

Seafood Processors Association of Prince Edward Island

Submission to Island Regulatory and Appeals
Commission (IRAC) on the Maritime Electric
General Rate Application for 2019-2021

August 12, 2019

Attention - Jonah Clements
Island Regulatory and Appeals Commission
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Thank you for the opportunity to present some important and timely information on behalf of the seafood processing sector relative to the current Maritime Electric General Rate Application for 2019-2021. This note refers specifically to the proposed increases for the Small Industrial Rate Schedule which is the rate applied to seafood plants.

Maritime Electric has delivered electricity in Prince Edward Island since 1918 with a mandate to deliver reliable service at the lowest possible cost in a safe and environmentally responsible manner. The company is an indirect, wholly owned subsidiary of Fortis Inc. and operates under the provisions of the Prince Edward Island Electric Power Act and the Renewable Energy Act.

Similar to other provinces in Canada, key essential services such as Health Care and Education in PEI are managed and delivered either directly or indirectly by government. Comparatively, a key public requirement such as electrical service is delivered by a private company. While the province does produce 20% of its electricity from wind sources, the remaining amount must be purchased which represents an area of vulnerability. Maritime Electric is entrusted to purchase electricity and sell it to its PEI customers at a profit for their shareholders. From their perspective, the formula by which they generate revenue is truly insignificant as long as they generate the expected profit and returns for their shareholders. This private monopoly relationship creates a situation of little long-term risk for the shareholder and little incentive for the company to aggressively pursue efficiency.

Any discussion on the framework and methodology by which electricity is delivered to all PEI stakeholders must first consider the provincial government strategy on energy. The ability to deliver key energy sources such as electricity to residential or business stakeholders at a competitive level is critical to the future of the province. While the residential rate will generate much political attention, the industrial rate is vital for the province to maintain a healthy economy and generate tax revenue to deliver its services. Every province can only provide a level of services that can be

supported through its various sources of revenue including tax revenues and federal government transfer payments. A significant responsibility of the provincial government is to strategize and establish a business environment that generates the resources required to deliver services to its taxpayers.

To understand the potential effect of any increase in electrical rates, it is important to understand the nature and scope of the industry. There are more than thirty federally licensed seafood processing plants in PEI that contribute a significant amount to the provincial economy – especially the rural economy. Rural communities such as North Lake, Souris, Montague, Morel, Murray Harbour, Egmont Bay, Tyne Valley, Howards Cove and Tignish depend on these plants to provide employment and drive their local economy. **The seafood sector is PEI's third largest industry, employing close to 9,000 people with an annual economic value to the province of almost \$300 million.**

When analyzing electrical consumption, these federally licensed processing operations can be loosely categorized into four types of plants. The biggest operations would be the eight lobster processing plants which represent the greatest value of sales, number of employees and power consumption. Next would be the seven mussel processing plants followed by the approximately fifteen smaller oyster processing operations. The last category would represent the various other seafood plants such as a smoked salmon processing or crab processing.

Each of these operations require a consistent level of electrical energy to meet their needs on a monthly basis. Like Maritime Electric, each of these seafood operations require predictable input costs to they can plan ahead to meet their customer needs and expectations. Unlike Maritime Electric, they do not have a monopoly and must navigate the highly competitive seafood marketplace with competitors not only from the Atlantic provinces but also from other countries.

This presents a delicate challenge where every seafood plant seeks any intrinsic or extrinsic advantage that may be used to overcome the disadvantages that cannot be influenced. Any increase in electric rates for a seafood operation is a significant challenge to overcome since they are large consumers of electricity. Maritime Electric had asked for residential rate increases of 1.3 per cent

on March 1 and 1.4 per cent on March 1, 2020, and March 1, 2021. The utility has said that would translate to about \$4 extra each month over the course of the three years, for a "typical" residential customer using 650 kilowatt hours per month. **That proposed rate increase has been reduced by Maritime Electric to 0.7% as of July 31, 2019.**

Any increase is significant for manufacturing operations that already have high labour costs; high raw material costs; and high transportation costs. Each of these plants, because of their high labour usage, also pay significant premiums to the Worker's Compensation Board. To provide context relative to these proposed increases, consider the electric consumption of a medium sized lobster operation and its actual electric consumption of 251,040 kW at its processing plant for June of 2018. As shown in Appendix 1, the plant would pay an electrical bill of **\$31,468.17 for that month which has to be absorbed by each finished product produced.** As with many of these plants, this operation also maintains other facilities including a wet storage that averages more than \$12,000 per month in electrical charges. When one extrapolates those expenses over an eight-month processing season, the numbers get very big. While the mussel plants use less electricity, they work 52 weeks a year. Appendix 1 also shows the methodology used to determine the electric cost and the increased cost with a 0.7% increase.

These seafood processing operations are critical to employment and economic activity in the rural economy. While these seafood operations have explored and gained some success with automation and robotics, they still tend to be very labour intensive. The high cost of research and development has been a barrier with new technology. However, these plants are models of innovation and hard work. Chasing new markets, introducing new products and solving problems as they occur has allowed the seafood industry to grow and prosper. However, they must purchase their electricity from a monopoly and it is critical that Maritime Electric be the most efficient operation in PEI.

In closing, the PEISPA would like to offer three recommendations to be considered in your review of the Maritime Electric proposed Rate Structure for 2019-2021. They are:

1. The PEI economy requires a business environment that allows our industries to compete with regional, national and global competitors. That includes access to electricity at a competitive, consistent and predictable rate. These industries generate the tax revenues that are required to

maintain the standard of living that is enjoyed in this province. It is important for IRAC and government to use their influence to maintain that competitive environment. Each proposed rate structure should be carefully reviewed on their merit.

2. Maritime Electric is a private company with a monopoly in the electrical market in PEI. With that privilege comes a responsibility to ensure an intense business focus on efficiency and continuous improvement to ensure competitive electrical rates. PEI stakeholders rely on the provincial government and IRAC to ensure a “world class” commitment to efficiency and cost reduction.
3. The availability of energy at a competitive and consistent rate is critical to the future success of this province. Maritime Electric and all its stakeholders must work together to address challenges on the horizon including such variables as climate change, severe weather, changing patterns of electrical demand and a changing energy market. The members of the PEI Seafood Processors Association are more than willing to offer their time and expertise in participating in that process.

Our Association is more than willing to provide any more information that may help IRAC in conducting its review.

Sincerely,

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Appendix 1

Rate Scale and Examples of Costing

1. **Small Industrial Rate Scale** *Rate (Code 320):*

That category of customers who use electricity chiefly for manufacturing or processing of goods or for the extraction of raw materials and have a minimum contracted demand of five (5) kilowatts.

Billing Demand: The greatest of:

- The monthly maximum kW demand;
- 90% of the monthly maximum kVA demand; or
- 5 kW

As a result of installed metering, both the monthly maximum kW demand and 90% of the monthly maximum kVA demand noted above may not apply.

Demand Charge: *This is the amount charged for the maximum kW usage at any point in time during a month. Maritime Electric must ensure this maximum level is available for the plant and the plant pays for this assurance.*

\$7.46 per kW of billing demand per month

Energy Charge: *This is the charge for the total amount of electricity used during that month.*

- 1) 17.31¢ per kWh for first 100 kWh per kW of billing demand per month
- 2) 8.72¢ per kWh for balance of kWh per month

2. **Example of Costing Approach with Current Rate Structure**

A plant uses 251,040 kW over a one month with a Demand Hours total of 597.10

- a. The plant must pay for its **maximum demand** for the month. In this case, it is 597.10 multiplied by \$7.46. This result in a Demand Charge of **\$4,454.36**
- b. The second cost is Block One of Electrical Usage. To get this, you multiply the Demand Hours value of 597.10 by a factor of 100. This results in a value of 59,710 kW which is charged at a rate of 17.3 cents per kW or \$0.173 for a total of **\$10,329.83**.
- c. The third cost is Block Two of Electrical Usage. You subtract the total usage or 251,040 kW from 59,710 kW to get the second Block amount of 191,330 kW. This is multiplied by 8.72 cents or \$0.0872 to get **\$16,683.98**.

The total is \$4,454.36 + \$10,329.83 + \$16,683.98 = **\$31,468.17**

3. Example of Costing Approach with Proposed Increase of 0.7%

A plant uses 251,040 kW over one month with a Demand Hours of 597.10

- a. The plant must pay for its **maximum demand** for the month. In this case, it is 597.10 multiplied by \$7.51 (\$7.46 x 0.7% increase). This result in a Demand Charge of **\$4,484.22** (as compared to \$4,454.36).
- b. The second cost is Block One of Electrical Usage. To get this, you multiply the Demand Hours value of 597.10 by a factor of 100. This results in a value of 59,710 kW which is charged at a rate of 17.42 cents per kW (17.3 cents x 0.7% increase) or \$0.1742 for a total of **\$10,401.48** (as compared to \$10,329.83).
- c. The third cost is Block Two of Electrical Usage. You subtract the total usage or 251,040 kW from 59,710 kW to get the second Block amount of 191,330 kW. This is multiplied by 8.78 cents or \$0.0878 (8.72 cents x 0.7% increase) to get **\$16,798.77** (as compared to \$16,683.98).

The total is $\$4,484.22 + \$10,401.48 + \$16,798.77 = \mathbf{\$31,684.47}$ (as compared to **\$31,468.17** under the previous rate structure).