



Docket: UE20734
Order: UE22-02

IN THE MATTER of an application by Maritime Electric Company, Limited for an order of the Island Regulatory and Appeals Commission approving the 2021 Capital Budget Variance Report, pursuant to section 17(4) of the *Electric Power Act*, R.S.P.E.I. 1988, Cap. E-4.

CERTIFIED A TRUE COPY

Cheryl Mosher

Cheryl Mosher,
Senior Financial Advisor
Island Regulatory & Appeals Commission

Order

BEFORE THE COMMISSION ON Monday, the 25th day of April, 2022.

J. Scott MacKenzie, Q.C., Chair
M. Douglas Clow, Vice-Chair
Erin T. Mitchell, Commissioner

BACKGROUND:

1. Maritime Electric Company, Limited (“MECL” or the “Company”) is required to report to the Commission its actual expenditures on improvements or additions to its property in the prior calendar year (see *Electric Power Act*, section 17(4)).
2. MECL is also required to obtain Commission approval to carryover the unspent portion of any previously approved capital budget (see Order UE21-02).
3. In December 2021, the Commission issued Order UE21-16 approving MECL’s capital budget for 2022. As part of the 2022 capital budget, the Commission also approved a forecast carryover of \$9.041 million, which represented the unspent portion of previously approved capital budgets that MECL intended to carryover and spend in 2022.
4. The carryover amount approved in Order UE21-16 was a forecast amount only, as MECL did not yet know the actual amount that would be carried over to 2022.
5. In February 2022, MECL filed its report with the Commission detailing its actual expenditures on improvements or additions to its property for 2021 (the “2021 Variance Report”).
6. As part of the 2021 Variance Report, MECL advised that it made capital expenditures totalling \$37.1 million in 2021, which was \$4.329 million less than the approved capital budget of \$41.4 million. The Company explained that a number of projects could not be completed in 2021 due to later than expected start dates, material supply issues and/or to allow for contractor completion of outstanding tasks prior to final payment.
7. MECL advised that the unspent portion of the 2021 capital budget that was proposed to be carried over to 2022 was \$5.366 million. As a result, the Company expected to be over budget by approximately \$1 million.
8. MECL also advised that the actual carryover of the unspent portion of all previous capital budgets was \$9.495 million. The total carryover was therefore \$454,000 higher than forecast during the 2022 capital budget (\$9.041 million). The Company explained that of the total carryover amount, \$5.366 million was being carried over from 2021, and \$4.129 million was being carried over from 2020.
9. Following receipt of the 2021 Variance Report, the Commission issued interrogatories to MECL requesting further information. The interrogatories were issued on March 23, 2022. MECL filed responses to the interrogatories on April 14, 2022.

DECISION:

10. For the reasons that follow, the Commission approves the 2021 Variance Report as filed.
11. MECL is expected to exceed its approved 2021 capital budget by \$1.037 million. This represents approximately 2.5 percent of the total budget (\$41.4 million).

12. The Company has provided detailed explanations as to which projects were over or under budget, and the reasons for the variances. Many of the capital expenditures that were overbudget were due to factors outside of the Company's control. Some examples include:
 - a) Section 5.1 – Replacements due to Road Alterations were overbudget by \$537,000 due to several large government projects in 2021;
 - b) Section 5.2 – Distribution Transformers were overbudget by \$748,000 as a large order of polemount transformers were delivered in late 2021, rather than in the first quarter of 2022;
 - c) Section 5.3 – Overhead and Underground Services were overbudget by \$1.126 million due to the high volume of new construction. MECL advised that the 2021 new service requests were 15 percent higher than in 2020.
13. The expenditures that were higher than forecast were partially offset by lower than forecast expenditures in other areas. For example, replacements due to storms, fire and collisions (Section 5.1) were lower than expected as there was no significant storm event in 2021.
14. The Commission has reviewed the 2021 Variance Report and is satisfied that MECL has provided adequate explanations to justify the variance of \$1.037 million from the approved 2021 capital budget.
15. The Commission has also reviewed the carryover amount of \$9.495 million, which includes a carryover of \$5.366 million from 2021 and \$4.129 million from 2020.
16. The Company explained that of the \$4.129 million being carried over from 2020, \$3.439 million is in relation to the PEI Broadband Project. Of the \$5.366 million being carried over from 2021, \$3.545 million is in relation to the Broadband Project. Therefore, of the total carryover amount of \$9.495 million, \$6.984 million (or approximately 73 percent) relates directly to the PEI Broadband Project.
17. As explained in Order UE21-16, the work performed on the PEI Broadband Project in a given year is driven by third parties (namely Bell Canada and Xplornet Communications). As a result, the annual expenditures related to the project are outside of MECL's control.
18. An additional \$1.613 million of the total carryover amount relates to supplier delays for vehicles ordered by MECL. The Commission recognizes that supplier delays are outside of MECL's control and may be impacted by the ongoing global pandemic and supply chain issues.
19. These two line items alone account for approximately 90 percent of the total carryover amount. The Commission recognizes that these expenditures were not spent in the year in which they were approved for reasons outside of MECL's control.
20. For all of these reasons, the Commission is satisfied with the Company's explanation of both the variance from the approved 2021 capital budget and the unspent portion of the

2020 and 2021 capital budgets that is being carried forward. The Commission therefore approves the 2021 Variance Report as filed.

ORDER:

The Commission Orders as follows:

1. The 2021 Variance Report is approved as filed with the Commission on February 28, 2022.

DATED at Charlottetown, Prince Edward Island, this 25th day of April, 2022.

BY THE COMMISSION:

(sgd) J. Scott MacKenzie

J. Scott MacKenzie, Q.C., Chair

(sgd) M. Douglas Clow

M. Douglas Clow, Vice-Chair

(sgd) Erin T. Mitchell

Erin T. Mitchell, Commissioner