Maritime Electric Co. Ltd. (MECL) Submission – UE 20944

Application for New Electricity Rates – Commission Notice November 6 2020

Further Comments to the Island Regulatory and Appeals Commission

Background:
Directives 31, 32 and 33 of Order UE19-08 were specific to new rates: Directive 31 required a comprehensive rate design study and a proposed rate structure and Directives 32/33 required a rate structure to ensure that all rate classes have a "revenue-to-cost" (RTC) ratio within the range of 90% to 110% as a minimum, eventually driving for a 95% to 105% range. Unfortunately, the submitted Rate Design Study - UE22503 – June 2020 is just an interim study and does not include a proposed rate structure.

The Context of Recommendations:
The deliberations of the Commission since receiving the original General Rate Application in 2018 attest to the range of factors and investigations that collectively determine customer rates. The Grant Thornton LLP report on the 2020 Rates Filing confirms the complexity of the topic and usefully concludes with a suggested new format for General Rate Applications - (Appendix A) - to ensure that applications are more complete and less complex in the future.

The two primary rates issues raised by the Commission a number of times remain. These are:

a) Equity and fairness in "revenue-to-cost" (RTC) ratios for all customer classes and

b) Removing the "Second Block" tariff.

The solution is for MECL to implement a new Rate Structure but the back-drop to implementation is that MECL need to collect increasing costs and avoid expensive customer accruals. The rates and existing rate structure delineated in the Amended Filing, at least in the interim, need to be implemented. However this should not prevent deploying a new rate structure in phases.

Recommendations for the Commission's Consideration:
Similar to my February 2020 comments to the Commission, I now propose that the schedule of rates for 2021 be approved, with two exceptions, leaving the proposed schedule of rates for 2022 conditional and subject to receipt of a new Rate Structure from MECL. Justification for 2022 conditional rates is to enable MECL to implement the primary rate changes in two practical phases:

1) Phase 1, 2021 Customer Billing Changes - Two Priority RTC Corrections:-
   - Move the billing of the Large Industrial Farms immediately from the "Residential" tariff to the "Small Industrial" tariff. Metering changes will be minimal. In an August 2019 written submission to the Commission, the PEI Federation of Agriculture cited that the group of Large Industrial Farms had been previously advised of pending tariff increases

but needed more time to prepare operations. Hopefully investigation and pending energy-use changes have been pursued.

- The June 2020 Rate Design Study identified 5,286 customers as a "low-demand" sub-group of the General Service (GS) tariff who are not metered for Peak Demand but are paying the higher unit energy rate of the GS tariff. This group is the primary reason for the high "revenue-to-cost" (RTC) of 122% for the GS customer class. It is now clear that a new GS "energy only and single block" tariff that yields a maximum RTC of 105% is required. In preparation for introducing this new GS tariff in 2022 and reducing the high RTC, withdraw the proposed price increase and maintain the existing (2018) first block GS energy rate for the 5,286 customers. These customers are easily identified in the GS billing system as being only metered for energy.

- Preparation for Phase 2:
  - Update the 2017 Cost Allocation Study - using 2020 data - to include the above changes and the remaining segmentation of the Farming and General Service customers as delineated in the June 2020 Rate Design Study.
  - Finally comply with UE19-08 by providing a "……..comprehensive Rate Design Study and proposed Rate Structure". Submit an implementation plan ready for January 2022.

2) <u>Phase 2 2022 Tariff Changes – Second Block Removal and final RTC Corrections:</u>

- In January 2022 establish the new GS "energy only and single block" tariff identified in Phase 1 (above) and continue the RTC correction. Implement full RTC correction to a maximum of 105% by Year Three (2024).

- In January 2022 start the price increase of the Residential second block; implement full equity with the first block price by Year Three (2024). To mitigate the second block price increases, introduce an alternative and optional Time-of-Use (TOU) tariff for the 6,900 Residential High-Use customers. Installation of the required time-data bridge meters would occur as each TOU service is requested.

- Identify the Farming customers that segment into the Residential "First Block" energy-use category and continue to apply the Residential tariff.

- Apply the Small Industrial style billing – Energy + Demand +Service - to the remaining segmented Farming and GS customers. An optional Time-of-Use (TOU) tariff might also be applicable. Using the 2020 Cost Allocation Study data, the target RTC range should be between 95% and 105%.

Financial Impact of Rate Structure Changes for 2021 and 2022:

Clearly the suggested changes will alter the MECL collected revenues. The 2021 (phase 1) goal should be a net revenue balance between Industrial Farming Companies, the "low-demand" sub-group of the General Service (GS) tariff and a MECL "lower-than-forecast" operating cost. Progressing to Year Three (2024), Residential high-use customers and Industrial Farming Companies will be subject to increasing annual costs; the majority of General Service customers will see a reduction in annual costs. However these increases and reductions will not balance; there will be a requirement for MECL to reduce the annual operating costs. Based upon the 2017 costs and revenue data, I guesstimate the following annual revenue changes for Year Three (2024) as:

a. Reduced General Service annual revenue of $5.5M
b. Increased Residential annual revenue of $2.9M, mitigated by an optional TOU tariff
c. Increased Large Industrial Farms annual revenue of $1.1M
d. Reduced MECL annual operating cost by more than $1.5M

Concluding Remarks:

During my presentation at the August 2019 Rate Hearing I referred the Commission to an extract from the 2016 Rate Application Order UE-16R, issued in July 2016, which stated *"The Commission fully expects that MECL and the Government will work together over the next two years to develop a proposed rate structure that is fair and non-discriminatory for all ratepayers".*

During this presentation, as documented in Order UE19-08, I also expressed concern for "the rapidly growing peak load demand and the need to introduce time-of-day metering and rate structures with demand charges to encourage customers to change energy use habits, thereby helping to manage peak load". With another year passed, I suggest that too much time has elapsed since the inequities in the customers' "revenue-to-cost" (RTC) ratios were identified and the need for a rate structure that starts to assist in managing peak load was highlighted. After three years since the 2018 Rate Application was submitted, the current data and analyses are more than adequate to start implementing a new rate structure.

I thank the Commission for the opportunity to present my assessment and hope that it assists with the consideration and disposition of the UE20944 Updated Filing of Rates and the UE22503 Rate Design Study.