

**Maritime
Electric**
Company, Limited



**Annual
Report
1980**

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Maritime Electric Company, Limited

Board of Directors

A.D. Cameron	G.A. McMurdo
K.V. Cox	J.H. Reynolds
A.S. Gordon	G.N.C. Rivington
A.H. Holman	D.A. Scales
A.W. Howard	R.W. Smith
W.G. Lea	

Officers

A.D. Cameron	<i>Chairman of the Board</i>
R.W. Smith	<i>President</i>
J.H. Reynolds	<i>General Manager</i>
J.L. Boomhower	<i>Assistant General Manager</i>
D.K. McKenney	<i>Secretary-Treasurer</i>
H.B. Curtis	<i>Assistant Secretary-Treasurer</i>

Head Office

Confederation Court Mall,
134 Kent Street, Charlottetown, P.E.I.

Transfer Agents

Montreal Trust Company
One, Place Ville Marie, Montréal, Québec
119 Richmond Street, Charlottetown, P.E.I.
1690 Hollis Street, Halifax, N.S.
15 King Street West, Toronto, Ont.

Registrar

Montreal Trust Company

About the Company

Maritime Electric Company, Limited is an investor-owned electric utility that has served the people of Prince Edward Island since 1918. The Company owns and operates a fully integrated electric utility system providing for the generation, transmission and distribution of electricity to the whole of the Island including the Town of Summerside which has its own distribution system and purchases power from the Company under the terms of an interconnection agreement. The Company has its head office in Charlottetown and maintains branch offices in Sherbrooke and Montague.

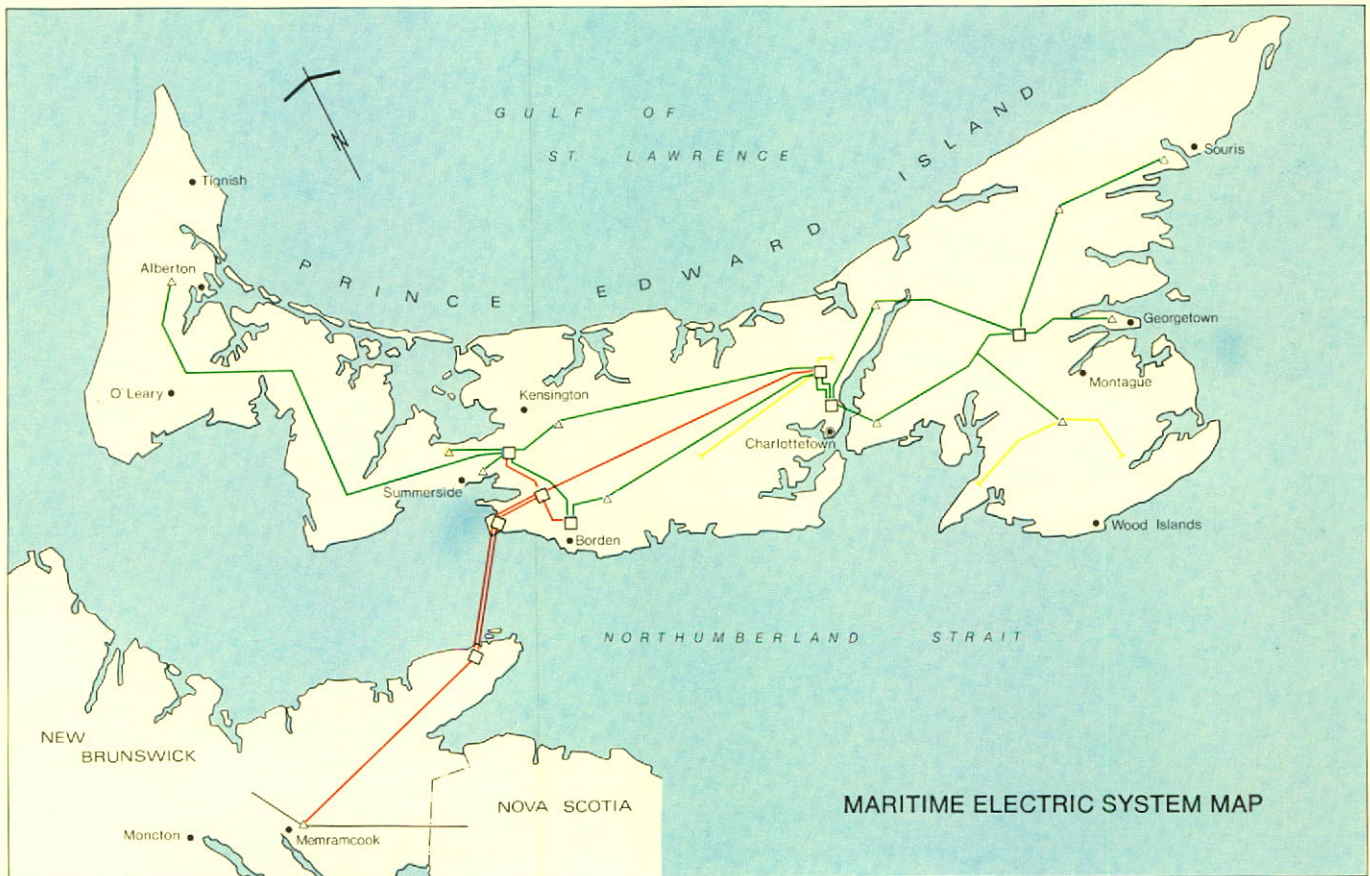
The Company presently operates two generating plants on the Island with a total capacity of 109,000 kilowatts. The Charlottetown steam plant, the Company's principal generating facility, has seven units with a combined capacity of 70,500 kilowatts. The Borden generating station, with 38,500 kilowatts of gas turbine capacity, is used for peaking and standby purposes and is operated by remote control from the Charlottetown plant.

In 1977 two 3-conductor cables were ploughed into the seabed to span the 21.5 km wide Northumberland Strait between Murray Corner, N.B., and Richmond Cove, P.E.I., and link the Island to the mainland power grid. This interconnection is owned by the Province and leased to Maritime Electric which is responsible for its operation and maintenance. Each of the cables has a capacity of 100,000 kilowatts, and operates at 138,000 volts. At present only one cable is in operation at a given time and the other cable is used as standby. Two 138 kV transmission lines link the Richmond Cove terminal to the Bedeque switching station which joins the interconnection to the Maritime Electric transmission system.

Power is transmitted across the Island on 354 km of 69,000 volt transmission line. In 1980, 77 km of 138,000 volt transmission line were brought into operation between the Bedeque switching station and Charlottetown. The Company also owns and operates 3,900 km of sub-transmission and distribution lines.

Financial Highlights 1980

	1980	1979
Operating revenue	\$36,261,044	\$31,808,938
Operating expenses	27,512,462	24,181,348
Income taxes	2,266,802	1,942,413
Net income (before extraordinary item)	2,541,143	2,344,068
Earnings per common share		
First quarter	0.80	0.69
Second quarter	0.44	0.32
Third quarter	0.68	0.58
Fourth quarter	0.68	0.78
Extraordinary item	—	0.29
For the year:		
Before extraordinary item	2.60	2.37
After extraordinary item	2.60	2.66
Dividends paid per common share	1.13	0.90
Capital expenditures	5,688,879	5,756,816
Gross fixed assets	70,139,522	64,829,954
Sales (kWh)	459,764,301	456,249,087
Number of customers	42,073	41,138
Number of common shareholders	840	771



Report to Shareholders

Company operations in 1980 produced a modest increase in earnings despite relatively low growth in electric power sales during the year.

The decline in the rate of growth of sales reflected the weak economic performance experienced by the Province as a whole during the year as well as the efforts of the Company's customers to conserve energy. Provincial domestic product declined slightly in real terms as a result of poor performances in the agricultural, tourism and fishery sectors of the economy. Prospects for the provincial economy in 1981 are somewhat brighter, however, with economists forecasting real growth of 2.5 to 3.0 per cent. It is anticipated that this recovery will be led by a significant strengthening in potato prices, already in evidence in the latter part of 1980 and early 1981, following several years of price weakness. Marketing improvements in the fisheries sector and a stronger performance in tourism are also expected to make a positive contribution to the improved outlook.

Earnings

Net income available to common shareholders, after payment of preferred dividends, was \$2.34 million, an increase of 9.7 per cent over 1979 results before an extraordinary item. Earnings per common share were \$2.60 compared to \$2.37 before an extraordinary item in 1979. Two quarterly dividends of 28 cents, one of 30 cents and one of 32 cents were declared on common shares during the year.

Revenue and Expenses

Gross operating revenue for 1980 was \$36.3 million compared to \$31.8 million in 1979. Approximately 60 per cent of this \$4.5 million increase in revenue was due to adjustments in the Fuel Clause. The balance can be attributed to slightly increased sales and higher Cost of Commodity adjustments.

Operating expenses including depreciation and taxes other than those on income were \$29.5 million for the year compared to \$26.0 million in 1979. Included in these amounts are fuel costs of \$6.2 million in 1980 and \$6.0 million in 1979 and power purchases of \$13.2 million in 1980 and \$10.3 million in 1979.

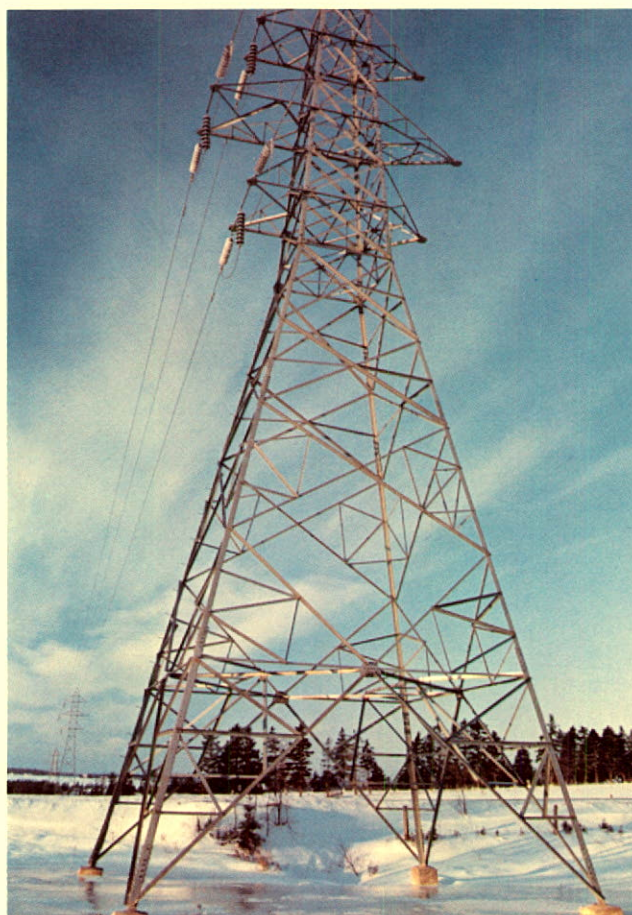
The price of Bunker C fuel used in the Charlottetown steam plant increased 26.8 per cent from \$16.80 to \$21.31 per barrel during the year, resulting in an average fuel cost of 4.52 cents per kilowatt-hour for energy produced from that source. The average cost of energy purchased over the cable interconnection was 3.35 cents per kilowatt-hour during the year. This significant differential in cost has reinforced the Company's basic operating philosophy of maximizing energy purchases over the interconnection while maintaining its relatively low capital cost capacity in the Province.

Income deductions, including interest expense, totalled \$1.94 million as compared to \$1.55 million in 1979. Income taxes were \$2.27 million, an increase of \$324,000 over the 1979 level.

Operations

During the year the Company's net production and purchases totalled 514.6 million kilowatt-hours, virtually unchanged from 1979. Of this amount 387.8 million kilowatt-hours or 75 per cent of total requirements were purchased from The New Brunswick Electric Power Commission, 125.8 million kilowatt-hours were produced by the Company's plants, and 1 million kilowatt-hours were purchased from the Town of Summerside. Energy sales for the year were 459.8 million kilowatt-hours as compared to 456.2 million kilowatt-hours for 1979. The lack of growth in sales can be attributed to the general weakness of the provincial economy and the continuing efforts by the Company's customers to conserve energy.

In November a severe winter storm with high winds and heavy icing conditions struck the Atlantic Provinces inflicting serious damage to electric transmission and distribution systems. Several transmission towers along the route of the Nova Scotia-P.E.I.-New Brunswick interconnection were toppled in New Brunswick and large numbers of distribution poles were broken in Nova Scotia and Newfoundland. In Prince Edward Island over 350 distribution poles were broken, leaving large areas of the Province without power. The Company's line crews with



the assistance of its line contractors restored power to over 80 per cent of the affected area within 48 hours and power was restored to all parts of the island within 10 days. Damage to the Company's plant exceeded \$333,000. The cost of temporary repairs in the amount of \$276,000 is to be amortized over three years beginning in 1980.

Late in December a combination of extremely cold weather and operating difficulties in adjoining systems forced the curtailment of power sales to Maritime Electric across the interconnection. For the first time since the commissioning of the cable the Company was requested on January 3, 1981 to sell power outside the Province and exported 109,000 kWh to the mainland.

Power Supply

Studies carried out during the year confirmed that the purchase of a ten per cent equity position in NB Power's 200 megawatt unit located at Dalhousie, New Brunswick, would be the most economic source of long-term firm power available to our customers. The unit is the second at the Dalhousie plant and was commissioned in November 1979. It is capable of burning coal and oil but is fuelled primarily with coal shipped by rail from the Grand Lake coalfield. Participation in the unit

would greatly reduce the Company's dependence on oil, bringing greater stability to the Company's fuel costs. Participation would also, as a result of the size of the unit, provide economies of scale that would not be possible if the Company were to construct a unit only for its own requirements.

While joint ownership of generation capacity is fairly common in the United States, it is believed that a "tenancy in common" contract with NB Power would be the first of its type in Canada. This type of ownership involves legal, financial and regulatory complexities, but it is hoped that all difficulties can be overcome and that the undertaking can be brought to fruition.

It is presently planned that the Company's wholly-owned subsidiary, Maritime Electric (P.E.I.) Limited, formed for this purpose, would purchase a five per cent ownership interest in the unit on May 1, 1981 and a further five per cent on February 1, 1982. These purchases would cost an estimated \$9.7 million and \$10.2 million respectively and would provide the Company with a total of 20 MW of additional base load generating capacity.

At a meeting of the Council of Maritime Premiers in the fall of the year the Council decided to discontinue efforts for establishment of the Maritime Energy Corporation. The Council did, however, authorize the establishment of a Co-ordinating Committee of Maritime Electric Utilities. The function of the Committee is to ensure maximum cooperation and coordination among the regional power utilities in the general areas of planning, operations, and research and development. The Company will be the utility representative for the Province on the Committee.

The Company continues to participate in and support the activities of the Prince Edward Island Energy Corporation in its search for renewable energy sources and technologies that are adaptable to the Island environment. The Corporation is presently studying the feasibility of constructing a "wind farm" on the Island made up of a number of vertical axis wind turbines and is negotiating for the design, construction and installation of a steam plant fuelled by solid waste. The Company recognizes, however, that these are prototype projects whose principal near-term contribution to the energy scene is in the area of research and development. The Company will continue to rely on conventional generating sources in its planning to provide an assured long-term supply of electric energy to the power consumers of P.E.I. at the lowest possible cost.

Capital Expenditures

The Company invested \$5.7 million during the year in capital additions or replacements of existing plant. Of this amount over \$2.9 million was expended on the Company's distribution system. The Company added 39.7 km



of distribution lines in rural areas and 1.1 km in urban and residential areas to serve approximately 935 new customers. 1980 also saw the completion of the 138 kV transmission line between Bedeque and West Royalty.

Financial

The Company's capital program in 1980 was financed by internally generated funds, an increase in bank loans, and contributions for extensions. The complexity of the negotiations for the purchase of the ten per cent interest in the Dalhousie unit resulted in the deferral of the signing of the agreement originally planned for December 1, 1980 to May 1, 1981. Consequently, it was not necessary to go to the capital markets for long-term financing in 1980. The Company is planning to issue long-term debt and preferred stock in 1981, if market conditions permit, as well as rights for common stock in order to finance the Dalhousie acquisition and its other capital projects.

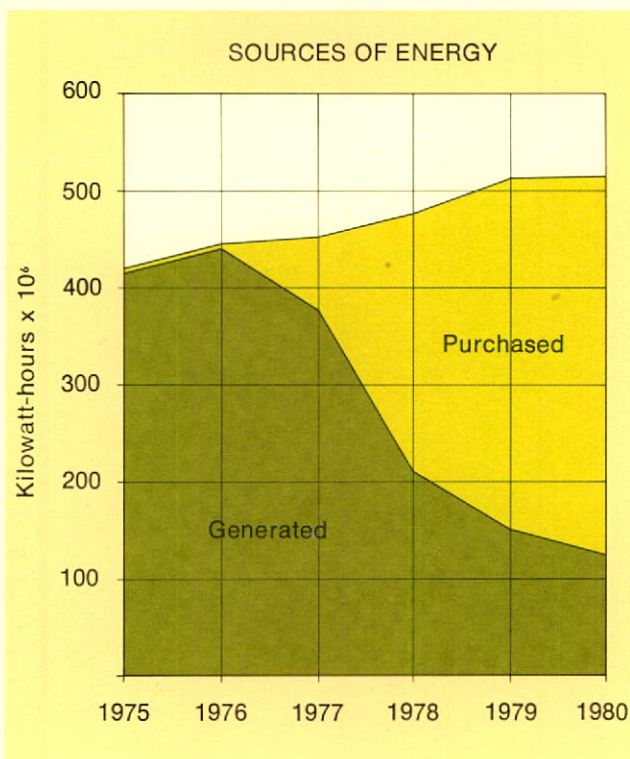
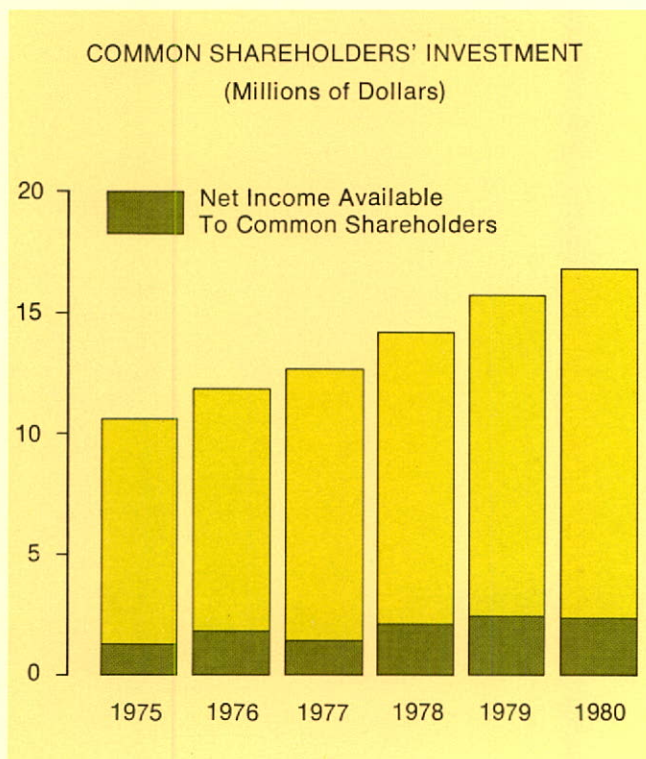
A new class of Redeemable Preferred Shares was created at the annual meeting on May 14, 1980. These

shares are being issued as stock dividends under the terms of the Company's Optional Stock Dividend Programme and, depending on their tax status, are of interest to certain shareholders.

The Public Utilities Commission of Prince Edward Island regulates the Company's rates on the basis of the historic cost of property, plant and equipment in service. While current values are not relevant to rate regulation at present, it is the Company's view that the effect of inflation on the replacement costs of fixed assets is of interest particularly in this period of rapidly increasing costs.

The costs of land, buildings, plant and associated accumulated depreciation at December 31, 1980 and December 31, 1979 are shown below on the basis of both historic and replacement costs. Replacement cost was estimated using various price indices and applying them to the different types of property according to age. Accumulated depreciation on replacement cost was determined based on the results of a depreciation study

(\$'000)	1980		1979	
	Original Cost	Current Cost Basis (indexed)	Original Cost	Current Cost Basis (indexed)
Land, Buildings, Plant and Equipment	70,139	159,966	64,830	141,714
Less: Accumulated Depreciation	22,131	64,271	20,316	54,425
Net	48,008	95,695	44,514	87,289



of the Company's fixed assets carried out during 1979. This current cost analysis was prepared by the Company and has not been reviewed by its auditors.

The application of the Company's composite depreciation rate to the current cost balances would increase the provision for depreciation in 1980 by \$2.9 million and in 1979 by \$2.5 million.

The proposal of the Federal Government to amend the Public Utilities Income Tax Transfer Act to reduce the amount of public utility income taxes returned to the provinces from 95 to 50 per cent was withdrawn from Bill C-24 prior to third reading and, it is understood, it may be subsequently reviewed in the light of discussions with regard to transfer payments to the provinces. The Company along with other investor-owned electric and gas utilities and the provinces concerned will continue to press for maintenance of the income tax rebate at the 95 per cent level.

Regulation

The rate of return on the Company's rate base was 9.49 per cent which is within the range of 9¼ to 10 per cent ordered by the Public Utilities Commission on August 20, 1975. The Cost of Commodity adjustment was increased from 12 to 18 per cent during the year. Thus in the 5½ years since the last rate order, the Company's basic rates excluding fuel adjustment have increased by only 18 per cent. During the year the Fuel Clause by which the rates are adjusted to reflect changes in the cost of fuel and energy purchases was increased from 3.4 to 3.6 cents per kilowatt-hour.

By order dated January 26, 1981, the Commission confirmed the Company's 1979 earnings base and ordered an increase in the Company's rate of depreciation from 3.25 to 3.5 per cent once a surplus in the depreciation account has been eliminated. The Commission also ordered that the Cost of Commodity adjustment and Fuel Clause adjustment in effect at March 1, 1981 be rolled into the Company's basic rates and that the Company apply to the Commission by June 1 each year for an annual re-basing of its Fuel Clause and Cost of Commodity adjustments. Deferred fuel costs in the amount of \$3.6 million arising from application of the old fuel clause which would not otherwise be recoverable have been ordered amortized over five years and recovered through the operation of the new fuel clause.

Staff

In 1980 the Company entered the second year of a two-year contract with Local 1432 of the International Brotherhood of Electrical Workers covering its plant, outside and office workers. This contract expires on June 30, 1981. The number of full time staff employed by the Company at December 31, 1980 was 200.

Mr. G.N.C. Rivington was elected to the Board of Directors of the Company at the Annual General Meeting of shareholders on May 14, 1980. At a meeting of the

Board of Directors on September 22, 1980, Mr. W.G. Lea was elected to the Board to fill a vacancy created by the death, on August 24, 1980, of Mr. J.R. Hughes. Mr. Hughes, a former Chairman of the Board of Royal Securities Corporation Limited, had been a director of Maritime Electric since 1951, and his wise counsel and experience in the financial field will be greatly missed. His many contributions to the success of the Company are remembered with gratitude.

In this period of continuing inflationary pressure, the Company's management and staff have faced real challenges in maintaining expenses at reasonable levels without sacrificing the quality of the Company's services. The high degree of success that the Company's staff have achieved in attaining these conflicting objectives is testimony to their dedication for which your directors wish to express their sincere appreciation.

Submitted on behalf of the Board of Directors:

A.D. Cameron
Chairman

R.W. Smith
President

Assets

	1980	1979
Fixed assets (Note 1):		
Land, buildings, plant and equipment	\$70,139,522	\$64,829,954
Less: Accumulated depreciation	<u>22,131,351</u>	<u>20,316,181</u>
	48,008,171	44,513,773
Current assets:		
Cash	27,891	82,367
Accounts receivable	3,541,335	3,038,792
Materials and supplies, at cost	1,846,400	1,661,042
Deferred fuel costs (Note 5)	601,950	2,769,445
Prepaid expenses	<u>186,328</u>	<u>122,023</u>
	6,203,904	7,673,669
Unamortized bond discount and issue expenses	106,823	121,778
Deferred storm damage costs (Note 4)	183,905	—
Deferred fuel costs (Note 5)	<u>3,009,754</u>	<u>—</u>
	<u>\$57,512,557</u>	<u>\$52,309,220</u>

APPROVED BY THE BOARD:

Alan S. Gordon, Director

A. D. Cameron, Director

See notes to financial statements

Company, Limited

et December 31

Shareholders' Equity and Liabilities

	1980	1979
Shareholders' equity (Note 2):		
Common shares	\$ 1,610,000	\$ 1,610,000
Retained earnings	<u>15,343,779</u>	<u>14,065,261</u>
	16,953,779	15,675,261
Preferred shares	<u>2,200,000</u>	<u>2,300,000</u>
	19,153,779	17,975,261
Long-term debt (Note 3)	16,625,000	18,685,000
Current liabilities:		
Bank indebtedness	5,118,200	2,995,000
Accounts payable and accrued liabilities	4,026,552	3,019,543
Dividends payable	337,500	295,125
Income and other taxes payable	110,932	420,599
Deferred income taxes	279,424	1,273,945
Long-term debt due within one year	<u>2,086,000</u>	<u>200,000</u>
	11,958,608	8,204,212
Deferred income taxes	5,186,690	3,274,398
Contributions for service extensions	4,147,271	3,695,643
Contributions arising from purchase of Government Rural Lines (Note 1)	<u>441,209</u>	<u>474,706</u>
	<u>\$57,512,557</u>	<u>\$52,309,220</u>

Maritime Electric Company, Limited

Statement of Earnings Year ended December 31

	1980	1979
Operating revenue	\$36,261,044	\$31,808,938
Operating expenses	27,512,462	24,181,348
Provision for depreciation	1,997,931	1,788,862
	<u>29,510,393</u>	<u>25,970,210</u>
Operating income	6,750,651	5,838,728
Deduct:		
Interest — long-term debt	1,678,352	1,689,175
— other	474,117	72,618
— charged to construction	(207,720)	(202,845)
Amortization of bond discount and issue expenses	14,714	14,714
Discount on bonds redeemed	(16,757)	(21,415)
	<u>1,942,706</u>	<u>1,552,247</u>
Earnings before income taxes and extraordinary item	4,807,945	4,286,481
Provision for income taxes:		
Current	1,387,374	1,262,170
Deferred	879,428	680,243
	<u>2,266,802</u>	<u>1,942,413</u>
Earnings before extraordinary item	2,541,143	2,344,068
Extraordinary item — Gain on sale of land and building, net of income taxes	—	261,160
Net earnings	<u>\$ 2,541,143</u>	<u>\$ 2,605,228</u>
Earnings per common share:		
Before extraordinary item	\$2.60	\$2.37
After extraordinary item	\$2.60	\$2.66

Statement of Retained Earnings Year ended December 31

	1980	1979
Balance at beginning of year	\$14,065,261	\$12,535,158
Net earnings	2,541,143	2,605,228
	<u>16,606,404</u>	<u>15,140,386</u>
Dividends:		
Preferred shares —		
5% (\$5.00 per share)	30,000	30,000
10½% (\$2.10 per share)	170,625	181,125
Common shares (\$1.18 per share; \$0.96 in 1979)	1,062,000	864,000
	<u>1,262,625</u>	<u>1,075,125</u>
Balance at end of year	<u>\$15,343,779</u>	<u>\$14,065,261</u>

See notes to financial statements.

Maritime Electric Company, Limited

Statement of Changes in Financial Position Year ended December 31

	1980	1979
Funds were provided from:		
Earnings before extraordinary item	\$2,541,143	\$2,344,068
Items not involving funds —		
Provision for depreciation	1,997,931	1,788,862
Deferred income taxes	1,912,292	353,846
Amortization of discount on bonds	14,714	14,714
Discount on bonds redeemed	(16,757)	(21,415)
	6,449,323	4,480,075
Extraordinary item:		
Proceeds on sale of land and building, net of current income taxes	—	387,404
Contributions for extensions	645,391	454,866
Increase in bank indebtedness	2,123,200	2,712,009
	\$9,217,914	\$8,034,354
Funds were applied to:		
Expenditure for fixed assets	\$5,688,879	\$5,756,816
Retirement expense of fixed assets net of salvage value	30,711	(35,951)
	5,719,590	5,720,865
Redemption of preferred shares	100,000	100,000
Reduction in long-term debt	2,043,242	168,585
Dividends —		
Preferred	200,625	211,125
Common	1,062,000	864,000
Deferred charges — fuel costs	3,009,754	—
— other	183,664	—
(Decrease) increase in working capital exclusive of changes in bank indebtedness —		
Before reclassification of deferred fuel costs	(91,207)	969,779
Reclassification of deferred fuel costs (Note 5)	(3,009,754)	—
	\$9,217,914	\$8,034,354

See notes to financial statements.

Maritime Electric Company, Limited

Auditors' Report

To the Shareholders of
Maritime Electric Company, Limited:

We have examined the balance sheet of Maritime Electric Company, Limited as at December 31, 1980 and the statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
February 19, 1981

PRICE WATERHOUSE & CO.
Chartered Accountants

Summary of Accounting Policies

Regulation:

The Company is engaged in the production and sale of electricity in Prince Edward Island and is regulated by the Public Utilities Commission of Prince Edward Island under The Electric Power and Telephone Act.

Fixed assets:

Additions are made to fixed assets and costs are capitalized in accordance with the regulations established by the Public Utilities Commission.

The cost of additions to fixed assets represents the cost of materials, related services, direct labour, interest during construction and other applicable indirect overheads.

Interest during construction is calculated on a monthly basis at a rate equal to the rate of return approved by the Public Utilities Commission.

Retirements from fixed assets are made to accumulated depreciation on the basis of original cost plus retirement expenses less salvage.

Depreciation is provided on a straight-line basis using a composite rate of 3.25% per annum. This rate is reviewed by the Public Utilities Commission from time to time and is estimated to amortize the cost of fixed assets, less salvage value, over their useful lives.

Materials and supplies:

Materials and supplies are valued at average cost.

Bond discount and issue expenses:

Bond discount and issue expenses are amortized over the lives of the issues to which they relate.

Contributions:

The accounts consist of the balance of contributions towards the cost of construction for service connections and those arising from the purchase of lines from the government.

Revenue:

Revenue is recognized on billings rendered monthly to customers on a cyclical basis.

Deferred fuel costs:

The Company's rates include a fuel cost adjustment factor which permits the recovery of increased fuel costs. However, there is a time-lag between the periods in which fuel costs above a base level are incurred and the periods in which they are billed to customers. Therefore, to achieve a proper matching of costs and revenue, fuel costs above the base level are deferred to the periods in which they are billed to customers.

Maritime Electric Company, Limited

Notes to Financial Statements — December 31, 1980

1. Fixed assets:

Included in the fixed assets are rural lines purchased from the Government of Prince Edward Island and operating systems purchased over the years for a total consideration of \$1,800,131. The value of these properties was restated to reflect original cost and depreciation based on Company rates, all as if the Company had owned the lines from the dates of construction.

This restatement gave rise to a credit of \$865,309 being the excess of depreciated value over the consideration paid which excess was credited to a contributions account. Annual amortization of this excess is charged to the contributions account, which shows a balance of \$441,209 as at December 31, 1980.

Fixed assets consist of the following:

	1980	1979
Land, buildings, plant and equipment, at cost	\$66,376,216	\$61,066,648
Rural lines purchased from the Government of Prince Edward Island and operating systems purchased from others at values representing cost to the original owners	3,763,306	3,763,306
	<u>\$70,139,522</u>	<u>\$64,829,954</u>

2. Stated capital:

The authorized stated capital of the Company consists of an unlimited number of common shares, 6,000 5% cumulative redeemable preferred shares, 300,000 cumulative redeemable preferred shares of which 100,000

have been designated as preferred shares, Series A, and 6% fixed non-cumulative redeemable preferred shares unlimited as to number and consideration.

Outstanding as at December 31 —

	1980	1979
900,000 common shares	<u>\$1,610,000</u>	<u>\$1,610,000</u>
6,000 5% preferred shares	600,000	600,000
80,000 10½% preferred shares, Series A (1979 — 85,000)	1,600,000	1,700,000
6% preferred shares	—	—
	<u>\$2,200,000</u>	<u>\$2,300,000</u>

5% preferred shares —

The 5% preferred shares are non-voting and are redeemable at a redemption price per share equal to their paid up amount. Dividends are based on 5% of their paid up amount.

Cumulative redeemable preferred shares —

The cumulative redeemable preferred shares carry voting rights and may be issued in one or more series, each series to consist of such number of shares as determined by the Board of Directors. The Board may fix the designation, rights, restrictions, conditions and limitations attached to the shares of each series.

The 10½% preferred shares, Series A are redeemable after January 31, 1984. If redeemed between February 1, 1984 and January 31, 1992, they are subject to

a premium on redemption which reduces from 6% to zero over the period. There is a sinking fund requirement which calls for the redemption of 5,000 shares at par on April 1 in each year.

6% non-cumulative redeemable preferred shares —

The 6% non-cumulative redeemable preferred shares, created by a special resolution of the Directors May 14, 1980, are non-voting and subordinate to all other classes of preferred shares, and are redeemable at a price of \$10 per share.

Through an optional stock dividend program commenced in October 1980, holders of common shares may elect to receive all or part of their dividends in the form of 6% redeemable preferred shares. During 1980, 5,362 shares were issued and redeemed.

3. Long-term debt:

		1980	1979
First mortgage sinking fund bonds—			
5¾% due 1981	\$2,500,000		
Less: Redeemed to date	<u>589,000</u>	\$ 1,911,000	\$ 2,080,000
5¾% due 1983	2,500,000		
Less: Redeemed to date	<u>450,000</u>	2,050,000	2,050,000
7¾% due 1987	2,500,000		
Less: Redeemed to date	<u>250,000</u>	2,250,000	2,255,000
8¾% due 1993		3,000,000	3,000,000
11% due 1996		4,000,000	4,000,000
10⅝% due 1997		3,000,000	3,000,000
10⅝% due 1998		<u>2,500,000</u>	<u>2,500,000</u>
		18,711,000	18,885,000
Less: Current portion due within one year		<u>2,086,000</u>	<u>200,000</u>
		<u>\$16,625,000</u>	<u>\$18,685,000</u>

The first mortgage sinking fund bonds have a sinking fund requirement of 1% of the principal per annum. The annual requirement for sinking fund and for repayment of maturing debt for each of the next five years is: 1981 — \$2,086,000; 1982 — \$175,000; 1983 — \$2,150,000; 1984 — \$150,000; 1985 — \$150,000.

4. Storm damage:

Special repair and maintenance costs aggregating \$275,857 attributable to storm damage in November and December 1980, are being amortized in equal instalments over a three year period commencing in the current year.

5. Deferred fuel costs:

Effective March 1, 1981, by order of the Public Utilities Commission, the Company's basic rates have been increased to include the current level of the Standard Fuel Clause adjustment. Deferred fuel costs of \$3,611,704 outstanding as at December 31, 1980, which would not otherwise be recovered as a result of this change, have been ordered to be amortized over a sixty month period commencing March 1, 1981 and recovered through monthly revised Fuel Clause adjustments. The portion thereof to be amortized during 1981 amounting to \$601,950 is reflected in the balance sheet as a current asset.

6. Lease commitments:

Minimum rental commitments under long-term leases amount to \$2.3 million in 1980 and the four succeeding

years. This includes an annual rental of \$2.2 million payable until 2009 for the use of the submarine cable interconnection between the electrical systems of Prince Edward Island and New Brunswick. Total rental expense amounted to \$2.3 million in 1980.

7. Power supply expansion:

The Company's wholly-owned subsidiary Maritime Electric (P.E.I.) Limited, incorporated January 29, 1981, is negotiating the purchase of a 5% interest in New Brunswick Electric Power Commission's 200 megawatt generating unit at Dalhousie, New Brunswick, effective May 1, 1981, with a further 5% to be acquired February 1, 1982. These purchases, which are subject to approval by the Public Utilities Commission of Prince Edward Island will cost an estimated \$9.7 million and \$10.2 million respectively. Depending upon market conditions, the Company proposes to issue long-term debt and preferred stock and rights for common stock in order to finance these purchases.

8. Pensions:

The Company has a fully funded pension plan available to all of its regular employees. Current service costs amounting to \$388,875 in 1980 (\$334,823 in 1979) are charged to income as they accrue. In addition, the Company pays income supplements to its retired employees which, with the concurrence of the Public Utilities Commission, are expensed as paid.

Maritime Electric Company, Limited

Ten-Year Summary

	1980	1979	1978	1977	1976	1975	1974	1973	1972	1971
Operating statistics:										
Kilowatt-hours produced and purchased (in thousands)	514,593	512,352	478,524	452,285	445,269	419,645	382,784	343,525	307,281	271,710
Number of customers:										
Urban	11,599	11,356	11,040	10,626	9,946	9,938	9,525	9,296	8,996	8,592
Rural	30,474	29,782	28,503	27,257	26,003	25,269	24,093	22,973	21,326	20,369
Number of employees	200	204	198	195	186	182	179	170	164	162
Earnings information: (thousands of dollars)										
Operating revenue	36,261	31,809	26,749	23,376	19,749	14,798	12,288	8,425	7,698	6,852
Operating expenses	27,512	24,181	19,028	17,392	13,376 (1)	9,963 (1)	8,478 (1)	4,906	4,380	3,876
Depreciation	1,998	1,789	1,866	1,744	1,865	1,430	1,292	1,170	1,078	941
Interest on long-term debt and bank loan	2,152	1,762	1,744	1,525	1,263 (2)	1,209 (2)	992 (2)	778 (2)	618 (2)	540
Interest charged to construction	(208)	(203)	(144)	(169)	(197)	(105)	(81)	(187)	(64)	(77)
Provision for income taxes	2,267	1,942	1,901	1,255	1,496	1,077	784	766	725	698
Net earnings	2,541	2,605 (3)	2,338	1,634	2,012	1,312	816	988	976	878
Earnings per common share (\$)	2.60	2.66 (3)	2.35	1.56	1.99	1.42	0.87	1.06	1.05	0.94
Dividends per common share (\$)	1.18	.96	.72	.66 (4)	.61 (4)	.60 (4)	.60 (4)	.583	.533	.433
Balance sheet data: (thousands of dollars)										
Fixed assets	70,140	64,830	59,518	55,656	51,349	45,762	41,913	39,835	34,726	31,671
Accumulated depreciation	22,131	20,316	18,647	16,825	15,180	13,597	12,154	11,036	9,762	8,380
Capitalization:										
Long-term debt	16,625	18,685	18,875	16,713	14,082	10,525	11,112	13,239	9,381	9,644
Preferred stock	2,200	2,300	2,400	2,500	2,600	600	600	600	600	600
Common stock equity	16,954	15,675	14,145	12,677	11,869	10,628	9,896	9,650	9,218	9,092
Common equity per share (\$)	18.84	17.42	15.72	14.09	13.19	11.81	11.00	10.72	10.24	10.10

Notes: (1) Operating expenses after deduction of the Provincial Government's oil subsidy.

(2) Interest is re-stated to exclude gain on exchange.

(3) Includes extraordinary item of \$261,160 — gain on sale of office building.

(4) Includes Dividend out of Tax Paid Undistributed Surplus on Hand.

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