FAQs
Energy Cost Adjustment Mechanism ("ECAM")

What is the Energy Cost Adjustment Mechanism ("ECAM")?
The Energy Cost Adjustment Mechanism ("ECAM") is a rate adjustment that is used to account for the difference between what Maritime Electric expects it will cost to supply energy to the Island and what the actual cost is to supply energy. This rate adjustment is separate from **base electricity rates.**

Forecast costs of supplying energy to PEI vs. Actual costs of supplying energy to PEI

As part of its General Rate Applications, Maritime Electric will **forecast** the costs of providing electricity in PEI. This forecast is what Maritime Electric expects it will cost to provide electricity to the Island. The forecast is part of what sets electricity charges that customers pay for a period of time (usually 2-3 years).

However, sometimes there are changes in the cost to supply electricity, which results in the **actual costs** of providing electricity to be higher than what Maritime Electric thought they would be.

Instead of Maritime Electric collecting these costs from customers in an unpredictable way, the difference between the forecast cost and the actual cost to supply electricity is tracked and monitored in the ECAM account. This means that Maritime Electric can deal with the **costs incurred** at a later time instead of collecting them from customers right away.

Periodically, Maritime Electric will apply to IRAC to collect the amount in the ECAM account from customers through a temporary rate change.

Why is Maritime Electric allowed to collect the amount in the ECAM account from customers?

Maritime Electric is regulated by something called Cost of Service Regulation. This means that Maritime Electric is allowed to collect the costs related to supplying electricity from its customers. Generally, the price that customers pay for electricity includes these costs.

The amount in the ECAM account relates to the costs of supplying electricity because it is the difference between how much Maritime

Helpful Definitions

Base Electricity Rates: The base electricity rate is the charge that covers the cost of delivering and maintaining electricity service. This is part of the cost that customers pay for electricity.

General Rate Application: A general rate application is when Maritime Electric applies to IRAC to change the rates that customers pay for electricity. These applications will outline the reasons that rate changes are needed and will outline dates that customers can expect rate changes. These applications are not made annually, but every few years, so that changes in rates are predictable and planned for.

Forecast Costs: A forecast cost is an estimate or prediction of how much something will cost to buy or what someone expects to pay for something. This may also be called a projection. A forecast is usually the result of analyzing existing data, which will help understand what might happen or how much something might cost.

Actual Costs: An actual cost is the amount of money paid for a product or service.

Costs Incurred: A cost incurred is a cost that has already happened and that a company or individual has a responsibility to pay.

Electric thought it would cost to supply electricity and how much it actually ended up costing. These costs are considered part of the cost of service, meaning that because they are directly tied to providing electric service, Maritime Electric is allowed to collect this cost from customers.

What is IRAC's role when Maritime Electric files an ECAM application?
IRAC must review the amounts in the ECAM account to make sure that they are correct, valid and **prudent.** IRAC does this in a few ways:

1. Reviewing Maritime Electric's audited financial statements. Audited financial statements confirm for IRAC that the amounts in the ECAM account are fair and give an accurate picture of Maritime Electric's financial situation.
2. Asking Maritime Electric to explain why the actual costs are different from the forecast costs. This often involves asking questions called **interrogatories** and may include technical information about how electricity is supplied. IRAC needs to understand what caused the costs in the ECAM account.
3. IRAC reviews specific items in the ECAM account, usually with the help of an expert, to make sure that the costs are appropriate, legitimate, and are proven to be outside of Maritime Electric's control.

Helpful Definitions

Prudent: Prudent costs are expenses that are reasonable, fair, and justified.

Interrogatories: Written questions from IRAC to Maritime Electric that must be answered by the utility.

Why would Maritime Electric need to pay more to supply electricity than it expected to?
Over time, the costs of providing electricity may change due to a variety of factors, such as a change in electricity sources, extended shutdowns, or equipment issues.

For example, because the Island does not generate enough electricity to meet the needs of all Islanders, Maritime Electric gets electricity from several different sources to meet the demand. Often, Maritime Electric will have different agreements in place that make the costs of getting electricity from these sources predictable. If any of those sources cannot provide electricity for some reason, Maritime Electric must get electricity from somewhere else, which may mean paying more for electricity than they planned to.

To expand on this example, the extended shutdown of the Point Lepreau Generating Station in New Brunswick has resulted in Maritime Electric having to buy electricity from other sources for a longer period of time than Maritime Electric expected to.

Why does an outage at Point Lepreau result in higher costs to purchase electricity?
Maritime Electric has an agreement in place with the Point Lepreau Generating Station in New Brunswick to supply electricity that Maritime Electric must get off-Island to meet energy demands. This agreement ensures that electricity can be purchased at a set, predictable price. If this generating station is not producing energy for some reason, such as requiring repairs, Maritime Electric must obtain electricity from another source. This often means that Maritime

Electric will have to pay more money for electricity because it may not have agreements in place with the sources it gets electricity from.

Recently, Point Lepreau experienced an outage due to necessary repairs. While Maritime Electric planned for the costs of this outage and included the estimated costs in its General Rate Application, Point Lepreau experienced an extended shutdown, which was unforeseen. This has resulted in increased costs for Maritime Electric to supply electricity.

How does an ECAM application impact customers?
Maritime Electric must file an application with IRAC to get approval to collect the amount in the ECAM account from customers. If IRAC approves the application, customers may see an increase in their electricity bills for a set period of time, which allows Maritime Electric to collect what they actually paid to supply electricity from customers.

Does Maritime Electric control the amount in the ECAM account?
No, the amount in the ECAM account is largely outside of Maritime Electric's control. Many of these costs are set by other companies on the market and Maritime Electric often must accept this price in order to meet electricity demand in PEI.

Is Maritime Electric allowed to earn a rate of return on the amount in the ECAM account?
If IRAC approves the amount in the ECAM account as a **regulatory asset** and agrees that it counts as part of Maritime Electric's **rate base**, Maritime Electric may earn a **rate of return** on the amount in the ECAM account.

If IRAC agrees that the ECAM account should be included in the rate base it means the account will be treated the same way as other approved costs; meaning that Maritime Electric can collect it from customers over time and earn the approved rate of return on it, just like other regulated investments.

IRAC must review and approved any rate of return related to the ECAM account and any return must be in line with the approved rate of return. The ECAM account is meant to address cost differences to supply electricity over time and does not provide automatic or unlimited profit for the utility.

Helpful Definitions

Regulatory Asset: A regulatory asset is a cost that the utility has already paid (or will pay) that the regulator (IRAC in this case) allows the utility to collect from customers over time at a later date instead of all at once. This helps keep electricity rates predictable for customers and avoids sudden bill increases.

Rate Base: The rate base is the total amount of investments and costs that the utility is allowed to earn a return (profit) on. This amount must be approved by the regulator (IRAC in this case).

Rate of Return (also known as a Return on Investment): In a regulated electricity system like PEI's, a rate of return is the amount of profit that the utility is allowed to earn on investments that have been approved by IRAC and are included in the rate base. The rate of return is approved by the regulator and is meant to support reliable service and long-term investment. The rate of return does not apply to all costs or expenses.