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May 31, 2019

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The Island Regulatory
and Appeals Commission

Island Regulatory & Appeals Commission
PO Box 577
Charlottetown PE C1A 7L1

Dear Commissioners:

Generation Rate Application - Comments on Multeese Consulting Report

Maritime Electric (the "Company") offers the following comments with respect to the May 23, 2019 report from Multeese Consulting Incorporated ("Multeese") on the Company's evidence and proposals related to cost of service and rate design in the General Rate Application ("GRA").

Conclusion H

The Multeese report recommends that *"the second block energy price in the Residential class be increased in three steps to be equal to the first block energy price by March 1, 2021. The increased revenue from this adjustment offsets the revenue foregone by reducing the General Service class increase by fifty percent"*. As indicated in Table 11 of the Multeese report, accelerating the phase out of the Residential second block pricing with this approach could result in increases of up to 25% for some customers over the period if implemented. These increases will have the greatest impact on farm customers in the Residential rate class.

The Company believes that phasing out the Residential second block structure through kWh first block increases will minimize the impact on farms while the Farm Rate study is being undertaken. The following is an illustration of the economic impact to a high use customer (such as a farm) between the two approaches (kWh block vs second block rate) under an alternative accelerated kWh block increase scenario to 3,000kWh Year 1, 4,000kWh Year 2 and elimination in Year 3.

Assumptions

- Annual Consumption = 124,000kWh comprised of:

First Block	24,000 kWh (2,000kWh x 12 months) and
Second Block	100,000 kWh

- Residential rates, effective March 1, 2018 are:

First Block	\$0.1437/kWh
Second Block	<u>\$0.1142/kWh</u>
Difference	\$0.0295/kWh

Multeese

- Proposes to increase the Second Block rate by 1/3 each year or \$0.00983/kWh per year
- Annual increase to the customer \$1.130 (100,000kWh x 0.00983 x 1.15 HST) in each of the three years.
- Cumulative three year increase \$3,390

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Block Increase Alternative

- Year 1 increase - \$407 (1,000 kWh x \$0.0295/kWh x 1.15 HST)
- Year 2 increase - \$407 (1,000 kWh x \$0.0295/kWh x 1.15 HST)
- Year 3 increase – \$2,576 (76,000 kWh x \$0.0295/kWh x 1.15 HST)
- Cumulative three year increase \$3,390

As illustrated above, the elimination of the second block during the current rate setting period can be achieved through increases in the block threshold in a manner that places less of an immediate financial burden on farm customers in the Residential class.

The recommendation in the Multeese report results in reducing the RTC for the General Service rate class through revenue derived by increases in the Residential rate class. Maritime Electric's illustrated alternative approach to phasing out the Residential second block through increases in the first block kWh size will result in a lower increase in revenue from the Residential class during the first two steps and higher revenue in the final year. The final determination of the overall increase in the Residential class and the resulting revenue to be used to lower the General Service increase and RTC will be subject to the Commission's determination with respect to all matters contained in the GRA.

Conclusion I

The Multeese report recommends that "MECL's Cost Allocation Study (CAS) change from an historical year basis to a future year(s) basis to provide R/C ratios for the year(s) for which rate changes are being proposed."

Maritime Electric does not support this recommendation as the cost and time to develop such an analysis would provide little to no additional value relative to the current approach based on the most recent actual results.

Multeese's conclusion (d) states that the results of Company's CAS represents a reasonably accurate picture of how the 2017 revenues provided by individual classes compares to the cost of providing service to those classes in 2017. Further, as noted by Multeese on page 20 of its report, "Table 9 indicates that in the absence of changes to rate design, and in the absence of major changes to MECL's cost composition or customer mix, over the three years the R/C ratios for Residential, GS and Large Industrial will likely remain largely unchanged,....".

A CAS based upon the most recent actual results provides the most accurate representation of the class RTCs at any given point in time. In addition, the Company does not anticipate major changes to its cost composition or customer mix, as clearly demonstrated in the GRA evidence on record, nor does it propose significant rate design changes. As such, the Company recommends the Commission approve the continued use of the most recent historical year for purposes of performing future CAS and informing on the development of future rate design changes. The use of historical results for CAS is an accepted approach that provides consistent and comparable results from one study to the next.

Yours truly,

MARITIME ELECTRIC



Jason Roberts
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Chief Financial Officer