Maritime Electric Co.Ltd. (MECL) 2020 Capital Budget Application (UE20730) – Comments to IRAC

Customer Cost, MECL Financial Return and Capital Affordability

All costs arising from new annual capital expenditures are passed on directly to MECL customers as an electricity rate increase. For MECL there is no operating cost impact or financial risk, simply an increased shareholder value and an improved Return on Investment (ROE). For the $38M expenditure requested, customers will pay an additional $1.4M for added MECL ROE (profit), $1.0M for debt financing and approximately $1.0M for future annual depreciation charges – an additional cost of $3.4M each year collected by increasing customers' rates. For a projected Revenue Requirement of $222M for 2020, this drives a minimum annual rate increase of 1.5%.

Is an annual capital budget at 17% of annual revenue or 11% of Rate Base affordable and comparable with other low growth Canadian Utilities? Limited public information from other Utilities suggests 10% of revenue or 7% of Rate Base is the accepted key performance indicator.

Peak Load Growth and Affordable Capital Expansion:

Over the last six (6) years MECL annual capital budgets have been driven by the forecasted growth in peak load. The approach taken by MECL continues to be that the latest peak load forecasts, that are now higher than the forecasts of the 2017 Integrated System Plan, must be preempted by expanding the infrastructure at whatever cost. With peak demand still increasing and a system Load Factor static at 55%, the expanding infrastructure continues to be underutilized by 45%. Equally MECL continue to ignore the notion of affordable capital budgets and the Commission's directive to apply the five (5) detailed objective evaluation criteria as detailed by the Commission in UE17-03 pertaining to the "Capital Expenditure Justification Criteria" (CEJC) document. How is the Commission expected to deliberate when the balance between the reliability of electricity supply and customer affordability is not objectively articulated?

Conclusions from the Expenditure Classification Groupings:

The "Mandatory, Recurring and Work Support Services" can be considered collectively as the baseline annual operating capital requirement. This $17,450,000 is just under 47% of the requested $37,237,000 categorized total. The remaining 53% or $19,787,000 constitutes the "Justifiable" classification better described as "Discretionary" or "Deferrable" projects. Here the included projects are not mandatory, are on different time lines and are competing funding requests for mitigating the span of MECL operating risks. As risk mitigation is the core objective of these projects, it is this set of projects that requires the application of the Commission's five (5) detailed objective evaluation criteria. The capital budget application should show clearly an

objectively rated hierarchy of projects that permits assessment based on a balance between reliability of electricity supply and customer affordability. It should be noted that this process does not eliminate the lower priority projects; it simply enables the Commission to more easily review, compare and possibly establish a different balance between reliability of electricity supply and customer affordability.

"Justifiable" Category - Primary Critiques

Year-to Year Comparison:

One measure for reviewing the "reasonableness" of annual expenditures in a commercial, for-profit organization is the evidence of any expenditure trends that relate to internal or external operational changes. A comparison of the three 2020 capital classifications to the 2019 budget application shows major shifts: Generation - removing the BOP topic – shows a 70% expenditure reduction, Distribution shows a 3% reduction and Transmission shows a 26% expenditure increase without any declared significant internal or external operational changes.

Clarity and Relevance of Evidence Text

Projects 5.4.b, 5.5.a and 5.5.c.ii include eight (8) sub-projects for a total budget request of $4.5M and all involve the replacement of Eastern Cedar Poles. Yet it is not clear what the total replacement will be or possibly where these projects overlap in terms of pole replacement.

Project 5.4.b. has three (3) sub-projects claiming a total outage reduction of 4.7 hours at a cost of $1.8M but provides no objective context of the degree of improvement. Citing an objective result without providing context is inconclusive; should the 4.7 hours be compared to the average feeder outage of 5000 hours? How is the value proposition of spending $1.8M to be judged?

Project 5.5.b describes a pole/equipment inspection schedule for $700,000 but shows no breakdown of what expenditures are labor (a candidate for operating expense and not capital) and material.

Smart Meters - $300,000

This is the third project proposal towards collecting customer load data and investigating components of an Advanced Metering Infrastructure (AMI). The specific issues with this project request are:

1) It is unclear how the budget breakdown (Interrogatories response 10/18/19) of Business Case development; RFP development, evaluation and selection; proof of concept or reference site visit; constitutes a capital expense
2) It is also unclear why MECL staff cannot drive its unique AMI business case and supplement any missing expertise by applying staff that will be required to guide future deployment. The uniqueness of PEI small scale, the existing segmented data for customer electricity use and the wide span of rural and urban customers should not be lost by overlaying larger provinces' experience and advice.

MECL applications to IRAC since 2017 and the interrogatories responses suggest the following status of the path towards deployment of AMI:

a. The Bridge watt-hour (Bridge Energy) meters and the Bridge Combination (Bridge Demand) meters currently under pilot deployment have and will provide additional interval load data collected by monthly drive-by meter readers.
b. There is no business case for replacing the current RI Demand meters with the Bridge Demand meter
c. There is a possible role for the Bridge Energy meter to enable a time-of-day (TOD) tariff for a limited number of higher-use customers
d. There is no business case (or need) for deploying full feature AMI meters to enable TOD for all 58,000 Residential customers (Ref. Interrogatories response September 30, 2016)
e. The current RI Combination (RI Demand) meters could be used to solve the customer inequities for the high-use energy customers in both subsets of the General Service and the Residential (including farms) customer classes,
f. There is to be a significant update to the Integrated System Plan (ISP) in September 2020 which will include a new section detailing a System Meter strategy

Considering this range of work-in-progress activities, it would seem prudent to delay any new initiatives towards understanding and deploying any form of AMI.

Commission Order Proposals:

1) Amend the Application by separating the baseline annual operating capital requirement of just over $17M from the remaining $20M "Justifiable" classification. Request MECL to subsequently apply the five (5) detailed objective evaluation criteria as detailed by the Commission in UE17-03 to all of the Justifiable projects. The results should be presented as a hierarchy of separate priority projects that permits the Commission to review, compare and possibly defer expenditures to future years based upon an objective balance between reliability of electricity supply and customer annual affordability.

2) Delay approval of the Smart Meters request for $300,000 until both a new rate structure is delivered in June 2020 and the MECL System Meter strategy is declared via the updates to the 2017 Integrated System Plan in September 2020.