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

Docket: **UE22503**
Order: **UE26-02**

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Cheryl Bradley
Cheryl Bradley,
Director of Finance & Regulatory Affairs
Island Regulatory & Appeals Commission

IN THE MATTER of an application by Maritime Electric Company, Limited for the approval of a rate design plan and for approval of certain changes to its rate structure, pursuant to section 13 and 20 of the *Electric Power Act*, RSPEI 1988, c. E-4;

Order

BEFORE THE COMMISSION ON April 29, 2026.

Pamela Williams, K.C., Chair
Kerri Carpenter, Vice-Chair
Murray MacPherson, Commissioner

Introduction:

1. This Order follows a public hearing held by the Commission on October 1, 2025, which heard an application by Maritime Electric Company, Limited ("MECL") for the approval of a rate design plan that would result in certain changes to MECL's rate structure. MECL's application followed recent Orders of the Commission, Orders UE19-08 and UE20-06, wherein the Commission ordered MECL to propose changes to its current rate structure to achieve revenue-to-cost ratios within a prescribed range.

2. Generally speaking, "rate design" is the process by which a utility's approved revenue requirement is shared among different customer classes[1] and recovered through specific rate structures.[2] In assessing proposed "rate design" changes, the Commission is guided by established regulatory principles, including: cost causation, fairness, non-discrimination, simplicity, and revenue sufficiency. These terms will be explained in more detail below. The process of rate design can be detailed and technical.

3. This Order approves MECL's application, in part, and also provides further direction to the Company regarding their continued progress toward modernized, cost-reflective rate design.

Overview of the Application:

4. On May 14, 2021, MECL filed its Application for an Order to Approve Stage 1 Rate Design Changes with the Commission (the "Rate Design Application").[3] The Application sought approval of a revised rate design plan for changes to residential, general service, large industrial and street lighting classes for electric service in Prince Edward Island. The filing was supported by MECL's Rate Design Study dated June 30, 2020[4] and accompanying Cost Allocation Studies—the 2017 Cost Allocation Study,[5] the 2020 Cost Allocation Study,[6] and a Revised 2020 Cost Allocation Study[7] filed January 27, 2022.

5. MECL's Rate Design Application proposes a two-stage approach intended to bring all customer classes within the Revenue-to-Cost ("RTC") ratio range of 95 to 105 percent. The Commission has previously determined that an RTC ratio range of 95 to 105 percent represents an acceptable level of alignment, as established in Orders UE19-08 and UE20-06. MECL's proposed changes are intended to move rate categories – customer classes – toward this range while remaining revenue neutral overall (i.e. the changes will neither increase nor decrease MECL's revenue).

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[1] The term "customer classes" has the same meaning as "rate category" as defined at page B-3 in MECL's General Rules and Regulations: "*Grouping of Customers to which a specific rate schedule applies; e.g., Residential – Rural, Residential – Urban*." The terms may be used interchangeably throughout this Order.

[2] National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual

[3] Exhibit M-1

[4] Exhibit M-1(a)

[5] Exhibit M-1(b)

[6] Exhibit M-1(c)

[7] Exhibit M-1(d)

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

    a. Phasing out the Residential declining-block energy charge over four equal annual steps so that all consumption is billed at a uniform 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 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.

7. MECL has characterized these changes as a measured, revenue-neutral step toward modernizing rate design. The stated objectives of Stage 1 are to:

    (i) bring class RTC ratios closer to the 95–105 percent target range;

    (ii) reduce embedded cross-subsidies between classes;

    (iii) provide flexibility for large farms during the transition period; and

    (iv) minimize bill impacts by phasing the changes over four years.

8. Approval for Stage 2 is not sought at this time. MECL has indicated that Stage 2 will be developed following completion of Stage 1 and will consider further structural reforms, such as subdividing the General Service class and revisiting the Residential customer charge.

9. MECL's Rate Design Application overviews the steps taken toward customer consultation, particularly with PEI's farm community, during the rate design process.

10. As a note, MECL's Rate Design Application also sought a variance to Order UE20-06, permitting the Company to file a General Rate Application prior to the Commission's decision on the Rate Design Application. The Commission permitted this request via Order UE21-14, dated December 14, 2021.

Procedural Background:

11. The rate design process can be technical and detailed. The process followed by the Commission in bringing the Rate Design Application to a hearing involved many steps and the exchange of detailed submissions, including expert evidence, from both MECL and the Interveners. That process is outlined below.

12. Following receipt of MECL's Rate Design Application, the Commission issued its first Notice of Application in respect of the Rate Design Application on August 4, 2021, inviting

interested parties to participate. Early in the process, several members of the public filed interrogatories (formal, written questions) and comments.[8]

13. The Commission retained Synapse Energy Economics Inc. ("Synapse") to conduct an independent review of MECL's Rate Design Application and proposed rate design plan. Synapse filed three rounds of interrogatories (written questions) to MECL between September 2021 and March 2022,[9] to which MECL provided detailed responses.[10]

14. On May 13, 2022, Synapse submitted its expert report titled "Review of Maritime Electric's Proposed Rate Changes",[11] MECL subsequently filed a response to the Synapse report on August 5, 2022.[12]

15. The Commission issued a second Notice of Application on August 17, 2022. This notice informed the public of the proceeding, outlined the subject matter of the application, and provided directions on how interested persons could participate or apply for intervener status.

16. On September 9, 2022, the Prince Edward Island Federation of Agriculture (PEIFA) filed an application for Added Party Intervenor status,[13] and on August 25, 2022, the Prince Edward Island Energy Corporation (PEIEC) filed a similar request.[14] The Commission granted both applications by Orders UE22-06 (PEIEC) and UE22-07 (PEIFA), issued September 23, 2022.

17. Commission staff issued interrogatories to MECL on November 2, 2022.[15] MECL filed its responses to Commission staff interrogatories on May 12, 2023,[16] and a supplemental response to IR-18 on June 12, 2023.[17]

18. PEIFA conducted two rounds of interrogatories—August 2, 2023[18] and February 14, 2024[19]—to which MECL responded on December 12, 2023[20] and again on August 15, 2024.[21] Commission staff monitored the process and issued correspondence concerning outstanding responses on July 4, 2024.[22]

19. In 2025, a series of procedural exchanges occurred among the parties. On May 27, 2025, PEIFA filed a Request for Extension and Planning Conference regarding its evidence and

[8] Exhibits P-1 to P-4
[9] Exhibits C-1 to C-3
[10] Exhibits M-3, M-6 and M-7
[11] Exhibit C-4
[12] Exhibit M-8
[13] Exhibit F-1
[14] Exhibit EC-1
[15] Exhibit C-5
[16] Exhibit M-10
[17] Exhibit M-10(d)
[18] Exhibit FA-2
[19] Exhibit FA-3
[20] Exhibit M-11
[21] Exhibit M-12
[22] Exhibit C-6

filing schedule.[23] On June 2, 2025, PEIEC submitted correspondence to the Commission similarly requesting a planning conference.[24]

20. Following these requests, PEIFA filed its expert evidence on June 27, 2025, titled UE22503 – MECL Rate Design Application.[25] To facilitate coordination, Commission staff issued procedural correspondence—including letters on May 2, 2025,[26] June 2, 2025,[27] and June 13, 2025[28]—establishing timelines for evidence exchange, interrogatory rounds, and hearing preparation.

21. On July 18, 2025, Synapse Energy Economics Inc. filed comments on PEIFA's evidence,[29] providing analysis and recommendations to assist the Commission in assessing the competing cost-allocation methodologies prior to MECL's rebuttal evidence.

22. On August 14, 2025, MECL filed its response to the PEIFA evidence,[30] along with expert acknowledgements and supporting reference materials. This information included:

    a. Robert P. Boutilier's acknowledgement of expert duty;[31]

    b. Pre-filed testimony of Patrick Bowman, referencing New Brunswick Power's Class Cost Allocation Methodology Review;[32] and

    c. the Electric Utility Cost Allocation Manual published by the National Association of Regulatory Utility Commissioners (NARUC).[33]

23. The Commission issued a Notice of Hearing on August 7, 2025, followed by an Amended Notice of Hearing on September 18, 2025, advising of the date, time, and manner of the public hearing to be held on October 1, 2025 to consider MECL's Application.

24. The public hearing proceeded before the Commission on October 1, 2025. The hearing was open to the public and was broadcast live on the Commission's website.

25. Maritime Electric presented evidence from a panel of witnesses at the hearing, namely:

    a. Michelle Francis, Vice President of Finance and Chief Financial Officer;

    b. Robert Younker, Senior Director of Strategic & Corporate Planning; and

    c. Jordan Sampson, Rates and Utilization Analyst.

[23] Exhibit FA-4
[24] Exhibit EC-2
[25] Exhibit FA-5
[26] Exhibit C-7
[27] Exhibit C-8
[28] Exhibit C-9
[29] Exhibit C-10
[30] Exhibit M-13
[31] Exhibit M-14
[32] Exhibit M-15
[33] Exhibit M-16

26. PEIFA presented evidence from the following witnesses:

    a. Melissa Davies, MNYD Consulting Inc.; and

    b. Patrick Bowman, Bowman Economic Consulting Inc.

27. The Commission's expert, Melissa Whited, a Principal with Synapse Energy Economics Inc., also presented evidence during the hearing.

28. While the Prince Edward Island Energy Corporation ("PEIEC") did not file evidence, its counsel participated in the hearing through questioning and closing remarks. PEIEC acknowledged the work undertaken in this proceeding and expressed support for continued progress toward fair and efficient rate design, encouraging the Commission to establish clear parameters for Stage 2.

29. The evidence filed with respect to the Application is extensive. The record includes more than 70 exhibits, including 3 expert reports. There was also a comprehensive pre-hearing interrogatory process. In total, the Commission through its staff and expert witness, issued 56 interrogatories to MECL. The PEIFA, through its expert, issued 25 interrogatories to MECL. MECL filed responses to all interrogatories in advance of the hearing.

30. All documents filed in this matter were provided to PEIFA and PEIEC as Added Party Interveners – this included information filed in confidence by MECL. All non-confidential filings, including the expert reports, were made available to the public via the Commission website.

Commission's Authority Under the *Electric Power Act*:

31. The Commission is an independent, quasi-judicial tribunal. It exercises appellate, adjudicative, and regulatory authority under a number of provincial statutes, including the *Electric Power Act*. In doing so, the Commission is required to follow legislative requirements and administrative law principles.

32. The *Electric Power Act* gives the Commission broad regulatory oversight over public utilities, including MECL.[34] According to the *Act*, the rates charged by a public utility should be reasonable, publicly justifiable and non-discriminatory – meaning that similar customers, or classes of customers, should pay similar rates for the same service.

33. The Commission's authority extends to approving the rates, tolls, and charges to be charged by a public utility, and determining the form, structure, and terms and conditions under which such rates are applied. This includes the authority to review, assess, and approve rate design proposals that allocate costs and establish rate structures among customer classes.

[34] *Electric Power Act*, RSPEI 1988, E-4, s. 26.

Rate Design Principles:

34. Before moving on to our analysis of MECL's Rate Design Application, it will be helpful to explain the basic principles of "rate design".

35. As noted above, rate design is the process by which a utility's approved revenue requirement is allocated among customer classes[35] and recovered through specific rate structures.[36] A customer class (or rate class) is a grouping of customers to which a specific rate schedule applies (e.g. residential or industrial). Not all customers use electricity in the same way which makes it necessary to group them into different classes. The goal is to ensure the rates charged to each customer class reflect the unique costs of providing service to the different groups.

36. In assessing proposed rate design changes, the Commission is guided by established regulatory principles, including cost causation, fairness, non-discrimination, simplicity, and revenue sufficiency. These are just some of the well-established "Bonbright Principles" that are commonly used to evaluate proposed rate designs.

37. The principle of cost causation holds that customers should, to the extent that is reasonable, pay rates that reflect the costs they impose on the electric system.[37] Closely related is the principle of non-discrimination, which requires that similar customers be treated similarly, and that differences in rates between customer classes be justified by differences in the costs of serving those customers. Rate design that departs materially from these principles may result in cross-subsidization, where one group of customers pays more than its cost of service to offset lower-than-cost rates paid by another group. In other words, one customer class is subsidizing another customer class.

38. A key tool used in rate design proceedings is the revenue-to-cost ratio. This ratio is determined by a "cost allocation study" and is calculated by comparing the revenues collected from a customer class to the costs allocated to serve that class.[38] A ratio of 100 percent indicates that revenues are aligned with allocated costs, and means that customers are paying for their cost of service. However, ratios above 100 percent indicate that a customer class is contributing more in revenue than its allocated cost of service, while ratios below 100 percent indicate that a customer class is not recovering its allocated costs. Persistent deviations from unity may signal inequities in rate design and raise concerns regarding fairness and non-discrimination.

39. Given the nature of cost allocation and differences in customer classes, it is not realistic that each customer class would achieve a ratio of 100 per cent each year. Therefore, the Commission has determined in previous orders that an RTC ratio range of 95 to 105

[35] "customer classes" can also be referred to as "rate categories" as defined at page B-3 in MECL's General Rules and Regulations.
[36] National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual
[37] Bonbright, *Principles of Public Utility Rates*
[38] National Association of Regulatory Utility Commissioners, Electric Utility Cost Allocation Manual

percent represents an acceptable level of alignment and directed MECL to seek approval for a new rate structure.[39]

40. The Commission's review of MECL's Rate Design Application, therefore, must consider the ways in which the existing rate structure results in unjust or undue discrimination, and whether the proposed changes would improve alignment between revenues and costs, reduce cross-subsidization, and address identified inequities while continuing to recover the utility's approved revenue requirement in a stable and predictable manner.

41. It is against this regulatory and analytical framework that the Commission has considered MECL's Rate Design Application.

Analysis and Decision:

42. As noted, MECL proposes a two-stage approach to achieving the required RTC ratios of 95 to 105. The present Rate Design Application seeks approval for Stage 1. MECL submits that a staged approach will minimize rate shock, align rates more closely with cost causation, and complete the modernization of the Company's rate structure consistent with Commission directives.

43. MECL's current rate design structure has been in place, essentially, since 1994. MECL has a total of eleven rate categories (customer classes). The majority of electric usage is billed under one of the following four broader classes:

- Residential;[40]
- General Service;[41]
- Small Industrial; and
- Large Industrial.

44. Farm customers of all sizes are included in the broader Residential rate category.

45. MECL's Rate Design Application is supported by a Rate Design Study (dated June 30, 2020), prepared by consultant Robert P. Boutilier.[42] The Rate Design Study concluded that MECL's existing rate design was outdated, with the Residential class (including farm customers) under-recovering and the General Service class over-recovering relative to cost causation. In other words, General Service customers are cross-subsidizing Residential customers, including farm customers. The Rate Design Study made seven conclusions, including the following recommendations: (1) eliminating declining-block rates, (2) phasing adjustments over time, and (3) allowing large farms to migrate to the

[39] See Orders UE19-08 and UE20-06
[40] The Residential class is further subdivided into the following categories: Urban, Rural, Seasonal, and Seasonal Option.
[41] Rate categories for customers who use electricity for all purposes other than those specifically covered under the Residential, Industrial, Street Lighting or Unmetered Service classes (see: MECL's General Rules and Regulations)
[42] Exhibit M-1(a)

Small Industrial rate category. Generally speaking, large farms are those that use more than 5,000 kWh per month.

46. Boutilier's Rate Design Study was supported, in part, by a 2017 Cost Allocation Study (prepared by Chymko Consulting Ltd. in June 1018).[43] The 2017 Cost Allocation Study indicated the following RTC ratios:

    - Residential (including farms of all sizes) = 91.4 percent;
    - Farm customers (all sizes) = 82.1 percent; and
    - General Service = 121.5 percent.

47. These ratios mean that the Residential customer class (including farms) is not paying 100 per cent of their cost of service, while the General Service class is paying more than 100 per cent.

48. Subsequent cost allocation studies filed by MECL in 2020[44] and 2023[45] show that while these imbalances have narrowed, they persist. For example, Residential ratios have improved to approximately 94 percent, farm ratios to 90 percent; however, the General Service class is still materially over-recovering at 122 percent.[46] By contrast, Street and Area Lighting, has declined to approximately 66 percent, indicating significant under-recovery.

49. The Company submits that, notwithstanding these shifts, the trends identified in Boutilier's Rate Design Study remain valid.

50. The Company's evidence indicates that the Stage 1 proposal results in significant redistributions between customer classes, but is designed to be revenue-neutral overall. For example, Residential customers, collectively, would face an estimated increase of $2.06 million, while General Service customers receive a $2.8 million reduction. Large Industrial rates increase by approximately $584,000 and Street Lighting by $172,000. Unmetered service remains unchanged.

51. MECL predicts the following approximate RTC ratios at the conclusion of Stage 1:

    - Residential = 94.3 percent;
    - Farm customers = 89.1 percent; and
    - General Service = 112.7 percent.

52. Other classes, including Small Industrial, Large Industrial and Street Lighting would fall within the 95-105 percent range.

[43] Exhibit M-1(b)
[44] Exhibit M-1(c)
[45] Maritime Electric Company Limited 2023 Cost Allocation Study
[46] Maritime Electric Company Limited 2023 Cost Allocation Study

53. Stage 2 is expected to continue the rebalancing, shifting an additional $3.9 million from General Service to Residential customers, moving those classes to RTC ratios of approximately 105 percent and 98 percent, respectively.

54. Together, Stages 1 and 2 represent an estimated $6 million transfer of cost responsibility between classes.

Elimination of the Residential Declining Block Structure

55. MECL's Rate Design Application states that one of the primary reasons that the current Residential RTC ratio is too low is the "declining block rate structure" for residential customers. Under a declining block structure, energy consumption is divided into usage blocks, with lower per-kilowatt-hour prices applied to consumption above a defined threshold. In MECL's case, residential customers are billed at a lower second-block rate for usage in excess of 2,000 kilowatt-hours per month. Specifically, the residential customer class pays 17.23¢ per kWh for the first 2000 kWh per billing period, and only 13.75¢ per kWh for the balance of the energy consumed during the billing period.

56. MECL submits that this declining block rate structure has long been identified as a fundamental inequity in MECL's rate structure and, therefore, eliminating the declining second block is a primary objective of MECL's Application.

57. Boutilier's Rate Design Study agrees and recommends that the second block be phased out and eliminated. He concludes that it does not provide an appropriate price signal and is a contributing factor to the lower than required RTC ratio of the Residential customer class. However, Boutilier's Rate Design Study also points out that eliminating the declining second block will result in increases to large residential consumers, including large farms.

58. The Commission engaged Synapse Energy Economics, Inc. to review MECL's Application and Boutilier's Rate Design Study. On its review, Synapse supported the proposed elimination of the Residential declining block structure, finding it inconsistent with cost causation and modern practice.

59. As will be detailed below, PEIFA's position is that large farming customers should be included in their own class. However, with respect to the declining block structure specifically, PEIFA argued for maintaining the declining block rate structure for large farm customers. PEIFA filed a report prepared by consultants Melissa Davies of MNYD Consulting Inc. and Patrick Bowman of Bowman Economic Consulting Inc.[47] The consultants recommended maintaining the existing lower second block rate for large farm customers and creating a separate farm customer class that would include approximately 500 large farm accounts.[48] Their report comments that there is Canadian precedent for a Farm-specific rate, which can include declining block structures and argues that there is no reason to expose large farm customers to any increases in their rates for rebalancing purposes.

[47] Exhibit FA-5
[48] PEIFA's report considers "large farms" to be those that use more than 2,000 kWh per month.

60. The Commission accepts that the declining block rate contributes to inequities among customers, because customers with higher overall electricity consumption benefit from lower marginal rates on usage above the threshold, while customers whose consumption remains within the first block pay a higher average price for electricity. In this context, an inequity refers to a rate outcome where customers with similar cost-of-service characteristics pay materially different effective rates, or where lower-usage customers may bear a disproportionate share of fixed system costs relative to higher-usage customers.

61. The Commission accepts the evidence of both MECL and Synapse Energy Economics, Inc. that the existing declining-block rate structure for Residential customers is inconsistent with principles of cost causation and modern rate design. The Commission finds that phasing out the second block over time will improve equity among customers and better align rates with cost responsibility. Phasing out over time will also limit "rate shock" among the affected customers and will provide an opportunity for those affected customers to implement other solutions that may reduce any cost impact.

62. The Commission therefore approves the phased elimination of the Residential second-block energy charge as proposed in Stage 1 of MECL's Rate Design Application. Implementation shall occur in the context of the next General Rate Application (GRA) to ensure alignment with updated revenue requirements and current cost-of-service data.

63. MECL shall include, as part of its next GRA filing, proposed rate schedules reflecting the four-year phase-out of the second block, with supporting bill-impact analyses by class and consumption level.

Farm Customer Classification and Cost-Allocation Methodology

64. MECL's Rate Design Application proposed that large farms be given the option to be eligible for the Small Industrial customer class, if it proves advantageous for those customers to make that switch. This proposal was supported by Boutilier's Rate Design Study. Boutilier commented that there is merit in separating large farm load from residential load, explaining that the equipment in use and behavioural characteristics of electricity use are dissimilar and both customer groups may benefit from separating cost causation drivers.

65. In its review, Synapse commented that there is no fundamental reason why large farms could not be reassigned to another rate class or separated out into a new class, particularly if their usage patterns more closely resemble that of other classes. However, Synapse also commented that the question of which class large farms should be assigned to would be best addressed by comparing farm consumption patterns with the consumption of other customers and classes. Large farm customers are identified as "Cohort 6" in Synapse's report. Synapse also identified the composition of a group of customers termed "Cohort 7" (which includes aquaculture, cannabis producers, and institutional customers) as a source of potential misclassification and recommended further study before reassigning these accounts.

66. With respect to MECL's proposal that large farms be given the option to be eligible for the Small Industrial class, Synapse raised a concern that this would not sufficiently further the adoption of rates that are more cost-reflective, since the small industrial rate was not designed based on large farm load curves.

67. Maritime Electric responded to the Synapse report, and opposed the creation of a separate farm class.[49] Though MECL indicated it would consider Synapse's recommendation in the future broader analysis related to Stage 2, they believe that some large farm customers moving to the Small Industrial class would potentially address the concerns expressed by Synapse.

68. As noted above, PEIFA has submitted that large farm customers should be in their own class. PEIFA's evidence raised concerns with MECL's method for allocating costs to customer classes. For example, MECL used a three-coincident-peak ("3CP") approach, which allocates costs based on customer demand during the three highest system peak periods. PEIFA's consultants argued that a one-coincident-peak ("1CP") approach, based on the single highest system peak, would better reflect Prince Edward Island's winter-peaking electricity system. They concluded that using a 1CP approach would result in large farms paying closer to their full cost of service, at approximately 98 percent.

69. Finally, PEIFA's consultants recommended that the group of customers referred to as "Cohort 7" in the Synapse report – which included cannabis producers and agriculture-related industries – not be included in any farm class, because that group includes a wide range of non-agricultural customers whose electricity usage patterns differ from those of farm operations.

70. MECL responded to PEIFA's report,[50] rejecting the proposed 1CP methodology and defending 3CP as consistent with Canadian regulatory precedent, reflective of system planning realities, and more stable over time. MECL also argued that the creation of a new farm class would add unnecessary complexity given existing flexibility for large farms to opt into Small Industrial service.

71. The Commission understands that 2023 was the first time MECL has employed a 3CP methodology in a Cost Allocation Study. MECL explained that historically, MECL's cost-allocation studies used the single highest system peak load (1CP) to allocate demand-related costs. However, in 2023 a polar vortex weather event resulted in extremely high system peak on a single day and, therefore, to avoid significant volatility between cost-allocation studies, Chymko agreed to use 3CP[51] to allocate demand related costs in the Company's 2023 Cost Allocation Study.[52]

[49] Exhibit M-8
[50] Exhibit M-13
[51] According to MECL, using 3CP to allocate demand-related costs uses the same methodology as 1CP, but the average of the three highest monthly peaks (i.e. January, February and December) is used instead of the single highest peak.
[52] Exhibit M-13; MECL's 2023 Cost Allocation Study was filed with the Commission on October 31, 2024

72. Overall, MECL submitted that it did not agree a separate large farm class is warranted. Counsel for MECL submitted that this would lead to further segmentation of rate classes and such an approach should be supported by significant evidence.

73. The Commission notes that the appropriate treatment of large farm customers depends in part on the methodology used to allocate transmission-related costs (for example, 1CP versus 3CP). The record in this proceeding provides competing expert evidence and solutions for farm customers. We are of the opinion that there is insufficient quantitative analysis of the system-wide impacts to each rate class of each approach.

74. To enable the Commission to make a fully informed determination, MECL is directed to file, within six (6) months of the date of this Order, a comparative analysis of the impacts of the 1CP and 3CP allocators on all rate classes, including any cross-subsidization of residential and farm customers, in relation to the 2023 Cost Allocation Study. The analysis shall include:

    a. Adjusted cost-allocation tables under each method;

    b. Resulting revenue-to-cost ratios by class; and

    c. Commentary on implications for rate design and fairness, including any cross-subsidization between residential and large farm customers.

75. The Commission further directs MECL to develop and file a draft “Farm” rate class, including eligibility criteria, proposed rate structure, estimated class revenue requirement, and RTC ratio based on the 2023 Cost Allocation Study. The filing should also address what customers included “Cohort 7”, if any, should be included in a Farm class. This filing shall accompany the comparative analysis described above.

76. Upon receipt of this additional supporting information, the Commission will review and consider the rate structure for large farm customers. To be clear, at this time, the Commission does not have enough information to determine this aspect of MECL’s Rate Design Application and what, if any, rate change is appropriate for farm customers. Pending this review and completion of the Commission’s analysis, large farm customers shall remain within the Residential class.

Other Rate-Class Adjustments

77. MECL’s Rate Design Application also proposed changes to other rate classes. In particular, MECL proposed a one-step rate increase for the Large Industrial class and a two-step increase (i.e. phased over two years) for the Street Lighting classes. The purpose of these increases would be to bring both rate classes within the target RTC ratio range.

78. MECL’s proposed increase for the Large Industrial rate is 4.4 percent. This would bring the RTC ratio of this class to approximately 94 percent.

79. The proposed increase for the Street Lighting rates would see an increase of 7.4 percent in two equal steps. MECL submits that this increase will bring the RTC ratio of this class to 91 percent.

80. Finally, MECL's Rate Design Study proposes that the additional revenue recovered from these changes (including the elimination of the declining second block in the Residential class) be offset by a corresponding reduction in the General Service class rate. They plan to implement this change in four annual steps, such that the overall impact is revenue neutral to the Company.

81. The Commission approves the Company's proposed adjustments to the Large Industrial, Street Lighting, and General Service rate class, as set out in the Application. These adjustments are found to be just and reasonable, consistent with cost-causation principles, and within the Commission's approved 95–105 percent revenue-to-cost range.

82. Implementation shall occur in the context of the next General Rate Application (GRA) to ensure alignment with updated revenue requirements and current cost-of-service data.

Customer Charges (Rural Vs. Urban)

83. Currently, MECL's rate design for the Residential Class includes two separate monthly service charges for Rural and Urban Residential Customers. Specifically, Residential Urban customers pay a service charge of $24.57 per billing period, while Residential Rural customers pay $26.92 per billing period. Boutilier's Rate Design Study recommended that the service charges the Residential Class should be the same.

84. Historically, there was a cost allocation justification for charging a different service charge for Urban and Rural customers due to differences in the cost of serving different locations. For example, the lack of customer density in rural areas meant the utility incurred incremental costs associated with meter reading, line construction and installation of infrastructure. However, with changes in meter reading technology and increases in customer density throughout PEI, the cost differential between these groups is no longer considered material.[53]

85. MECL acknowledged Boutilier's recommendation in their Application and, in fact, agrees that a single service charge is best. However, MECL is not seeking this change at this time because:

    a. Decreasing the Rural service charge would result in a revenue decrease for the Residential Class which, MECL says, would be counter-productive to the plan to correct the RTC ratios that involves increasing the amount of revenue collected from Residential customers in order to offset corresponding decreases in revenue collected from General Service customers; and

[53] MECL 2018 General Rate Application, pg. 128.

b. Significant capital investments will be needed for a new billing systems and potential conversion to advanced metering infrastructure, which may result in an increase to the service charge in the near term.

86. MECL also defended its continued use of the National Association of Regulatory Utilities Commissioners ("NARUC") "minimum-system" method for calculating the Residential customer charge and maintained that major structural reforms should await deployment of Advanced Metering Infrastructure ("AMI") and the new customer information system.

87. The Commission has considered the evidence regarding customer charges applicable to Rural and Urban Residential customers. Despite MECL's submissions, the Commission finds no justification for maintaining differential customer charges based solely on geographic location.

88. Pursuant to its authority under sections 16 and 20 of the *Electric Power Act*, the Commission directs that customer charges shall be the same for all Residential customers across Prince Edward Island.

89. Maritime Electric shall reflect this direction in its next GRA filing and in all future rate schedules unless otherwise ordered by the Commission, or shall implement the change with the approval of the Commission by April 1, 2027, whichever is earlier.

Oversight and Reporting

90. As a final comment, the Commission emphasizes that continued progress toward modernized, cost-reflective rate design remains a priority. Therefore, in accordance with the above, MECL shall:

a. Incorporate the approved Residential, Industrial, Street Lighting, General Service, and Customer-Charge adjustments into its next GRA filing; and

b. File, within six (6) months, the 1CP vs 3CP impact study and draft Farm class described in paragraphs 72 and 73.

91. Following receipt of these filings, the Commission will establish a process for review, which may include written submissions and technical conferences as appropriate.

92. MECL shall update the Commission with respect to Phase 2 and a projected application date by September 1, 2026.

93. MECL shall provide a ratio-to-cost report to the Commission annually, beginning on March 31, 2027.

Order:

The Commission Orders as follows:

1. The phase-out of the Residential declining-block rate structure over four years is approved in principle and shall be implemented with the next General Rate Application (GRA).

2. MECL shall, within six (6) months of the date of this Order, file:

    a. A comparative analysis of the 1CP and 3CP cost-allocation methods; and

    b. A draft Farm class with supporting evidence and consideration to customers in Cohort 7.

3. Large farm customers shall remain in the Residential class pending completion of the Commission's review and consideration of what, if any, rate change may be appropriate for farm customers.

4. To be clear, the matter of the treatment of large farm customers is held in abeyance pending the filing of the comparative analysis of the 1CP versus 3CP methodologies and the draft farm rate schedule referenced in Item 2 above. Upon receipt and review of this information, the Commission anticipates concluding Phase 1 of the rate design process.

    a. The Added Party Interveners will be given an opportunity to respond to MECL's filings and the Commission will provide specific direction at that time.

5. Customer monthly service charges shall be uniform for all Residential customers across Prince Edward Island. The change shall be implemented by approval of the Commission with the next GRA or by April 1, 2027, whichever is earlier.

6. MECL's proposed adjustments to the Large Industrial, General Service, and Street Lighting classes are approved as filed, and shall be implemented with the next GRA.

7. For clarity, this Order will not result in any rate impacts and changes are to be implemented with MECL's next GRA, or as otherwise directed by the Commission herein.

8. MECL shall update the Commission with respect to Phase 2 and a projected application date by September 1, 2026.

DATED at Charlottetown, Prince Edward Island, April 29, 2026.

BY THE COMMISSION:

(sgd) Pamela Williams

Pamela Williams, K.C., Chair

(sgd) Kerri Carpenter

Kerri Carpenter, Vice-Chair

(sgd) Murray MacPherson

Murray MacPherson, Commissioner