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MARITIME ELECTRIC
A FORTIS COMPANY

December 13, 2022

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

Dear Ms. Mosher:

Interim Deferral of Hurricane Fiona Costs
Docket UE21505
Response to Interrogatories from Commission Staff

Please find attached the responses to Interrogatories from Commission Staff with respect to the Company's application for interim approval to defer operating costs associated with restoring service after Hurricane Fiona.

An electronic copy of this submission will be forwarded shortly.

Yours truly,

MARITIME ELECTRIC

Gloria Crockett

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Manager, Regulatory & Financial Planning

GCC37
Enclosure

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

Responses to Interrogatories
of
Commission Staff

Hurricane Fiona Costs
(UE21505)

Submitted December 13, 2022

IR-1 Maritime Electric Company, Limited ("MECL") states that to date, $29.9 million in Fiona-related costs have been accumulated, and up to an additional $5 million in costs are yet to be confirmed. For the confirmed and anticipatory expenses, please provide:

a. A detailed list of expenditures. The list should clearly identify expenses relating to MECL internal labour and transportation, and itemize payments made to third party contractors and vendors (identified by name and amount of payment).

b. A preliminary allocation between operating and capital costs.

Response:

a) Since the application for interim approval to defer costs associated with Hurricane Fiona (the "Application") was filed on November 25, 2022, additional invoices have been received. To date, invoiced costs total $31.4 million and an additional estimated $4.5 million for third-party contractor invoices are still outstanding, arriving at a new projected total of $35.9 million as detailed in Table 1.

Table 1 Fiona-Related Costs ($ millions)	
Maritime Electric labour and transportation	3.3
Materials	3.7
Accommodations, meals, travel, etc.	3.1
Third-party contractors:	
Holland Electric	4.9
Locke's Electric	3.1
NB Power (accrual)	2.0
H-Line	1.9
Ontario Line Clearing	1.8
Newfoundland Power	1.4
Atlantic Reach	1.3
Hydro One (accrual)	1.1
GSD	1.0
Asplundh	1.0
Go With The Flow Traffic Control	1.0
Central Hudson (accrual)	0.9
T&T Line Construction	0.9
Connect Atlantic	0.7
FortisAlberta (accrual)	0.5
St. John Energy	0.5
FortisBC	0.4
FortisOntario	0.3
AVL Construction	0.3
Nightingale Tree Service	0.2
Safety First Traffic Control	0.2
Various contractors	0.5
TOTAL	**35.9**

b) The Company's current assessment of the total cost indicates that approximately 46 per cent is operating and 54 per cent is capital.

IR-2 In the approved 2022 Capital Budget, $990,000 was approved for Replacements Due to Storms, Fire and Collisions. How much of this budget remains, and how much has been allocated to capital costs incurred post-Fiona?

Response:

As of November 30, 2022, capital expenditures for 5.1(a) – replacements Due to Storms, Fire and Collisions was $1,109,000 and the forecast for the year is $1,370,000, which represents a forecast over-budget variance of $380,000. There are no capital expenditures from post-Fiona response included in these actual and forecast amounts.

Outage response expenditures are tracking above the budget allocation due to numerous storms in the first quarter of 2022 that required restoration activity outside of normal working hours. Expenditures on outage response for the second and third quarters were more closely aligned to budget; however, there were a number of weather events in November where high winds combined with danger trees remaining from Fiona required restoration activity outside of normal working hours, which is expected to result in higher than budget costs for the fourth quarter. [1]

[1] Danger trees are trees damaged by Fiona that result in a power outage during a subsequent weather event.

IR-3 Please explain what impact the proposed deferral will have on MECL's financial statements.

Response:

In this response, the Company has assumed that the question is in reference to its financial statements for the year ended December 31, 2022.

The impact on the Company's balance sheet as at December 31, 2022:

- The capital portion of Fiona-related costs will be reflected as an increase to the Company's property plant and equipment balance, net of an accumulated depreciation amount resulting from depreciation expense recorded in 2022, which is discussed below.[2]
- Pending Commission approval of this Application, the operating portion of Fiona-related costs will be deferred and recorded as a long-term regulatory asset on the balance sheet.
- The cash outlay to pay for Fiona-related costs was funded using the Company's unsecured revolving credit facility. Due to the magnitude of the costs and the fact that the credit facility is also used for general corporate purposes and to temporarily fund the Company's capital expenditures, the Company had to secure a $40 million increase to the credit facility limit.[3] At December 31, 2022, credit facility borrowings of approximately $35.9 million will relate to Fiona.
- As a result of the above noted increase in short-term borrowings, the Company's debt-to-equity ratio is expected to be in the range of 36 to 37 per cent at December 31, 2022. While still within the legislated range of 35 to 40 per cent, this is noticeably lower than historical equity levels of 39 to 40 per cent.[4]

The impact on the Company's 2022 income statement:

- Depreciation expense, as mentioned above, will include approximately $0.3 million due to the increase in capital costs.
- Short-term interest expense will include approximately $0.2 million due to the increase in short-term borrowings to fund the cash outlay.
- Operating expense will include approximately $1.6 million in costs related to Fiona, which is discussed in detail in response to IR-4. Pending approval by the Commission of this Application, all other Fiona-related operating costs will be deferred as a regulatory asset, as discussed in response to IR-4.

[2] Any potential government funding for Fiona capital related costs will be reflected as a customer contribution in aid of construction ("CIAC") in the liability section of the balance sheet and amortized accordingly when received.

[3] While securing the $40 million increase to the credit facility limit, the Company was able to secure improved borrowing rates on the entire $90 million credit facility that have been set until February 27, 2025.

[4] The *Electric Power Act*, Section 12.1, requires Maritime Electric to "(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 per cent of its capital is invested in the power system in the form of common equity."

IR-4 Please explain MECL's process for allocating expenditures to the proposed Fiona deferral. For example, are costs still being incurred/allocated to Fiona restoration efforts? Have the cost of salaries, transportation, and materials been allocated to the proposed deferral? If so, have MECL's expenses decreased as a result?

Response:

The Company is no longer charging costs for deferral treatment.[5] Restoration costs incurred up to October 14, 2022, at which time electric service to all Maritime Electric customers was restored, were tracked as related to Fiona. Fiona-related costs include internal labour and transportation charges, materials, line and traffic control contractors, and mutual-aid crews including related accommodations, meals and travel. In addition, vegetation management and line maintenance costs associated with post-restoration cleanup continued for an additional four to six weeks and have been included in the Fiona deferral amounts.

Maritime Electric's process for allocating expenditures to the proposed Fiona deferral begins with the determination of how much of the costs related to operating and capital activities. The outcome of this determination was noted in response to IR-1(b).

Engineering staff estimated the cost to replace broken capital materials during the restoration effort, which included 1,275 poles, 445 transformers and 140 kilometres of conductor. The total capital cost includes the actual cost of the material used and an estimate of the labour cost associated with those capital replacements. The capital portion of the costs will be recorded as property, plant and equipment on the Company's balance sheet, to be recovered in accordance with approved depreciation rates. Therefore, the capital portion will not be included in the proposed Fiona deferral.[6]

Once the capital portion is determined, the remaining costs are related to repairing the electrical system and are, therefore, operating costs. Depending on the outcome of the December financial results, the Company expects to recognize approximately $1.6 million of these costs as operating costs in 2022, as detailed below, and defer approximately $16 million as a regulatory asset on the Company's balance sheet.[7]

Operating revenue for 2022 has been higher than forecast, resulting in a higher margin net of related energy costs of approximately $0.2 million. This margin allows for the recognition of a corresponding amount of Fiona-related operating costs in 2022.

Transmission and distribution expenses before consideration of Fiona-related costs are expected to be over budget by approximately $0.6 million, due primarily to $1.0 million in additional vegetation management that was committed prior to the onset of Fiona partially offset by lower-than-budget line maintenance costs. Transmission and distribution – other expenses are forecast to be $0.1 million over

5 The Company continues to incur costs as a result of trees damaged during Fiona causing outages throughout November and December. However, these costs are recorded as current period operating costs.

6 Recording the capital portion of Fiona's costs as property, plant and equipment should not prevent such costs from being considered for government funding. Any government funding of capital-related costs will be recorded as a capital contribution and will reduce the amount recovered from customers through future depreciation expense.

7 $35.9 million (total Fiona-related costs) less $19.3 million (54% capital portion) = $16.6 million (46% operating portion) less $1.6 million (2022 operating costs) = $15.0 million (estimated Fiona deferral).

budget due to higher-than-expected insurance and training costs. General expenses are forecast to be $0.3 million lower than budget as a result of various small savings.

With respect to other costs, depreciation expense is expected to be approximately $2.1 million below budget due to the delay in the amortization of the Charlottetown Thermal Generating Station deferral, which was originally budgeted to begin in 2022 but was postponed due to the one-year delay in the General Rate Application. Finally, financing costs are forecast to be $0.3 million over budget due to recent interest rates hikes and the significant increase in short-term borrowings to cover the cash outlay related to Fiona.

To summarize, the total net impact is the recognition of approximately $1.6 million of Fiona-related operating costs in 2022, thereby reducing the proposed balance for the Fiona deferral.[8]

[8] The final amount of Fiona-related costs recognized as operating expense in 2022 will be determined in January 2023.