PRINCE EDWARD ISLAND
Regulatory & Appeals Commission
Commission de réglementation et d'appels
ÎLE-DU-PRINCE-ÉDOUARD

Docket: UE22503
Order: UE26-02

PLAIN LANGUAGE EXECUTIVE SUMMARY

Rate Design Application by Maritime Electric

This plain language summary is prepared by Commission staff and is not part of Order UE26-02. It is a summary intended to accompany the order to assist the general public and media in understanding the overarching analysis and decision by the Commission. It is not a comprehensive document. For the Commission's complete findings and determinations in this matter, please refer to Order UE26-02.

BACKGROUND

What is Rate Design?

Prince Edward Island operates under a cost-of-service model of regulation for electricity service. This means that the utility is allowed to collect from customers the costs related to supplying electricity. Rate design is how the utility sorts customers into different categories (residential, industrial, general service, etc.) and proposes what each category of customer should pay for the service they receive. These rates must be approved by IRAC.

In simple terms, all customers receiving electrical service from a utility are sorted into different customer categories. The utility then figures out how much it costs to supply electricity to each type of customer and then sets rates for each customer category based on those costs. For example, a residential customer would pay a different rate than an industrial customer because the costs of providing those two types of services are different.

Utilities use "cost allocation studies" to figure out how much it costs to provide service to each type of customer. These studies are typically done every few years to ensure that rates properly reflect the cost of providing services.

Overall, rate design ensures that all customers are paying a fair rate based on the type of service they receive, how much electricity they use, and how much it costs the utility to provide the service.

For a current table of customer classes and rates, please see Appendix A, attached to the Order.

Relevant Legislation

Under the *Electric Power Act*, IRAC has regulatory oversight over utilities like Maritime Electric. Under the Act, the rates charged by a utility must be reasonable, justifiable, and non-discriminatory. This means that customers should pay a fair and justifiable amount for the service they receive and similar types of customers should pay a similar charge for service.

Under this legislation, IRAC's responsibility is to approve the rates, tolls, and charges that a utility charges for service. This includes the structure and terms and conditions that the utility uses to apply these charges.

In regulating, IRAC must balance the interests of customers and the interests of the utility. It must make sure that rates are not unjust or unreasonable for customers and that they allow the utility an opportunity to recover the costs of providing service and earn a reasonable profit.

Regulatory Principles

In analyzing this application, IRAC has relied on basic principles of rate design. These are called "Bonbright Principles", which are commonly used to assess proposed rate designs. To summarize, these are regulatory guidelines that help guide IRAC's decision making on rate design to make sure that:

- customers pay rates that reflect the cost of the service they receive and the impact they have on the electricity system;
- charges are fair and non-discriminatory; and
- the utility collects enough revenue from customers to cover the costs of providing service.

Revenue to Cost Ratio

Revenue-to-cost ratio is a key tool used in rate design. It compares the cost of providing service to a customer group with the revenue collected from that group. It is important that a certain ratio is maintained so that a customer is not overpaying or underpaying for the service they are receiving.

RATE DESIGN PROCESS

The rate design process involved with this application was extensive and technical in nature.

Maritime Electric's current rate design has been in place since 1994. There are eleven customer categories (also known as classes), but the majority of customers are sorted into one of these four broader categories: residential, general service, small industrial, and large industrial. Customer classes exist because not everyone uses electricity in the same way; different classes are given different rates depending on what type of customer they are.

Farm customers are currently included in the Residential rate category.

A study done in 2020 concluded that Maritime Electric's rate design is outdated. The result is that Residential customers, including farm customers, are under paying for the service they receive, while General Service customers are overpaying for the service they receive. This study made several recommendations, including:

- eliminating declining-block rates through a phased approach; and
- allowing large farms to move into the Small Industrial customer category.

IRAC had previously directed Maritime Electric to review the existing rate design, and the 2020 report further supported that need for a review.

MECL has outlined two stages to adjust the rate structure; this application is only seeking approval for Stage 1 at this time.

Overview of Stage 1

1. Stage 1 of MECL's proposed rate design changes includes:

    a. Phasing out the Residential declining-block energy charge equally over four years. After the charge is phased out, all energy consumption would be billed at the residential class rate;

    b. Providing large farm customers with the option to remain in the Residential class or to be served under the Small Industrial class if that is more advantageous;

    c. A one-step rate increase for the Large Industrial class;

    d. A two-step rate increase for the Street Lighting class; and

    e. A corresponding reduction in the General Service rate to maintain revenue neutrality.

These proposals will be discussed in more detail below.

Application Process

The application process included many detailed submissions, including expert evidence from both Maritime Electric and the Interveners. The record of exhibits for this application is large, including more than 70 exhibits, 3 expert reports, and 81 written questions to Maritime Electric (also known as interrogatories) and their responses.

IRAC issued public notice of this application in August 2021 and several members of the public filed formal written questions and comments.

An expert, Synapse Energy Economics Inc., was hired by IRAC to independently review the application and proposed rate design. This involved several rounds of written questions to Maritime Electric between 2021 and 2022.

Once the expert submitted its final report, Maritime Electric filed a response to this report in late summer 2022.

IRAC also received applications from the Prince Edward Island Federation of Agriculture ("PEIFA") and the Prince Edward Island Energy Corporation ("PEIEC") for Added Party Intervenor status. These applications were accepted and as Added Party Intervenors, both PEIFA and

PEIEC were able to ask written questions, provide their own expert evidence and submissions, and participate in the hearing process.

A public hearing was held on October 1, 2025. The hearing was open to the public and broadcast live on the IRAC website.

ANALYSIS AND DECISION

Residential Declining Block Charge

As a starting point, it will be helpful to explain the “declining block charge”. The energy that each customer uses is usually measured in “blocks”. Under a residential declining block charge, a customer would be billed a certain price per unit of energy for the first block of electricity that they use. For each block of electricity used after that, a customer would be charged a slightly cheaper rate for each unit of energy. This means that a customer that uses a lot of electricity would pay more overall, but the per unit charge for electricity would be lower.

By phasing out the residential declining block, a customer would be charged the same rate for all electricity used.

In its application, Maritime Electric identifies the residential declining block charge as one of the main reasons that residential customers are underpaying for the service they are receiving. The Rate Design Study completed by Maritime Electric’s consultant supports this conclusion.

IRAC’s expert agreed that the declining block charge should be eliminated, as it is not consistent with fair cost practices or modern rate design.

IRAC agreed with the evidence and found that phasing out the declining block charge over time will improve equity between customers and ensure that all customers are paying for their cost of service.

The PEIFA argued that the declining block charge should stay in place for large farm customers.

Farm Customers

There are two main components to the application that are specific to farm customers; how farms are categorized as a customer and the elimination of the declining second block charge.

Currently, farm customers of all sizes are included in the Residential customer category.

In this application, Maritime Electric has suggested that farm customers could switch to being categorized in the Small Industrial customer class if it might be more beneficial to them. The Rate Design Study completed by Maritime Electric’s consultant agrees with this idea; that farm customers use electricity differently than Residential customers, so it could be beneficial to separate them to ensure that both types of customers have fair pricing.

IRAC's expert indicated that farms could have their own customer class, or be moved to an existing customer class that uses electricity similar to the way that farms use electricity. IRAC's expert also noted that moving farmers into the Small Industrial customer class would still result in unfair pricing because farms use electricity in a very different way. The expert noted that it should be studied further to determine how farms use electricity compared to other customer classes before making any decisions on how to categorize them.

Maritime Electric's position is that farms don't need their own customer class, but large farms can decide to be classified as Small Industrial customers. Generally speaking, large farms refer to farms that use more than 5,000 kWh/month. The reason Maritime Electric has said that farms don't need their own customer class is because it would result in more customer classes and there wasn't enough evidence presented to support farms needing their own customer class. The utility explains that by switching to the Small Industrial customer class, the concerns expressed by IRAC's expert would be addressed.

The position of the PEIFA is that large farming customers should have their own customer class. The experts hired by the PEIFA expressed concerns with the method that Maritime Electric uses to determine costs for each of the different customer classes.

As it relates to the declining block charge, the PEIFA's position was that the declining block charge should be maintained for farmers, as residential customers aren't subsidizing them anymore. The consultants hired by the PEIFA supported this conclusion. They also included that there are many places that have a specific rate for farmers, which include a declining block charge.

Based on the evidence and submissions from Maritime Electric and PEIFA, IRAC was not able to make a decision on how farm customers should be treated. Therefore, IRAC directed Maritime Electric to file more information specific to farm customers, and IRAC will consider whether any changes should be made.

Other Rate Class Adjustments

Maritime Electric has proposed a one-time rate increase for the Large Industrial class and a two-step increase (which would be phased in over two years) for the Street Lighting classes. The reason for this adjustment is to ensure that these customers are paying the correct charge; they are not underpaying or overpaying.

Maritime Electric has also proposed that by getting rid of the declining second block charge, they can lower the service charge for General Service customers, who have been overpaying for the services they are receiving. They suggest doing this over 4 years.

IRAC analyzed the revenue-to-cost ratios for these customer classes and concluded that the proposed adjustment is in line with the ratios expected by IRAC.

Residential Customer Service Charge

Currently, Maritime Electric's rate design includes two separate monthly service charges for Rural and Urban Residential Customers. This is because, in the past, the cost of serving these two types of customers have been different. With advances in the technology used by Maritime Electric, the costs of providing service to urban and rural residential customers are very similar.

While Maritime Electric agrees that a single charge would be best, they did not seek that change in this application at this time, mostly because their position is that significant investment into their billing system would be needed to support this change and it may have a negative impact on the revenue to cost ratio. However, IRAC was not able to justify two different customer charges based solely on geographic location. Therefore, IRAC directed that all Residential customers across Prince Edward Island should have the same monthly service charge. This change will not be immediate, but IRAC directed Maritime Electric to include this change in its next General Rate Application, or implement the change by April 1, 2027, whichever is earlier.

DECISION

It's important to note that the Order does not result in any **immediate** rate changes for customers.

IRAC accepts the evidence that the declining block charge for Residential customers is not consistent with fair cost and modern rate design. The declining block charge will be phased out over a 4-year period.

The changes Maritime Electric has proposed to Large Industrial, General Service, and Street Lighting customer classes are approved as filed.

These changes will come into effect with the Commission's approval of Maritime Electric's next General Rate Application.

IRAC has also concluded that the service charged to Residential customers across the Island will be the same, with no difference in charges based on location (rural vs. urban). **The changes to the customer service charges will come into effect with the Commission's approval of Maritime Electric's next General Rate Application or by April 1, 2027, whichever comes first.**

As it relates to farm customers, IRAC has directed Maritime Electric to file:

a) an analysis comparing the two methods it uses to determine how costs are allocated; and
b) a draft Farm rate schedule with supporting evidence.

This must be filed within 6 months of the date of the Order.

Farm customers will stay in the Residential customer class while IRAC reviews the information listed above and considers if a rate change for farmers is appropriate.