ratios and ensure the Company is in compliance with the Electric Power Act? Please provide calculations.

Response:

Issuing $120 million in bonds will ultimately replace short-term borrowings with long-term borrowings and will therefore not alter the equity ratio. The Company's projections indicate that the equity ratio will remain above the legislated minimum of 35 per cent throughout 2025 and well below the 40 per cent maximum. Refer to the summary calculations provided in Table 1 below.

It is worth noting that the Company's projections indicate that the equity ratio continues to be negatively impacted by the delayed recovery of the costs associated with Hurricane Fiona and the associated equity injection. In Appendix A, Table 1 is repeated with the addition of two columns reflecting the year-one result if the Company's application to recover Fiona-related costs is approved as filed, which will bring the equity ratio closer to the 40 per cent that was approved the Commission in Order UE23-04.

TABLE 1
Pro-Forma Debt and Equity Ratios[1]

($ thousands, except ratios)		April 30, 2025 Actuals	Bond Issuance	Balances after Bond Issuance	Nov. 2025 Bond Repayment	Earnings & Investment to Year End	Dec. 31, 2025 Forecast
		L	M	N = L+M	O	P	Q = N+O+P
Cash	A	-	50,108	50,108	(15,000)	(35,108)	-
Investments	B	-	-	-	-	50,000	50,000
Bank Indebtedness	C	2,602	(2,602)	-		5,392	5,392
Short-Term Borrowings	D	67,290	(67,290)	-		-	-
Current Portion of Long-Term Debt	E	15,000	-	15,000	(15,000)	-	-
Long-Term Debt	F	303,296	120,000	423,296	-	-	423,296
Shareholders' Equity	G	230,462	-	230,462	-	9,500	239,962
Total Debt	H = C+D+E+F-A	388,188		388,188			428,688
Total Equity	G	230,462		230,462			239,962
Total Debt & Equity	I = H+G	618,650		618,650			668,650
Debt %	J = H/I	**62.7%**		**62.7%**			**64.1%**
Equity %	K = G/I	**37.3%**		**37.3%**			**35.9%**

[1] Only balance sheet data that is relevant to the debt and equity ratio calculations is presented in the table.

IR-4 Appendix B – Standard & Poor's ("S&P") Corporate Credit Rating Report – The report dated July 10, 2024 discusses the various risks associated with the Company including reviewing the Funds from operating (FFO) to debt ratios. The report notes that if the ratio falls below 16% this could have a negative effect on MECL's ratings; however, the report also indicates S&P forecasts MECL will maintain FFO to debt of about 16% to 18% during their two-year outlook period.

Will the debt issuance of $120 million in asset backed, or secured, long-term first mortgage bonds affect MECL's FFO to debt ratios? Please provide calculations.

Response:

No, the issuance of $120 million in bonds will not negatively impact the Company's FFO to debt ratio as this bond issuance will result in short-term borrowings being replaced with long-term borrowings, as indicated in response to IR-3 herein.

The FFO to debt ratio is a key metric to assess the creditworthiness of companies. A higher FFO to debt ratio indicates a company's ability to cover its debt obligations with cash flow from operations, thus reducing credit risk.

What negatively impacts the FFO to debt ratio is expenditures, either operating or capital, with delayed or prolonged recovery from customers. The FFO portion of the ratio measures the recovery of expenditures from customers, which is impacted by the regulatory approval of the associated rate increases. The debt portion of the ratio reflects how much of those expenditures are funded by debt, which the Commission approved to be 40 per cent for the Company.

For example, the Company is currently financing Fiona-related costs of $39.1 million 100 per cent with debt, as directed by the Commission, and financing the Energy Cost Adjustment Mechanism balance of $19 million with debt and equity. Neither of these amounts are being recovered from customers, thereby, negatively impacting the Company's FFO to debt ratio. Sales growth in excess of what was forecast for 2024 has mitigated the impact of these deferral balances on the Company's FFO to debt ratio, as illustrated in Table 2.

Table 2 also illustrates that the Company's FFO to debt ratio is forecast to be materially in line with S&P's criteria for 2025 and 2026, demonstrating that the issuance of the $120 million in bonds will not negatively impact this ratio.

TABLE 2
Calculation of S&P's FFO to Debt Ratio

($ thousands, except ratios)		2024 Actuals EBITDA[2]	2024 Actuals FFO[3]	2024 Actuals Debt	2025 Forecast EBITDA	2025 Forecast FFO	2025 Forecast Debt	2026 Forecast EBITDA	2026 Forecast FFO	2026 Forecast Debt
Maritime Electric EBITDA	A	75,100			83,600			96,500		
S&P EBITDA	B		101,600			110,100			123,000	
Maritime Electric Debt	C			376,900			428,778			443,300
S&P Adjustments:										
Post-Retirement Benefit Obligations	D	100	-	3,000	100	-	3,000	100	-	3,000
Power Purchase Agreements	E	25,900	(6,500)	93,200	25,900	(6,500)	93,200	25,900	(6,500)	93,200
Interest Expensed	F	-	(17,200)	-	-	(19,200)	-	-	(21,200)	-
Interest Capitalized	G	-	(800)	-	-	(1,500)	-	-	(2,900)	-
Operating Leases	H	500	(100)	1,100	500	(100)	1,100	500	(100)	1,100
S&P EBITDA	B = A+D+E+H	101,600			110,100			123,000		
S&P Total FFO	I = B+E+F+G+H		77,000			82,800			92,300	
S&P Total Debt	J = C+D+E+H			474,200			526,078			540,600
S&P FFO to Debt %	**K = I/J**			**16.2%**			**15.7%**			**17.1%**

2 EBITDA refers to earnings before interest, tax, depreciation and amortization.
3 FFO refers to funds from operations.

IR-5 Appendix C – Net Earnings Certificate – The principle amount indicated in the Net Earnings Certificate is $90 million. Please explain this variance from the body of the application which states principle amount of $120 million.

Response:

The Net Earnings Certificate in Appendix C should have indicated the principle amount would be $120 million. A revised Appendix C is attached to correct that typo.

MARITIME ELECTRIC
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IR-3 Attachment 1

Maritime Electric
Pro-Forma Debt and Equity Ratios

TABLE 1
Pro-Forma Debt and Equity Ratios[1]

($ thousands, except ratios)		April 30, 2025 Actuals	Bond Issuance	Balances after Bond Issuance	Nov. 2025 Bond Repayment	Earnings & Investment to Year End	Dec. 31, 2025 Forecast	Projected Approval of Fiona Costs[2]	Forecast Reflecting Approval
		L	**M**	**N = L+M**	**O**	**P**	**Q = N+O+P**	**R**	**S = Q+R**
Cash	**A**	-	50,108	50,108	(15,000)	(35,108)	-	10,608	10,608
Investments	**B**	-	-	-	-	50,000	50,000	-	50,000
Bank Indebtedness	**C**	2,602	(2,602)	-		5,392	5,392	(5,392)	-
Short-Term Borrowings	**D**	67,290	(67,290)	-		-	-	-	-
Current Portion of Long-Term Debt	**E**	15,000	-	15,000	(15,000)	-	-	-	-
Long-Term Debt	**F**	303,296	120,000	423,296	-	-	423,296	-	423,296
Shareholders' Equity	**G**	230,462	-	230,462	-	9,500	239,962	16,000	255,962
Total Debt	**H = C+D+E+F-A**	388,188		388,188			428,688		412,559
Total Equity	**G**	230,462		230,462			239,962		255,962
Total Debt & Equity	**I = H+G**	618,650		618,650			668,650		668,521
Debt %	**J = H/I**	**62.7%**		**62.7%**			**64.1%**		**61.7%**
Equity %	**K = G/I**	**37.3%**		**37.3%**			**35.9%**		**38.3%**

1 Only balance sheet data that is relevant to the debt and equity ratio calculations is presented in the table.
2 The required equity injection in column R is rounded reflecting 40 per cent of the deferral balance (i.e., 40% x $39.1 million ~ $16 million).

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APPLICATION REVISED

APPENDIX C

Net Earnings Certificate

Deed of Trust and Mortgage – May 1, 1955

Article 5.07 – Net Earnings of the Company

5.07 No additional Bonds (except Additional Bonds which may be issued under Clause 5.02 hereof) shall be certified or delivered under this Article V unless, as shown by a Net Earnings Certificate, the Net Earnings of the Company for a period which shall, at the opinion of the Company, be either (a) its fiscal year next preceding the date of application for the certification and delivery of Additional Bonds, or (b) any twelve consecutive calendar months within the sixteen calendar months immediately preceding the date of any such application, shall have been not less than twice the combined annual interest charges on all Bonds issued hereunder outstanding at the date of such application (excluding as outstanding any Bonds for the payment, redemption or other retirement of which cash shall at the time be deposited with the Trustee), and on all Additional Bonds the certification and delivery of which is then requested.

MARITIME ELECTRIC COMPANY, LIMITED
ISSUE OF $120,000,000 PRINCIPAL AMOUNT OF FIRST MORTGAGE BONDS, 5.00% SERIES, DUE 2055[1]
NET EARNINGS CERTIFICATE

We, Jason C. Roberts and T. Michelle Francis, the undersigned, being respectively the President and Chief Executive Officer and Vice President, Finance and Chief Financial Officer of Maritime Electric Company, Limited do declare and say:

1. That this certificate is given pursuant to the provisions of Section 5.07 and Section 5.09 of the Deed of Trust and Mortgage between the Company and Montreal Trust Company, as Trustee, dated as of May 1, 1955 as amended by deeds supplementary thereto (hereinafter called the "Trust Deed").

2. That the net earnings of the Company calculated as prescribed in the Trust Deed for the Twelve-month period ended December 31, 2024, was as follows:

Gross Revenues	$280,409,855
Plus	
a. Interest Income	70,598
Less	
b. All expenses of management and operations including taxes (except excess or other profits taxes and income taxes), rentals, insurance, reasonable charges for current repairs and maintenance.	(237,011,097)
c. Interest other than on funded debt, net of interest charged on construction	476,247
d. Amortization of the discount on Bonds redeemed and Bond issue expense	(31,167)
Net Earnings of the Company	**$ 43,914,436**

3. That twice the combined annual interest charges on all bonds issued under the Trust Deed outstanding or to be outstanding as of November 1, 2025 and on all additional bonds to be issued and outstanding as of that date is as follows:

[1] For illustrative purposes only. Assumes 5.00% coupon rate on 30-year term. Debt coupon interest rate and tenure to be determined at or near time of issue.

OUTSTANDING	**ANNUAL INTEREST CHARGES**
First Mortgage Bonds, 8.625% Series Due 2027 - dollars 15,000,000	1,293,750
First Mortgage Bonds, 8.920% Series Due 2031 - dollars 20,000,000	1,784,000
First Mortgage Bonds, 6.054% Series Due 2038 - dollars 60,000,000	3,632,400
First Mortgage Bonds, 3.397% Series Due 2051 - dollars 40,000,000	1,358,800
First Mortgage Bonds, 5.203 Series Due 2053 - dollars 60,000,000	3,121,800
First Mortgage Bonds, 3.657 Series Due 2056 - dollars 40,000,000	1,462,800
First Mortgage Bonds, 4.148%, Series Due 2058 - dollars 40,000,000	1,659,200
First Mortgage Bonds, 4.915%, Series Due 2061 - dollars 30,000,000	1,474,500
First Mortgage Bonds, 4.65%, Series Due 2055 - dollars 120,000,000[2]	5,580,000
	$ 21,367,250
Multiplied by 2	$ 42,734,500

And we make this solemn declaration conscientiously believing it to be true and knowing that it is of the same force and effect as if made under oath pursuant to the provisions of the *Canada Evidence Act*.

Dated at Charlottetown, Prince Edward Island, this ___ day of __________, 2025.

DECLARED before me at the City of Charlottetown, Queens County, Province of Prince Edward Island, this ___ day of ___________, 2025. ____________________________ Commissioner of Oaths in and for the Province of Prince Edward Island	AND WE HAVE SIGNED (under seal) ____________________________________ Jason C. Roberts President and Chief Executive Officer ____________________________________ T. Michelle Francis Vice President, Finance and Chief Financial Officer

2 For illustrative purposes only. Assumes 5.00% coupon rate on 30-year term. Debt coupon interest rate and tenure to be determined at or near time of issue.