Maritime Electric Co.Ltd.(MECL) 2018 Capital Budget Application (UE20726) – Comments to IRAC

Introduction

In reviewing the content of IRAC orders pertaining to MECL capital applications since 2009, I have come to the conclusion that the Applicant and the Commission appear to be set in a rote mode of compiling a budget and subsequent regulatory approval. The value accruing from Public and Government clarification questions to MECL and the subsequent submission of considered conclusions to the Commission is not reflected in either the commentary or the directive of each annual capital order issued by the Commission. There is no public evidence that the Commission has exercised any stringent financial critique or achieved a considered balance between reliability of electricity supply and customer costs.

For the 2018 budget I therefore decline to submit any specific challenges or suggested changes other than those contained in the supplemental interrogatories dialogue. I simply repeat three common critique themes from my past capital budget submissions to the Commission hoping that at least some of the suggestions are reflected in the forthcoming Commission Order:

Customer Cost and MECL Financial Return

All costs arising from new annual capital expenditures are passed directly on 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 an annual $30M expenditure customers will pay each year $1.1M for added MECL ROE (profit), $0.8M for debt financing and approximately $0.8M for future annual depreciation charges – an increased annual cost of $2.7M all due from customers. How is the balance between the reliability of electricity supply and customer costs articulated during the Commission’s deliberations? Is an annual MECL capital budget equivalent to 15% of annual MECL revenue comparable with other Canadian Utilities?

2018 Capital Budget Application Critique:

MECL continue to adopt the formats and content of all previous capital applications without any indication of charting a different strategy for capital expenditure. There is no commentary in the application on competing capital requirements and priorities, no obvious attempts to align the high capital expenditure with the low growth in delivered energy and no metric comparisons with other utilities. Nor is there any provision for future strategic operational shifts, including the commissioning of the new mainland cables, other than an emerging trend that one new sub-station at an average cost of $3M will now be required each year. The generation and system meters categories are particular examples of historic and over cautious approaches rather than progressive future planning:

Future Planning

Following repeated annual requests to the Commission to seek a documented reference framework from MECL against which each application can be evaluated, MECL has now confirmed that an internal “Integrated System Plan” does exist and the intention is to file this plan with the Commission. I have previously submitted to the Commission that this “live” document is especially relevant to the PEI Government’s recent updating of the province’s energy strategy which provides objectives and legislative context for MECL plans going forward. I urge the Commission to request that MECL file this “Integrated System Plan” prior to issuing the Order pertaining to the 2018 capital budget.