

---

# Memorandum

TO: CARR, STEVENSON & MACKAY  
FROM: BEN HAVUMAKI, ERIN CAMP, PHD AND BOB FAGAN  
DATE: JULY 3, 2019  
RE: SYNAPSE RESPONSE TO EXHIBITS M-11, M-21, AND M-24

---

## Overview

This document serves as the formal response of Synapse Energy Economics, Inc. (Synapse) to the statements of Maritime Electric Company Ltd. (MECL) on matters related to Synapse’s review of and report on the proposed decommissioning of the Charlottetown Thermal Generating Station (CTGS). This response covers three filings from MECL: Exhibit M-11 and M-21—responses to interrogatories from Commission staff on February 15, 2019 and May 24, 2019, respectively—and Exhibit M-24, MECL’s specific response to the Synapse report.

As before, Synapse defers to MECL on specific facts, figures, and estimates related to its operations, CTGS, and the proposed decommissioning. While some of the issues raised in the Synapse report have been adequately addressed by MECL in the three exhibits, others remain unresolved and may ultimately require the exercise of judgment by the Commission.

## The Synapse Report

On March 15, 2019, Synapse filed its report on MECL’s proposal to decommission the Charlottetown Thermal Generating Station. This report addressed the formal decommissioning plan that MECL submitted, along with other associated documentation, including the utility’s responses to two rounds of interrogatories from Synapse.

The Synapse report identified three core, interrelated matters that required further consideration:

- (1) The lack of clarity regarding MECL’s post-decommissioning plans for the Charlottetown site.
- (2) The cost effectiveness of demolishing the portion of the CTGS structure not associated with the continued operation of the Combustion Turbine 3 (CT3) balance of plant equipment (BOP) instead of repurposing it for an alternative use.
- (3) The cost effectiveness of demolishing the BOP portion of CTGS and constructing a new structure to house it rather than retaining the existing BOP.

The core difficulty in evaluating MECL’s proposals arose from the lack of a long-term plan for the site. While MECL made a compelling case for the site’s *usefulness* (e.g., strategic location, current energy system function), it did not detail how it expected to *use* the site. Determining the appropriate course of action—what to do with the CTGS structure and how extensively to remediate the site—is contingent on future site plans.

Overall, MECL’s proposal for the CTGS site anticipated a range of future energy functions by outlining a non-specific decommissioning and remediation plan: demolishing the entire CTGS structure, constructing a new BOP building to house the CT3 auxiliary equipment, and returning the site to an “open space condition” that would be conducive to many different energy system uses. MECL’s plan is submitted under the theory that the *lack* of an existing reason to retain CTGS, coupled with relative certainty that the building will not be useful for the utility or any other party that might take possession of the site in the future, are reasons enough to demolish the structure.

### **Maritime Electric Company’s Responses**

MECL’s response to the Synapse report, filed as Exhibit M-24, is divided into 28 sections, labeled R-1 through R-28. The first 11 sections address Synapse’s primary recommendations, while the remaining sections are concerned with a range of issues, including both these primary recommendations and other matters. Maritime Electric also addressed issues related to the Synapse report in its responses to Commission interrogatories in Exhibits M-11 and M-21.

Table 1 provides a summary of the utility’s responses to the major recommendations of the Synapse report. Table 2. Exhibits M-11 and M-21 – Relevant Interrogatories and Topics outlines the relevant interrogatory responses.



Table 1. Exhibit M-24 – Overview of MECL’s Formal Response to Synapse Recommendations

	Synapse Recommendation	MECL Response
R-1	Commission: Approve retirement of Turbines 7-10 at CTGS.	Concurred.
R-2	MECL: Provide more robust case for the cost-effectiveness of demolition of the non-BOP portion of CTGS over retention.	Submitted updated repurposing study from CBCL with different methodology that presents total lifecycle costs.
R-3	MECL: Provide clearer justification for demolition of the BOP portion of CTGS and construction of a new BOP building.	Submitted class 1 estimate for BOP and class 4 estimate for additional decommissioning costs; submitted new estimate of BOP retention costs.
R-4	Commission: Deem CTGS site used and useful, contingent on MECL filing a long-term plan for the site in short order.	Described importance of the CTGS site to the PEI grid, and provided detail on both short and longer-term provincial energy needs.
R-5	Commission: Institute appropriate safeguards to ensure that MECL continues to minimize costs as the decommissioning process proceeds.	Cited section 11.4.3 of GRA, in which it proposed to update the Commission every six months on changes to timeline or estimated costs and to complete a new depreciation study.
R-6	MECL: Provide a clearer case for the magnitude of the mobilization-demobilization budget item.	Provided additional detail on budget item and presented expected travel and accommodation costs.
R-7	MECL: Conduct all necessary environmental testing and follow-up on risk items and modify its budget and workplan as required.	Restated response to Synapse IR-7 summarizing environmental testing and repeated list of risk items from decommissioning study.
R-8	MECL: Conduct a simple probabilistic analysis, multiplying the probability of occurrence for each environmental risk item by its total cost.	Presented results of probabilistic analysis on expected values of risks.
R-9	MECL: Revise budget and workplan as needed, adjusting all relevant items, including those that are proportional to total costs (contingencies).	Referenced response to recommendation 5.
R-10	MECL: Illustrate how the delay in the previous rate change and other factors have contributed to the requested revision in depreciation rates.	Provided additional narrative explaining the depreciation study results; corrected Synapse report, stating that revised filing was not to correct error.
R-11	MECL: Provide clearer justification for escalation of decommissioning costs and illustrate that this is consistent with the approach taken in the past.	Gave financial case for escalating costs and asserted that this approach has been accepted in other jurisdictions.

Table 2. Exhibits M-11 and M-21 – Relevant Interrogatories and Topics

Exhibit M-11	
Interrogatory	Topic
IR-9	Future use for CTGS site and planning
IR-10	Analysis of alternative siting for CT3
IR-11	Used and useful designation for CTGS site
IR-33	CTGS amortization period
IR-34	CTGS reserve variance amortization account value
IR-35	CTGS reserve variance amortization period rate impact
IR-36	Request for working papers/calculations on depreciation/amortization period
Exhibit M-21	
Interrogatory	Topic
IR-66	Used and useful designation for CTGS site, timeline for future development
IR-67	Refining decommissioning cost estimate and moving forward with decommissioning
IR-73	Capacity sufficiency and alternatives for CTGS site
IR-82	First life extension program undertaken at CTGS
IR-83	Past overhauls at CTGS and past changes in depreciation rates

## Disposition of Synapse Recommendations

Several of the Synapse recommendations can be considered resolved. These are outlined in the section below.

### Issues Requiring no Further Review

#### **Recommendation R-1**

*The Commission should approve the retirement of Turbines 7-10 at CTGS.*

As discussed in the Synapse report, MECL has established the need to retire Turbines 7-10. The Commission has already initiated this process through approval of depreciation rate changes. Synapse recommends that the Commission approve the retirement of these turbines in the upcoming GRA proceedings.

#### **Recommendation R-6**

*MECL should be required to make a clearer case for the magnitude of the mobilization-demobilization budget item, substantiating why it believes that it will be necessary to hire a contractor from outside the province.*

The decommissioning budget included a contingency allowance for “Unidentified items” at 10 percent of the site decommissioning cost and an allowance for “Health and safety, mobilization-demobilization, bonds” at 20 percent of site decommissioning cost. Synapse compared these values with those from other recent projects and determined that the total value of these “allowances,” at 30 percent of site

decommissioning cost, appears to be reasonable. However, Synapse raised concern about the mobilization-demobilization item within the 20 percent allowance category.

In response to the second Synapse interrogatories, MECL indicated that it expected that most of the contractor staff for the decommissioning would come from outside of the province. Further, MECL indicated that it expected staff travel and accommodation costs to total \$550,000.<sup>1</sup> In Exhibit M-24, the utility provided additional detail. It cited GHD experience and a review of contractor bids from the Dalhousie and Grand Lake decommissioning projects as further justification for its claim that the project contractor would likely come from afar. MECL provided a table with expected costs for flight, travel time, accommodations, and meals.

Synapse finds that MECL has provided an adequate justification for its mobilization-demobilization budget item and recommends that this issue be considered resolved.

***Recommendation R-9***

*If any revisions are made to the proposed workplan and budget, MECL should be instructed to submit a new budget that not only reflects the modifications to the site decommissioning cost, but also adjusts the value of any other items that are assessed in proportion to the site decommissioning cost, including allowances.*

With respect to this recommendation, MECL references its response to R-5 (addressed in the following section). In that response, the utility cites its proposal in its GRA application to provide the Commission with updates every six months on modifications to timelines or estimated costs and to complete an updated depreciation study based on financial results up to December 31, 2021.

Synapse is satisfied with the suggested approach and expects that MECL will adjust the contingency allowance budget item and any other items that are proportionally related to total site decommissioning costs as needed over the course of the decommissioning project. Further, Synapse understands that any overcollection of decommissioning expenses will be corrected in the updated depreciation study and, as necessary, in a subsequent depreciation study. Any excessive recovery will be returned to ratepayers. We note that the related recommendation in R-5 requires additional attention and is not considered resolved.

**Issues Requiring Further Review**

***Recommendation R-2***

*The Commission should not approve the demolition of the non-BOP portion of the CTGS structure until MECL presents a more robust case for the cost-effectiveness of demolition over retention.*

In response to this recommendation, MECL submitted an updated Summary of Probable Costs table with alternative options fully costed out and values provided on a full Life Cycle Cost (LCC) basis, rather than as only upfront costs. In support of this analysis, MECL has provided the valuation and appraisal

---

<sup>1</sup> Second Synapse interrogatories. IR-3.



reports that included expected sale and rental income values. The utility has also submitted an estimate of additional costs associated with selective demolition of the CTGS.

Importantly, MECL now includes potential rental and sale revenues in its analyses, which allows for a more comprehensive comparison of the different alternatives.

In the absence of a specific plan for the CTGS site, full demolition of the CTGS structure is proposed on the grounds that there are no cost-effective alternatives for the building. Provided that the six options presented in MECL's analysis represent the universe of reasonable options for the building, independent of whether MECL will retain the CTGS building site or not, then Synapse agrees that the demolition should proceed.

We note that without a specific plan for the site (addressed in Recommendation R-4), the choice to demolish the CTGS structure in full is an exercise in judgment. An alternative course of action, given enduring uncertainty about the future for this site would be to retain the structure. Though the updated analysis prices this option at greater than \$21 million over 35 years, it should be noted that the utility would be unlikely in practice to retain the building as an empty shell for such a long period.<sup>2</sup> Rather, once a decision had been made about disposition for the Charlottetown site, a determination for the building would be made, too—either to preserve it for utility or alternative uses or to demolish it.

***Recommendation R-3***

*The Commission should not approve demolition of the BOP-portion of the CTGS and construction of a new BOP building unless MECL can present a clearer justification, since demolition does not appear to be meaningfully less expensive than maintaining the BOP section of the CTGS.*

In its March 2019 report, Synapse raised concern that the difference in costs between constructing a new structure and retaining the existing BOP portion of the CTGS building was not sufficient to justify the selection of one option over the other.

At the outset, contractor GHD prepared a Class 5 estimate for costs for both demolition and construction of a new BOP and retention of the existing BOP and found the demolition alternative to be \$621,050 cheaper. Synapse noted that the uncertainty in these estimates eclipsed the difference between them and raised concerns about two facets of that analysis:

- (1) The incremental cost for stack demolition for the retention scenario over the demolition scenario that was reported in the preliminary options analysis appeared to be inconsistent with the results of the decommissioning study. Specifically, there was concern that the costs for stack demolition incorporated into the decommission plan, which assumed full demolition of the CTGS building, were identical to those in the

---

<sup>2</sup> MECL notes that there are additional risks associated with retaining this structure. See Exhibit M-24, R-14.

retention estimate, thus removing this purported cost savings of demolition over retention for the BOP.

- (2) GHD used the higher of two alternative heating cost estimates (\$95,000 vs. \$80,000 per year) for the retention option without providing clear justification.<sup>3</sup>

In its response, MECL addressed the first concern by clarifying that its proposal in the decommissioning plan to use mast climbers for just the top 125 feet of the new stack was distinct from the alternative considered in the preliminary options analysis. The initial alternative was to use mast climbers for demolition of the entire new stack. As such, it asserted that there was no “overlap” in costs.<sup>4</sup> Incidentally, this hybrid approach does not appear to correspond to either of the options that was contemplated in the preliminary analysis; the comparison that was considered there was between the exclusive use of mast climbers and the exclusive use of a crawler crane or other high reach equipment.<sup>5</sup>

In response to the second concern above, MECL revised the annual heating cost figure for the retention option down to \$86,250 per year.

MECL also retained contractor GHD to complete a revised options analysis that compared cost estimates for both BOP options: maintaining the BOP portion of the CTGS structure or demolishing the CTGS structure in full and building a new standalone BOP building. GHD improved on its Class 5 estimation for costs associated with retention of the existing BOP section.<sup>6</sup> Meanwhile, contractor CBCL refined its Class 4 estimate for new construction into a Class 1 estimate. MECL also submitted a new, Class 4 estimate for additional costs that would be incurred for the selective demolition that would be required, should the existing mechanical maintenance shop be preserved. Finally, the utility provided qualitative information for both scenarios, focusing on liabilities and risks.<sup>7</sup>

In its revised construction estimate, MECL has removed washrooms, offices, and the mechanical maintenance shop from the proposed new BOP structure, reducing the building’s footprint and associated costs. All things being equal, these changes would be expected to reduce the overall costs associated with new construction. However, the utility also modified its estimation of other construction, mechanical, electrical, and labor costs It added in the costs of selective demolition associated with retaining the mechanical maintenance shop (new Class 4 estimate), with the effect that overall expected costs for this option increased.

---

<sup>3</sup> This is addressed in Exhibit M-24, R-23.

<sup>4</sup> Exhibit M-24, p. 17.

<sup>5</sup> Preliminary Options Analysis, p. 2.

<sup>6</sup> MECL indicates that the revised estimate for retention has not been specifically classified, according to AACE criteria.

<sup>7</sup> This is also addressed in Exhibit M-24, R-15.





Other major factors in this increase include revisions to stack demolition, contingency, and owner’s costs. To illustrate the updated estimated difference between the two alternatives, MECL provided the summary table below.<sup>8</sup>

Comparison of Updated Costs Estimates for CT3 BOP Options			
Item	Retain CT3 BOP	Construct New CT3 BOP Building	Cost Differential
Updated Total Cost	\$ 6,462,900	\$ 5,029,337 <sup>1</sup>	\$ 1,433,563
Range of Total Cost based on Accuracy	\$ 3,900,000 to \$ 9,272,000	\$ 4,370,000 to \$ 6,400,000	-

Synapse notes that there is still considerable uncertainty in the estimated costs to retain the BOP and a reasonable chance that retention could end up being comparable in cost to construction of a new building.

Yet retaining the current BOP appears to present much greater risks—financial and otherwise. MECL indicates that construction of a new building will “...significantly reduce risks to worker health and safety, risks to critical infrastructure for uninterrupted supply of electricity to the province, and would mitigate other risks/uncertainties (increased bonding costs/flooding risk) that would be incurred by Maritime Electric and its customers if the CT3 BOP portion of the CTGS Building is retained.”<sup>9,10</sup> It is Synapse’s opinion the risk to health, safety, and uninterrupted electricity supply, along with the potential for significant cost overages are more compelling than the expected difference in costs. If these concerns are credited, then the construction of a new BOP should be approved.

**Recommendation R-4**

*The Commission should deem the entire CTGS site used and useful. However, this designation should be made contingent on MECL filing a long-term plan for energy system utilization for the site in short order.*

In its initial filing, MECL did not provide a concrete plan for future site usage, beyond indicating that CT3 is expected to remain in operation for decades, that new generation assets are likely to be installed at the site, and that the site is expected to continue to play a key role in serving load into the future. While MECL made a convincing case for the continued utility of the site, citing, among other things, its strategic location near load centers and with access to water, and the importance of the transmission and distribution system infrastructure that is on site, Synapse recommended that the Commission make any “used and useful” designation contingent on the utility filing a long-term plan.

In its response, MECL has again described the importance of the CTGS site. Consistent with responses provided to Commission interrogatories in M-11 and M-21, the utility indicates that it “...forecasts that it

<sup>8</sup> Exhibit M-24, p. 19.

<sup>9</sup> Exhibit M-24, p. 23.

<sup>10</sup> This is also addressed in Exhibit M-24, R-16.



will be (on-island capacity) deficient in the mid- to long-term, and needs an on-island solution. In the longer term, this CTGS site will provide Maritime Electric with the ability to locate additional on-island generation or other generation alternatives (i.e. battery storage)."<sup>11,12</sup>

Synapse notes that while it finds the utility's case for the CTGS site compelling in the near term, its general argument that the site is *useful* does not excuse it from the obligation of putting the site to use. While the utility may benefit from some additional time with which to formulate its site plans, MECL should still be expected to file a plan for the site's use in short order.

Over the longer-term, technological developments in the energy sector may make the CTGS site less of a key grid asset. It does not appear that MECL has yet completed a comprehensive cost-benefit analysis of relocating assets that are currently at Charlottetown site. This may not yet be merited. Yet as storage and other distributed resources become more cost-effective and the strategic importance of the Charlottetown site wanes, it will be imperative to evaluate whether it is still necessary for the utility to retain this tract.

***Recommendation R-7***

*The Commission should ensure that MECL conducts all necessary environmental testing and other necessary follow-up on risk items before commencing the decommissioning, and that it modifies its projected decommissioning budget and workplan as appropriate based on the results of subsequent testing.*

In Exhibit M-24, MECL noted several outstanding environmental items that it anticipates completing prior to decommissioning. MECL agreed with Synapse that the decommissioning budget and workplan should be adjusted based on the results of these future environmental tests and risk items. Given the remaining uncertainty about the cost disposing equipment that contains Polychlorinated Biphenyls (PCB), Synapse recommends that the testing of electrical cables and other related equipment that could potentially contain PCB be conducted soon (see Synapse response to Recommendation R-8 below). The information from this test may help inform cost estimates for Risk Item #11.

***Recommendation R-8***

*Synapse recommends that MECL conduct a simple probabilistic analysis in which the probability of occurrence for each environmental risk item is multiplied by the total cost for each associated risk item in order to produce a more accurate assessment of total environmental risk exposure for the decommissioning.*

In its decommissioning study, MECL did not provide cost information for each of the potential risk items but offered an estimated total cost for these items of about \$3 million. Synapse recommended that the

---

<sup>11</sup> Exhibit M-24, p. 27.

<sup>12</sup> This matter is also addressed with Exhibit M-24 in section R-22 and in MECL's responses to the following Commission interrogatories: IR-9, IR-10, IR-11 (Exhibit M-11), IR-66, IR-73 (Exhibit M-21).

utility conduct a probabilistic analysis using item cost data and probability of occurrence, in order to more precisely quantify decommissioning costs.

MECL has prepared a simple probabilistic analysis using a decision tree approach.<sup>13</sup> This approach calculates an “expected value” for each risk item based on several potential outcome “paths” and their associated probability multiplied by an estimated outcome cost. The weighted outcome costs are then averaged to produce a final expected cost value. MECL conducted this analysis for eight of the eleven environmental risk items from the initial filing. The remaining three items were retroactively deemed no longer a risk the reasons described below.

### **1. Environmental Risk Item #9 – Potential for Change in Land Use**

In Exhibit M-24, MECL concluded that the site will remain as an active generating facility with areas of green space and parking but the construction of residential buildings at the site would be restricted. As such, a change in land use was not considered a risk item.

This position is consistent with the utility’s response to Synapse interrogatories.<sup>14</sup> However, it appears to be a departure from its position in the decommissioning plan. While MECL stated there that it assumed that the site would remain fenced and be classified as commercial/industrial land use, it also included “change in land use” as a potential risk item, without providing any caveat against the potential for residential construction at the site.<sup>15</sup>

It is not clear why the utility has ruled out the possibility that the site could be partially converted to residential use in advance of any Commission determination about whether the site will retain its used and useful status. Indeed, in Exhibit 24, MECL acknowledges that Charlottetown is in the process of converting the area surrounding CTGS away from an industrial focus toward residential and tourism functions,<sup>16</sup> suggesting that the CTGS land might ultimately be given over to non-industrial uses.

---

<sup>13</sup> Probabilistic modeling and risk were also addressed in Exhibit M-24, R-20 and R-21.

<sup>14</sup> In response to the second Synapse interrogatories IR-6, the utility writes: “Based on the results of the Updated Phase II ESA, additional remediation for change in land use was considered to be limited to installing a soil cover directly south of the Steam Plant Building using excess crushed concrete and imported fill to eliminate future direct soil ingestion/dermal contact pathway. Re-grading of the Site with excess inert material and imported fill was included in the Decommissioning Cost estimate and, therefore, change in land use was anticipated to have a low impact on the overall decommissioning project scope of work. The Company has concluded that any future new land use would be limited to green space or parking area and the construction of residential buildings at the Site would be restricted. As such, remediation costs were considered negligible for change in land use scenario assuming open space for designated areas.”

<sup>15</sup> It is not clear whether costs associated with such a change were included in the \$3 million total risk item figure.

<sup>16</sup> Exhibit M-24, p. 8.

## **2. Environmental Risk Item #10 – Rock Groyne Improvements or Removal**

Since the completion of the Decommissioning Study, MECL has received approval from Transport Canada to leave the rock groyne in its current configuration. Therefore, it is not considered a risk item anymore.

## **3. Environmental Risk Item #11 – Disposal of PCB-Containing Equipment**

This risk item reflects the probability of finding equipment containing PCB concentrations greater than 50 mg per kg, which would require disposal at a specialized facility. MECL claims this risk item cannot be quantified with available information; therefore, it is an unidentified item that is reflected in the contingency budget of the decommissioning cost estimate.

Synapse acknowledges MECL's attempt to more precisely and accurately quantify the costs associated with known potential risk items likely to be encountered during the decommissioning process. However, two of the three risk items that were not quantified during this process still pose a minor concern to Synapse. First, the decision to remove the "potential for change in land use" to a non-industrial function has been excluded without justification. This assessment does not include the potential for future sale of the land by MECL to another party. The sale of the land, especially to a non-industrial party, would likely require additional environmental contingency costs.

Second, Synapse believes it would have been useful for MECL to provide an upper bound on the potential costs associated with the "disposal of PCB containing equipment" risk item, despite the lack of available information to perform a full probabilistic assessment. Such information would help the Commission determine if the cost of this known risk item is likely to usurp a large portion of the remaining contingency allowance. MECL notes that 38 percent of the contingency allowance would likely be consumed by the newly quantified environmental risk items. Therefore, 62 percent of the contingency allowance remains for the disposal of equipment containing PCB as well as other non-environmental contingencies associated with the decommissioning process. An understanding of the maximum possible cost associated with PCB disposal would be valuable to quantifying the remaining contingency for non-environmental risk items.

### ***Recommendation R-10***

*The requested increase in depreciation rates should only be granted if MECL can clearly illustrate how the lag in implementation of the previous rate change, adjusted service life assumptions, shift in net salvage, and other factors have contributed to the requested revision to the current rates.*

In its March report, Synapse expressed concern about difficulty in accounting for the increase in accumulated reserve variance total for CTGS between the 2014 and 2017 depreciation studies. While Synapse credits the expertise of MECL consultant Gannet Fleming, we nonetheless suggested that MECL provide more clarity on the increase in this total, especially since MECL had adapted initial study results to a new timeline. Synapse noted that, after adjusting for recovery during the years 2016-2017 and for the implied annual accrual shortfall over the period 2015-2017, it appeared that the total accumulated



reserve variance had grown by approximately \$7 million.<sup>17,18</sup> Meanwhile, the reported net salvage for CTGS had only increased by about \$5.1 million.

In Exhibit M-24, MECL provided a high-level explanation of the mechanics of the depreciation study. In response to Commission interrogatory request for workpapers, it resubmitted some of its original filing documents—yet it remains unclear just why the gap in accumulated reserve variance has increased by such a margin. The Commission should instruct the utility, with assistance from its consultants, as required, to substantiate the increase in this value beyond the expected increase in the net salvage of CTGS.

***Recommendation R-11***

*Decommissioning costs should not be escalated unless MECL can provide a clear justification for escalation and illustrate that this escalation is consistent with the approach taken in past CTGS-related financial calculations.*

In its report, Synapse expressed concern that MECL was seeking to recover total decommissioning expenses escalated to the 2022 price level. Synapse noted two potential issues:

- (1) It was not clear that the proposed approach was consistent with previous MECL practice. To wit, was the estimated net salvage for CTGS that was incorporated into the 2014 depreciation Study an escalated value to reflect the nominal future year dollars?
- (2) Early recovery of future expenses provides the utility with an opportunity to earn a rate of return, with the potential to more than offset the impact of inflation.

In Exhibit M-24, MECL indicates that it has thus far under-collected depreciation expenses, that not escalating decommissioning expenses will lead to a shortfall, that the total effect of escalation is immaterial, and that escalation in depreciation rates has been accepted in other jurisdictions. Moreover, the utility states that any incremental cash flow in the interim will benefit ratepayers by reducing debt and lowering financing costs.

While it is true that the results of the Gannet Fleming study indicate that MECL has under-recovered for CTGS, the adjustments to the depreciation rates and reserve variance should address this.

Whatever the utility chooses to do with depreciation expenses recovered in advance of project initiation, the mere fact of collecting it early confers an additional benefit on the utility. The time value

---

<sup>17</sup> Synapse report, p. 18.

<sup>18</sup> This analysis reflects MECL's most recent depreciation filing, Exhibit M-1(b), an amendment to its GRA filing. In Exhibit M-24, the utility indicates that Synapse has mischaracterized its reason for filing this amendment. While Synapse acknowledges with MECL that this new filing served to provide the company's amortization proposal as of December 31, 2018. This was not indicated in the Synapse report. However, Synapse also notes that, though this amendment was not filed to correct an error in the Gannet Fleming report, it did serve to address a mistake in the GRA filing.

of money means that MECL stands to gain whether it invests these funds or uses them to pay down debt. Thus, Synapse is not satisfied by the utility's justifications.

A potential compromise would be to implement a phased-in escalation. While MECL proposes to escalate all of the depreciation expenses that remain to be recovered equally to the 2022 price level, an alternative would be to escalate only later years' collections, or to escalate each year's collection at a different rate, corresponding to the compound effects of inflation over the period 2019-2023.

## **Other Matters**

MECL has addressed several other issues in Exhibit M-24. The utility corrects Synapse on its primary motivation in demolition of the river pumphouse (R-17), addresses contingencies and allowances (R-18 and R-19), and responds to Synapse's review of other decommissioning projects (R24 – R28). Synapse takes no issue with any of these responses and provides no additional guidance on the associated matters.

