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October 9, 2024

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

Dear Commissioners:

**2023 Capital Budget Variance Report – Docket UE20740
Response to Interrogatories from Commission Staff**

Please find attached the Company's response to Interrogatories from Commission Staff with respect to the 2023 Capital Budget Variance Report filed on February 28, 2024. An electronic copy will follow shortly.

Yours truly,

MARITIME ELECTRIC

A handwritten signature in blue ink that reads "Gloria Crockett".

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

GCC24
Enclosure



INTERROGATORIES

**Responses to Interrogatories
of
Commission Staff**

**2023 Capital Budget Variance Report
(UE20740)**

Submitted October 9, 2024

**(UE20740) 2023 Capital Budget Variance Report
Interrogatories from Commission Staff (August 2024)**

Maritime Electric

The Island Regulatory and Appeals Commission (the “Commission”), in assessing the reasonableness of the 2023 Capital Budget Variance Report submitted by Maritime Electric Company, Limited (“Maritime Electric” or “MECL”), requests responses to the following interrogatories:

IR-1 Please provide a breakdown of the customer contributions received in relation to their corresponding projects.

Response:

Table 1 shows a breakdown of the customer contributions received in 2023.

TABLE 1 Customer Contributions	
Capital Budget Section	Contributions
5.1 Replacements Due to Storms, Collisions, Fire and Road Alterations	\$ 53,552
5.2 Distribution Transformers	17,608
5.3 Services and Street Lighting	778,177
5.4 Line Extensions	395,638
5.5 Rebuilds	340,881
TOTAL	\$ 1,585,856

IR-2 Section 4 – For a number of projects MECL indicated there were higher than anticipated expenditures on unforeseen equipment failures which caused various projects to be overbudget. Please provide some examples of the unforeseen equipment failures that were experienced during the year.

Response:

The Charlottetown Generating Station (“CGS”) Miscellaneous Building and Site Upgrades, a provisional budget category, had an over-budget variance of \$6,241. Examples of unforeseen equipment failure expenditures that contributed to this amount included:

- A contractor was required to repair and retrofit the Energy Control Centre building’s heating, ventilation and air conditioning system after the unit malfunctioned; and
- A contractor was required to repair the security gates at the CGS site and a guardrail was added to protect the new Combustion Turbine 3 (“CT3”) equipment building from on-site vehicle traffic.

CGS Combustion Turbine Improvements, Parts and Tools, a provisional budget category, had an over-budget variance of \$65,901. Expenditures that contributed to this amount include:

- Replacement of CT3 equipment master programmable logic controller (“PLC”);
- Replacement of water treatment equipment PLC, filters, conductivity sensors, and pneumatic valves;
- Replacement of components used in the CT3 station service breaker;
- Replacement of gaskets that allow for inspection of the CT3 starter motor;
- Replacement filters used in the CT3 equipment compressed air systems;
- Installation of new cameras required due to line-of-sight alterations following construction of the CT3 equipment building;
- Spare parts for the CT3 black-start facilities that are not readily available on short notice; and
- Replacements for miscellaneous safety equipment.

Borden Generating Station (“BGS”) Combustion Turbine Improvements, Parts and Tools, a provisional budget category, had an over-budget variance of \$17,538. Examples of unforeseen equipment failure expenditures that contributed to this amount included:

- Spare parts for the Combustion Turbine 2 (“CT2”) PLC that are not readily available on short notice; and
- Replacements for miscellaneous safety equipment.

**(UE20740) 2023 Capital Budget Variance Report
Interrogatories from Commission Staff (August 2024)**

Maritime Electric

IR-3 Section 5.2 – Distribution Transformers were overbudget by approximately \$2.4 million due to the inflationary cost increases for the transformer equipment that occurred since the 2023 application was filed. Please provide a detailed analysis as compared to the budget including number of distribution transformers, budgeted costs and actual costs. Please include source document evidence.

Response:

Table 2 shows the 2023 capital variance for Section 5.2 - Distribution Transformers.

TABLE 2 2023 Distribution Transformers			
Description	Actual	Budget	Variance
Distribution Transformers - Material	\$ 10,437,540	\$ 7,748,000	\$ 2,689,540
Distribution Transformers - Labour	873,877	1,116,000	(242,123)
Spill Prevention/PCB Elimination	460,113	463,000	(2,887)
TOTAL	\$ 11,771,530	\$ 9,327,000	\$ 2,444,530

Table 3 shows the distribution transformers forecast for 2023 with the budgeted costs, and the number of distribution transformers received in 2023 with the actual cost.

TABLE 3 Actual Transformers Purchased Compared to Budget				
	Units Forecast (A)	Budget Cost (B)	Units Received (C)	Actual Cost (D)
Distribution Transformers - Material	1,866	\$ 7,748,000	2,385	\$ 10,437,540
Cost per Unit (E=B/A and F=D/C)		(E) 4,152		(F) 4,376
Variance in cost per unit from Budget (G = F – E)				(G) 224
Additional Inflation as a % of Budget (H = G / E)				(H) 5.4%

Maritime Electric purchased 519 more distribution transformer units than budgeted to ensure sufficient supply based on customer demand. Additional inflation of 5.4 per cent, over and above the 3 per cent inflationary increases projected within the 2023 Capital Budget Application, resulted in an average actual inflationary increase of 8.4 per cent (3 per cent + 5.4 per cent).

- IR-4** Section 5.3 – Services and Street Lighting was over budget for the last two years due to service request associated with new construction continuing to remain high as well as upgrade service requests due to provincial government incentive programs. MECL has budgeted for 150 installations but have received between 680 and 700 requests over the last two years.
- a. What plans has MECL implemented to reflect this trend in future applications?
 - b. Were there customer contributions received to offset the costs.

Response:

- a. At the time the 2023 Capital Budget Application was being developed, Maritime Electric was not aware of several government initiatives and private development plans that impacted capital spending in this budget category. For this reason, the Services and Street Lighting budget for 2023 was minimally increased over the budget for 2022.

For more accurate budgeting of the category in the future, provisional estimates in the 2024 and 2025 Capital Budget Applications were based on five-year average expenditure amounts, adjusted for inflation. Where specific government initiatives and private development plans are known and can be reasonably estimated in advance, the provisional budget will be adjusted for the anticipated impact.

In recent years, there has been an increasing demand for street light rentals in the Street and Area Lighting subcategory. For this reason, Maritime Electric adjusted the 2024 Capital Budget Application to include the installation of 500 new lights, and further adjusted the 2025 Capital Budget Application for the installation of 700 new lights.

- b. Customer contributions, as outlined in the Rates and General Rules and Regulations, partially offset spending in this category.

Customer contributions of \$778,177 were received to offset Services and Street Lighting costs in 2023. As compared to customer contributions of \$ 253,899 for Services and Street Lighting costs in 2022, increased activity in this category is reflected in both expenditures and contributions.

- IR-5** Section 7.1(a) Recurring Annual Capital Requirements – it was noted the project was over budget primarily due to necessary renovations at 180 Kent Street and replacement of the pole barn roof at West Royalty Service Centre.
- a. Were these renovations and pole barn roof known prior to filing the 2023 application and were they included in the budget amount?
 - b. In the draft Capital Expenditure Justification Criteria date November 2019 – the cost overruns are to be communicated with the Commission when overruns are more than \$100,000 and 10% of the approved project budget. Please explain why these projects do not require additional approvals under the draft Capital Budget Justification Criteria

Response:

- a. Concerning the renovations, the scope of work required was not known prior to filing the 2023 Capital Budget Application.

Concerning the renovations at 180 Kent Street, a tenant that occupied the west side of the first floor vacated the space and the area required renovations to be repurposed for Maritime Electric staff. Engineering consultants determined that upgrades to the washroom facilities and the heating, ventilation and air conditioning systems were necessary to ensure the space would meet acceptable standards.

Concerning the pole barn roof, the requirement to replace was also not known prior to filing the 2023 Capital Budget Application.

While the pole barn roof was not specifically identified in the budget, the provisional budget for Recurring Annual Capital Requirements provides for roofing and siding as a possible expenditure requirement. Based upon an inspection of the roof in early 2023, which identified a need for remediation of damages from severe weather, a full replacement was the recommended option over repairs due to the age of the roof.

- b. The forecasted cost overruns were communicated to the Commission in the Q3 Capital Expenditure Forecast, submitted to the Commission on December 20, 2023.