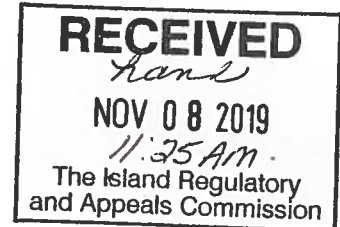


November 8, 2019



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

Dear Commissioners:

**Hurricane Dorian Storm Restoration Costs
Response to Interrogatories from Commission Staff**

Please find attached the Company's response to Interrogatories from Commission Staff with respect to the Hurricane Dorian Storm Restoration Costs.

Yours truly,

MARITIME ELECTRIC



Gloria Crockett, CPA, CA
Manager, Regulatory & Financial Planning

GCC43
Enclosure



INTERROGATORIES

**Responses to Interrogatories
from
Commission Staff**

Hurricane Dorian Storm Restoration Costs

Submitted November 8, 2019

The Island Regulatory and Appeals Commission (the “Commission”) in assessing the reasonableness of the Hurricane Dorian Storm Restoration Costs submitted by Maritime Electric Company, Limited (“Maritime Electric”) requests that Maritime Electric respond to the following interrogatories:

IR-1 Please provide a report which shows the details of the costs that make up the estimated \$3.4 million financial impact due to the storm.

RESPONSE:

The Company has provided the Commission a post mortem report on the impact of Post Tropical Storm Dorian and the related restoration in a separate filing.

The following table is a breakdown of the latest estimate of the costs associated with Hurricane Dorian Storm Restoration as outlined in the report.

Dorian Storm Cost Estimate as of October 31, 2019			
Category	Processed Payments	Estimated Outstanding	Total
Maritime Electric Labour and Transportation	\$ 1,008,696	\$ -	\$ 1,008,696
H-Line (Contractor)	695,739	-	695,739
Atlantic Reach Electric Ltd (Contractor)	254,246	-	254,246
GSD Utility Services Inc. (Contractor)	83,105	-	83,105
Fortis Ontario (Mutual Aid)	-	154,640	154,640
Newfoundland Power (Mutual Aid)	-	253,955	253,955
T & T Line Construction (Contractor)	-	135,719	135,719
Ontario Line Clearing & Tree Experts (Contractor)	281,994	-	281,994
City of Summerside Electric Utility (Mutual Aid)	5,656	-	5,656
Saint John Energy (Mutual Aid)	38,559	-	38,559
PEI Forestry	-	15,487	15,487
Green Isle Air Ltd - Helicopter Inspection	2,340	-	2,340
Go With the Flow Traffic Control	175,072	-	175,072
Materials	183,482	-	183,482
Travel, Accommodations, Meals, Telecommunications and Other	177,100	-	177,100
Total	\$ 2,905,989	\$ 559,801	\$ 3,465,790

The following table is a summary of the capital, retirement and operating costs for the Dorian Restoration costs:

Breakdown of Capital, Retirement and Operating Costs		
Capital Costs	\$ 388,110	11.2%
Retirement Costs	74,796	2.2%
Operating Costs	3,002,884	86.6%
Total	\$ 3,465,790	100.0%

Capital costs represent those expenditures related to the construction and installation of new materials and equipment such as poles, wire, transformers and other related hardware – retirement costs represent labour related costs associated with the removal of damaged assets to allow for the construction and installation of the new capital assets. Operating costs include materials and labor costs associated with repairing existing infrastructure and removing vegetation to enable system restoration.

IR-2 In the letter dated September 26, 2019, Maritime Electric states that it has “*approximately \$350,000 remaining in its operating budget for storm related expenditures*”. Please provide more detail on the operating budget including, but not limited to, the original budgeted amount and the total costs that have been recorded for storms, ensuring that the specific costs show the detail of the expenditure and are categorized based on each weather event.

RESPONSE:

The operating budget amounts for storms and unplanned system events are included as provisional amounts in the budgets for Distribution Line Maintenance and Customer Service Support and Services along with budget amounts for normal daily operations. These provisional amounts for storms and unplanned system events represent an assignment of internal labour and contractor costs based on historical expenditures. In addition to the provisions for storms and unplanned system events, the Distribution Line Maintenance account provides for the service, maintenance and inspection of over 5,200 kilometres of distribution lines, services lines to over 80,000 customers and 10,000 streetlights.

Charges to this account are comprised of internal and external labour and transportation, materials and supplies, small tools and equipment, safety clothing, communications and other similar associated items. These expenditures are driven by ongoing preventative maintenance activities, customer maintenance requests and system repairs necessitated by storm events and other incidents that require a field response. Associated activities include repairing wires and connectors for no power calls, replacing fuses, straightening poles, tightening guy wires, repairs to underground services and streetlight maintenance.

In addition to storms, smaller weather events also have system impacts and cause customer outages throughout the year. The same is true for emergencies involving vehicle collisions and fire as Maritime Electric is obligated to respond with the appropriate resources to ensure public safety and minimize customer outage hours. A portion of these costs are charged to the Distribution Line Maintenance account when the event requires repairs to existing infrastructure rather than or in addition to capital expenditures.

Approximately \$300,000 of the “*\$350,000 remaining in its operating budget for storm related expenditures*” identified in the letter dated September 26, 2019 was related to the Distribution Line Maintenance budget as presented below:

Distribution Line Maintenance	Budget	August 31, 2019 YTD	Forecast September - December 2019	Total Forecast 2019	Estimated Budget Remaining to Offset Dorian
	A	B	C	D = B + C	E = A - D
Maritime Electric Internal Labour and Transportation	\$ 1,018,100	\$ 679,726	\$ 339,900	\$ 1,019,626	\$ (1,500)
Contractor Labour	257,500	41,899	20,900	62,799	194,700
Materials	147,100	71,623	35,800	107,423	39,700
Other Costs*	446,500	246,438	123,200	369,638	76,900
Total	\$ 1,869,200	\$ 1,039,686	\$ 519,800	\$ 1,559,486	\$ 309,800

* Other costs include small tools and equipment, safety clothing and supplies, communication and other costs.

Since filing the letter in September, activities associated with the post storm clean-up of Dorian have continued and these related costs have reduced the remaining provisional budget amount that can be applied to Dorian. The need for clean-up following Dorian has been considerable. During the storm, the amount of crew time at each job was minimized in order to get as many customers back on as quickly as possible. This left many job sites requiring return visits to complete temporary repairs and reconnect customers whose restoration was first dependant on repairs by their own electrician. In addition, there were many cases of lines that fed unoccupied seasonal premises with isolated issues still requiring repairs. These additional costs for post-restoration cleanup from Dorian are approximately \$200,000, leaving approximately \$100,000 remaining in the Distribution Line Maintenance budget for the remainder of the year that could be applied to offset the Dorian restoration costs assuming no further weather events occur to the end of the year.

The remaining \$50,000 of the \$350,000 identified in the Company's letter dated September 26, 2019 related to Customer Service costs.

The 2019 Operating Budget for Customer Service includes all Customer Service operations throughout the year and, similar to Distribution Line Maintenance, is not limited to system damage from storm and other system events. The Customer Service Contact Centre is the first touchpoint for a customer inquiry and our Customer Service Representatives ("CSRs") guide customers through their request which may include updating their account information, bill inquiries, consumption and energy conservation inquiries, connecting and/or disconnecting, payment arrangements, service questions, ready for survey information for new builds, how to set up an account, Interac payments on site, safety questions and other customer concerns. As well, all planned outages and customer notifications are communicated through the Customer Service Contact Centre.

During an unplanned system event or storm, CSRs respond to customer inquiries via phone, email and social media. Supervisors work with Corporate Communications staff to review and respond to all social media inquiries. CSRs conduct call backs to customers to make sure power is restored. They work closely with Energy Control Centre employees, Line Superintendents and Engineers as well as Corporate Communications to track progress of power restoration efforts. The team identifies priority areas, key customers and critical areas of concern as needed during the event.

Charges to this account are comprised of mainly internal labour, telecommunication costs and other costs associated with the services performed in the Customer Service Contact Centre.

The following table shows the estimate of the remaining Customer Service Support and Services budget available to offset the Costs of Dorian:

Customer Service Support and Services	Budget	August 31, 2019 YTD	Forecast September - December 2019	Total Forecast 2019	Budget Remaining to Offset Dorian
	A	B	C	D = B + C	E = A - D
Maritime Electric Internal Labour	\$ 1,235,900	\$ 759,484	\$ 436,400	\$ 1,195,884	\$ 40,000
Communication and Other Costs	157,500	94,701	47,000	141,701	15,800
Total	\$ 1,393,400	\$ 854,185	\$ 483,400	\$ 1,337,585	\$ 55,800

The remaining budget may be impacted by additional weather or system events that occur during the remainder of the year.

In summary, the Company estimates that, as of October 31, 2019, the following remaining budget amounts in the Distribution Maintenance and the Customer Service Support and Services accounts to offset Dorian related costs are as follows:

Distribution Line Maintenance	\$ 100,000
Customer Service	<u>55,000</u>
	\$ 155,000

The availability of these remaining budget amounts is contingent upon the occurrence of additional storms or system events in November or December.

IR-3 For the operating budget for storm related expenditures, please show how that balance was reflected in the budget submitted during the General Rate Application before the Commission. In the event that the budget for this line item has been adjusted, please provide a detailed description as to the reason for the adjustment.

RESPONSE:

As discussed in response to IR-2, the operating budget amounts for storms and unplanned system events are based upon historical expenditures and included in the budgets for Distribution Line Maintenance and Customer Service Support and Services.

The 2019 Operating Budget for Distribution Line Maintenance was included in Schedule 9-3 of the General Rate Application. The 2019 budget for Customer Service Support and Services was included in the budget for Customer Service and Meter Reading in Schedule 10-1 of the General Rate Application. The 2019 budgets for these items remain unchanged from those submitted in the General Rate Application as outlined in the table below:

Operating Expense Description	General Rate Application		
	Reference	Commentary	2019 Forecast
Distribution Line Maintenance	Schedule 9-3	Page 60	\$ 1,869,200
Customer Service & Meter Reading	Schedule 10-1	Page 65-66	\$ 2,131,900

Maritime Electric considers it appropriate to provide an annual provisional budget for storms and unplanned system events based upon historical expenditures in a similar manner to budget amounts for ongoing preventative maintenance, customer maintenance requests and other related activities.

IR-4 In the September 26, 2019 letter, Maritime Electric has requested Commission approval “to defer the operating costs related to Hurricane Dorian and amortize these costs over a three-year period”. Please provide comments on why it is reasonable to collect these costs over a three year period versus in the current period?

RESPONSE:

As noted in the response to IR-2, the Company budgets provisional amounts in Distribution Line Maintenance and Customer Service Support and Services for storms and/or other unplanned system events. This budget is based on expected costs based on historical experience. Historically, large storms on the Island are capital intensive with broken poles and pole lines as well as damaged conductor and related hardware and equipment that must be replaced. Such storms have a relatively low operating cost component.

The damage experienced during Dorian was different in that the costs incurred substantially related to removing downed trees from lines and repairing the existing conductor and lines. Such costs are considered operating in nature and far beyond the provisional amounts budgeted for operating costs related to storms based on historical experience.

Maritime Electric’s current rate structure is designed to recover expected costs in a given year and is based on the best available information when those rates are set. The operating costs experienced during Dorian are far beyond what was expected and these costs were prudently incurred. For this reason, the Company is requesting to defer these costs and collect these amounts from customers over future periods.

The letter to the Commission proposing to recover the Hurricane Dorian Storm Restoration Costs over a three year period was written prior to the Commission’s Order UE19-08 on the 2019 General Rate Application. Prior to this Order, the Company was anticipating that the Commission would set customer rates for a three year period ending on February 28, 2022. It therefore seemed reasonable to amortize the operating costs related to Hurricane Dorian over a similar period.

A second reason that a three year amortization period was proposed was to balance the impact on customers’ electricity costs. Collecting \$3.0 million in one year would have a significantly larger impact on customers’ bills year over year than collecting \$1.0 million each year over three years. This would be even more significant in 2019 as the costs would need to be recovered from customers over a two or three month period which, in the Company’s view, would place an immediate burden on customers given the impact on their bills.

Based on an annual revenue of approximately \$200 million, an increase of an additional \$3.0 million in one year of annual revenue requirement would result in an increase of 1.5 per cent in customer electricity costs. The proposed three year amortization would result in annual increases in electricity costs of 0.5 per cent in each of the three years.

The proposed three year amortization was intended to provide a reasonable balance between the rate impact on customers and the need to maintain good utility practice of collecting costs from customers within a reasonable and prudent period of time. As an alternative, giving consideration to Order UE19-08, the Commission may consider offsetting any RORA amounts that may be incurred in 2019 or future years by expensing Dorian related costs up to that amount in the year realized.

IR-5 Maritime Electric has also requested to recover the amortization from customers via a rate rider on customers' bills. Please provide an explanation why the method used to collect these costs has changed?

RESPONSE:

As stated in the response to IR-4, the letter to the Commission regarding Hurricane Dorian Storm Restoration Costs was written prior to the Commission's Order UE19-08 on the 2019 General Rate Application. Prior to this Order, the Company was anticipating that the Commission would approve basic rates based on the proposed costs in the General Rate Application for a three year period ending on February 28, 2022. This would leave two options available to the Company: (1) defer the costs with interest until the next General Rate Application for rates effective March 1, 2022 in order to include the amortization of the deferred costs in basic rates; or (2) add a rider to those rates that the Commission would establish through the GRA process to begin collecting these costs from customers immediately over the three years.

Now that Order UE19-08 has been issued, an opportunity exists to set rates on March 1, 2020 to include the amortization of the deferral in basic rates beginning in March 1, 2020. The Company maintains that amortizing the costs over a three year period is an equitable balance between the immediate rate impact of collection from customers and collecting the costs within a reasonable period of time. In addition, as discussed in response IR-4, should a RORA adjustment arise in 2019 or future years, there also exists an opportunity to use the RORA by amortizing an offsetting amount of the deferred storm costs.

IR-6 In January 2019, Maritime Electric filed a storm post-mortem relating to the storm that occurred on November 29, 2018. Maritime Electric reported costs of approximately \$1 million for damage to the Company's system arising from the November 2018 storm. At that time, Maritime Electric classified the majority of the storm-related costs as capital (rather than operating) costs. Please explain why Maritime Electric proposes to classify the majority of expenses related to Hurricane Dorian as operating costs, and provide justification for classifying these costs as operating rather than capital costs.

RESPONSE:

The majority of the restoration activity associated with Dorian involved clearing and removing fallen trees from power lines. The restoration work involved patrolling lines, removing trees from lines and repairing existing conductor. In some cases, tree removal and clearing was required to gain access to system components as fallen trees blocked roads and rights of way. This type of work is primarily operating in nature as it does not extend the life of the existing assets and does not involve replacement of existing system equipment and components.

The safe and systematic approach to re-energization following Dorian involved patrolling lines, isolating faults and only energizing lines once it was safe to do so. If circuits had been energized without first dealing with any line faults, worker and public safety could have been compromised as there was significant potential for blowing fuses, starting fires and energizing downed lines.

The first two days of the Dorian restoration were mainly focused on restoring the transmission system. The transmission system required significant patrolling to find faults. Accessing the fault locations, performing switching and executing the work in a safe manner was time consuming. Restoration of distribution circuits also required identifying and isolating faults before main, side and service lines could be safely energized.

Once the main lines were restored, the focus shifted to smaller outage groups and individual customers. These also presented operational challenges as trees on customer owned properties were time consuming to clear and extra work was required due to downed and damaged customer owned service components.

The capital costs for Dorian were limited to the replacement of 97 distribution poles, 93 transformers and related conductor. The pole and wire replacements were relatively straightforward as compared line damage experienced in the storm of November 29, 2018. While the November 29th storm only brought down approximately 50 more poles than Dorian, the nature of the damage was multi-span sections of pole lines requiring complete rebuilds. This was capital intensive and ongoing from the day the storm hit to the final day of the restoration effort. For the Dorian restoration, there was considerable effort spent in operational activities such as patrolling lines, clearing trees and repairing existing infrastructure.