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All the time.



May 20, 2022

Mr. David W. Hooley, Q.C.
Cox & Palmer
600-97 Queen St
Charlottetown PE C1A 4A9

Dear Mr. Hooley:

**UE20945 - Application for an Order to Approve
Open Access Transmission Tariff ("OATT") Changes**

Please find attached the Company's responses to the Interrogatories filed by Cox & Palmer on behalf of West Cape Wind Energy L. P. with respect to the Company's Application for an Order to Approve OATT Changes. An electronic copy will follow.

Yours truly,

MARITIME ELECTRIC

A handwritten signature in blue ink that reads "Gloria Crockett".

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

GCC16
Enclosure

IR-1 Please provide rate schedules for 2022-2024 for schedule 8 in the event that MECL was held to a maximum rate increase of 10% in 2022 and a further 10% in 2023. The balance of the required rate increase should be applied in 2024.

Response:

IRs 1-4 were submitted to the Company under the heading “Rate Shock”. Rate shock refers to a rate increase so high that some customers cannot pay their bills. The determination of the point at which a rate increase qualifies as rate shock is subjective.

Utility ratemaking is a complex process that requires the application of multiple principles that sometimes, by their very nature, are conflicting:¹

1. Recovery of cost of service – The aggregate of all customer rates and revenue must be sufficient to recover the utility’s cost of service;
2. Fair apportionment of costs among customers and appropriate cost recovery should be reflected in rates;
3. Price signals that encourage efficient use and discourage inefficient use of electricity;
4. Customer understanding and acceptance;
5. Practical and cost effective to implement while sustainable to meet long-term objectives;
6. Customer rate stability with impacts to customers being managed;
7. Revenue stability; and
8. Avoidance of undue discrimination by enhancing and maintaining interclass equity.

These widely accepted principles are not considered in any particular order but all are considered in developing rate proposals. Principle 6 is most closely aligned to the concept of rate shock. However, it is worth noting that while this is one consideration in developing rate proposals, it is not, nor should it be, the only consideration.

Implementing a 10 per cent maximum rate increase in years one and two will result in an under collection from transmission customers of their cost of service of approximately \$0.3 million and \$0.1 million, respectively, as shown in Table 1. In this response, Maritime Electric considered two alternatives to recover this under collection.

The first alternative, as suggested in the interrogatory, is to limit the rate increase in years one and two to a maximum of 10 per cent, the impact of which is shown in Table 1.

¹ Principles of Public Utility Rates by Dr. James Bonbright are used by regulators and utilities to assess the reasonableness of proposed rates and rate structures.

Table 1 RATES FOR POINT-TO-POINT TRANSMISSION SERVICE Schedule 8 of the OATT						
		Year 1	Year 2	Total Under Collected in Years 1 & 2	Year 3 Remainder	Three- Year TOTAL
Alternative #1 Rate Increases		10%	10%		> 20%	
Resulting Schedule 8 Rate (\$/MW)	A	40,281.18	44,309.29		53,359.07	
Total usage ² (MW)	B	51.7	51.7		51.7	
Total Revenue Collected (\$)	C = A x B	2,082,537	2,290,790		2,758,664	7,131,991
Total Revenue Requirement ³ (\$)	D	2,377,330	2,377,330		2,377,330	7,131,991
Under collected OATT Revenue to be recovered in Year 3 (\$)	E = C - D	(294,794)	(86,540)	(381,334)		
Under collected \$/MW to be recovered in Year 3	F = E / B	(5,702.01)	(1,673.89)	(7,375.89)		

This alternative essentially means the under collection of transmission service costs from OATT customers in years one and two would be collected in year three. However, the rate increase required in year three would be in excess of a 20 per cent increase over the rate charged in year two.⁴

A second alternative is to spread the required rate increase evenly over the three-year period, the impact of which is shown in Table 2.

Table 2 RATES FOR POINT-TO-POINT TRANSMISSION SERVICE Schedule 8 of the OATT						
		Year 1	Year 2	Total Under Collected in Years 1 & 2	Year 3 Remainder	Three- Year TOTAL
Alternative #2 Rate Increases ⁵		12%	12%		11%	
Resulting Schedule 8 Rate (\$/MW)	A	41,013.56	45,935.19		51,000.79	
Total usage by class ⁶	B	51.7	51.7		51.7	
Total Revenue Collected (\$)	C = A x B	2,120,401	2,374,849		2,636,741	7,131,991
Total Revenue Requirement ⁷ (\$)	D	2,377,330	2,377,330		2,377,330	7,131,991
Under collected OATT Revenue to be recovered in Year 3 (\$)	E = C - D	(256,929)	(2,481)	(259,411)		
Under collected \$/MW to be recovered in Year 3	F = E / B	(4,969.62)	(47.99)	(5,017.61)		

² Total usage for point-to-point service is from column A in Appendix C, filed with the Commission on February 25, 2022.

³ Total revenue requirement, or total allocated cost for point-to-point service, is the unrounded number from column D in Appendix C, filed with the Commission on February 25, 2022.

⁴ The actual rate increase in year three would be higher than 20 per cent because the rate would also have to recover the financing cost associated with deferring the recovery of transmission service costs in years one and two. For ease of illustration the financing impact was not included in the calculations in this response.

⁵ The actual rate increases in each year would be slightly higher than presented because the rate would also have to recover the financing cost associated with deferring the recovery of transmission service costs in years one and two. For ease of illustration the financing impact was not included in the calculations in this response.

⁶ Total usage for point-to-point service is from column A in Appendix C, filed with the Commission on February 25, 2022.

⁷ Total revenue requirement, or total allocated cost for point-to-point service, is the unrounded number from column D in Appendix C, filed with the Commission on February 25, 2022.

- IR-2 The revised applied for rate for Schedule 8 is \$3,831.93/MW-month. The current rate for Schedule 8, effective August 1, 2018, is \$3,051.60/MW-month. This is a rate increase of 25.6%.
- a) Has MECL canvassed stakeholders to determine their ability to absorb a 25.6% rate increase?
 - b) Does MECL consider a 25.6% rate increase to be consistent with Bonbright's rate design principle of avoiding rate shock?

Response:

- a. Prior to the filing of the Open Access Transmission Tariff ("OATT"), Maritime Electric contacted each of the OATT transmission customers to inform them of the upcoming filing and the rate changes sought in the Application. The main purpose of this notification was to offer an opportunity to meet with them to provide background on the cost drivers.
- b. As discussed in the response to IR-1, the concept of rate shock is considered in one of Bonbright's eight principles of public utility rates. These principles often conflict with each other and a balance of all the principles is sought during rate setting and rate design.

Rate increases of 35.4 or 25.5 per cent could be considered rate shock. The alternative to rate shock is to spread the required rate increase over a longer period of time. Maritime Electric did not propose this in the OATT Application due to the potential impact on its distribution customers. As a result of transmission rates being set based on actual historical costs and distribution rates being set based on a forecast of future costs, any further delay in the full implementation of the proposed OATT could result in Maritime Electric's distribution customers paying more than their share of the transmission system costs.

In addition, Bonbright's Principle 2 states that costs be fairly apportioned to customers and appropriate cost recovery should be reflected in rates. The proposed OATT adjustments are meant to achieve this fair apportionment between transmission and distribution customers. OATT customers have enjoyed the benefits of investments in the Company's transmission system over the last seven years without fully contributing to the cost of those investments. Those investments underwent an annual regulatory approval process that included public notification and opportunity for public input and scrutiny. The OATT itself was subject to a rigorous approval process before being approved in 2018.

IR-3 In Alberta Utilities Commission Decision 25866-D01-202 at paragraph 57, the Commission stated "The Commission has also reviewed the typical bill impacts from December 2020 to January 2021, in assessing the likelihood of rate shock resulting from the proposed 2021 PBR rates. The Commission observes that the month-over-month changes to total bundled customer bills from December 2020 to January 2021 are not expected to exceed 10 per cent for all rate classes. In the past, the Commission has generally considered a 10 per cent increase from the last approved increase to be the threshold potentially indicative of rate shock."

In Alberta Utilities Commission Decision 20818 -D01-2015 at paragraph 138-139, the Commission stated "The Commission has reviewed the typical bill impacts from December 2015 to January 2016, as provided by Fortis, in its assessment of the likelihood of rate shock resulting from the proposed 2016 PBR rates. In the past, the Commission has generally considered increases of 10 per cent or more to be a threshold potentially indicative of rate shock. The Commission notes that the 2016 PBR rates proposed by Fortis result in a typical bill impact of 19.5 per cent for irrigation rate class, which is Rate 26. The Commission considers an increase of this size is likely to cause rate shock. As such, the Commission considers that the use of a mitigation strategy is required. The Commission considers Fortis' second proposed mitigation strategy to be acceptable. The Commission notes that Fortis' proposed second mitigation strategy, which mitigated the impact to 10 per cent for the December 2015 to January 2016 time period ..."

- a) Is MECL aware that other Canadian jurisdictions consider 10% to be a threshold for rate shock and often mitigate rate increases when including all approved costs in rates would result in rate increases over 10%?

Response:

As discussed in the response to IR-1, rate shock refers to a rate increase so high that some customers cannot pay their bills. The determination of the point at which a rate increase qualifies as rate shock is subjective. Therefore, the determination that rate increases of 10 per cent or more for distribution customers in Alberta is an indication of rate shock cannot automatically be applied to transmission customers on Prince Edward Island. All relevant facts and circumstances should be considered.

As also discussed in the response to IR-2, Maritime Electric did not propose implementing the required OATT increase over a period of years due to the impact on its distribution customers, whom have been paying for the transmission revenue shortfall for a number of years.

- IR-4 OATT schedule rates were last updated on August 1, 2018. Prior to that, OATT schedule rates were updated July 30, 2009. Schedule 8 rates were \$2,257.16/MW-month starting in 2009 and \$3,051.60/MW-month starting in 2018. Schedule 8 rates are now proposed to increase to \$3,831.93/MW-month.
- a) Does MECL agree that the lengthy passage of time between OATT schedule update applications (9 years and then another 4 years) has directly contributed to the significant increases in Schedule 8 rates each time the OATT schedules are updated?
 - b) Is MECL opposed to more frequent OATT schedule update applications? If so, why?
 - c) Is MECL opposed to annual OATT schedule update applications? If so, why?

Response:

- a. Yes. This was acknowledged in the Application, at the OATT pre-hearing conference held on November 10, 2021 and in the stakeholder presentation held on February 18, 2022.

For information purposes, it should be noted that an update to the previous OATT Application was also filed with the Commission on July 8, 2016.

- b. Maritime Electric believes that updating the OATT schedules every three years will provide an appropriate balance between avoiding large increases in OATT charges and the administrative and regulatory costs associated with updating the OATT schedules.⁸

In addition, updating the OATT schedules every three years aligns with the recent practice of filing with the Commission an updated Cost Allocation Study (“CAS”) every three years. The CAS serves as the starting point for developing the proposed OATT charges.

It should be noted that the proposed OATT schedules are based on increases in costs incurred over a six-year period, from 2015 to 2020. Maritime Electric currently intends to file the next Cost Allocation Study based on financial results ending on December 31, 2023. Therefore, the subsequent OATT Application would be based on increases in costs incurred over a three-year period, from 2021 to 2023.

- c. As discussed in (b) above, Maritime Electric believes a three-year cycle is appropriate for updating the OATT.

⁸ Administrative and regulatory costs would be incurred by Maritime Electric, the Commission and interveners. For Maritime Electric those costs include engaging an expert to complete the Cost Allocation Study, the salary and benefit costs of internal staff involved in preparing information for the Cost Allocation Study, the Application itself and the related interrogatories, along with the engagement of external legal counsel.

Firm vs. Non-Firm Rates

IR-5 Please explain the difference in service between firm and non-firm access to point-to-point transmission service.

Response:

Maritime Electric provides firm and non-firm point-to-point transmission service as per the applicable terms and conditions of the Maritime Electric OATT. Point-to-point transmission service is for the receipt of capacity and energy at designated point(s) of receipt and the transfer of such capacity and energy to designated point(s) of delivery.

The main difference between firm and non-firm access to point-to-point transmission service is reservation priority. A more detailed description of both firm and non-firm access is provided below.

The minimum term of firm point-to-point transmission service is one year and the duration is as long as stated in the customer's transmission services agreement. The minimum term for short-term point-to-point transmission service is one day and the maximum term must be less than one year.

Long-term firm point-to-point transmission service is available on a first-come, first-served basis (i.e., in the chronological sequence in which each transmission customer has requested service).

Reservations for short-term firm point-to-point transmission service are conditional based upon the length of the requested transaction or reservation. However, pre-confirmed applications for short-term point-to-point transmission service receive priority over earlier-submitted requests that are not pre-confirmed and that have equal or shorter duration. Priority will be given to a customer's request or reservation that offers the highest price, followed by the date and time of the request or reservation.

Firm point-to-point transmission service always has a reservation priority over non-firm point-to-point transmission service as per the Maritime Electric OATT. All long-term firm point-to-point transmission service have equal reservation priority. Reservation priorities for existing firm service customers are provided in Section 2.2 of the OATT.

Non-firm point-to-point transmission service is available for periods ranging from one hour to one month and, therefore, provides more flexible scheduling, although as indicated receives a lower priority compared to long-term and short-term transmission service. However, a non-firm point-to-point transmission service customer will be entitled to reserve a sequential term of service (such as a sequential monthly term without having to wait for the initial term to expire before requesting another monthly term) so that the total time period for which the reservation applies is greater than one month, subject to the requirements of Section 18.3 of the OATT.

IR-6 In MECL's last OATT, approved August 1, 2018, at page 28, MECL indicates that Non-Firm PTP Transmission Service shall be subordinate to Firm Transmission Service.

- a) Please confirm that customers on non-firm transmission service would be interrupted before customers on firm transmission service in the event a congestion could be resolved through the interruption of either customer.

Response:

Yes. As per the Maritime Electric OATT and Transmission System Operator, Congestion and Curtailment Business Practice (IR-6 – Attachment 1), the Maritime Electric System Operator curtails non-firm transmission service prior to any long term (network, long or short-term) firm transmission service. Note that non-firm transmission service also includes redirected firm transmission service.

IR-7 Please provide any documentation (e.g. rules, terms and conditions, tariff language, etc.) that outlines the process to interrupt and/or restore service to customers, including any noted prioritization sequence.

Response:

Please refer to the attached Maritime Electric Company, Limited Transmission System Operator, Congestion and Curtailment Business Practice.

IR-8 Please explain why customers receiving differing levels of service between firm and non-firm transmission service should pay the same rates under Schedule 7 and Schedule 8.

Response:

Firm and non-firm transmission reservations pay the same rate because, for a significant number of hours a year when there are no transmission system constraints, they receive the same service. It is only when there is a transmission system constraint that there is a potential requirement for curtailments and that is when the non-firm transmission reservations are curtailed prior to firm transmission reservations.

IR-9 Please provide, for 2021 by month, the percentage of export capability that has been utilized as a total percentage and by service type (firm vs non-firm) by populating the following table.

Response:

The export capability of the interconnection with New Brunswick has not been established. For the purpose of responding to this IR, a contractual export capability of 300 MW has been assumed, based on a physical flow of 100 MW on each of the three 138 kV transmission lines in New Brunswick.

Month	Total percentage of export capability utilized	Percentage of export capability utilized by firm transmission service	Percentage of export capability utilized by non-firm transmission service
January 2021	12.0	-	12.0
February 2021	12.9	-	12.9
March 2021	17.2	-	17.2
April 2021	11.7	-	11.7
May 2021	10.2	-	10.2
June 2021	9.9	-	9.9
July 2021	6.4	-	6.4
August 2021	5.3	-	5.3
September 2021	11.2	-	11.2
October 2021	6.7	-	6.7
November 2021	14.8	-	14.8
December 2021	14.4	-	14.4

- IR-10 a) For 2021, please provide a schedule of individual export transactions (source, sink, service type).
- b) Please specifically highlight any instances where West Cape's power was exported off the Island.

Response:

- a. Due to confidentiality of the Company's contracts with transmission customers, the combined exports from PEI in 2021 are provided. Non-firm point-to-point transmission service was used for all energy exports from PEI. The table below shows the monthly contractual export quantities.

Summary of Exports for 2021				
Month	Total Contractual Export Energy (MWh)	Physical Flows from PEI to New Brunswick at the Interconnection		
		Number of Hours	Total (MWh)	Maximum Hourly Flow (MW)
January 2021	26,691	76	170	15
February 2021	25,988	7	3	2
March 2021	38,429	76	306	25
April 2021	25,207	106	840	47
May 2021	22,755	139	985	43
June 2021	21,422	77	422	30
July 2021	14,325	45	421	37
August 2021	11,766	6	10	5
September 2021	24,097	62	228	25
October 2021	15,025	52	324	41
November 2021	31,965	91	458	35
December 2021	32,199	28	262	38

- b. The above table also shows the monthly physical export quantities for energy exports from PEI. Due to the confidentiality of the Company's contracts with transmission customers, individual export transaction details cannot be provided.

- IR-11 a) Please provide title custody of transmission rights.
- b) Please list any grandfathered transmission agreements on the Island.
- c) Please provide export capabilities of the transmission interties off the Island.

Response:

- a. Maritime Electric is sole owner of all 69 kV and 138 kV transmission lines on Prince Edward Island, except for the interconnection facilities and the transmission lines feeding wind farms in western PEI other than West Cape which are owned by the Province of Prince Edward Island and maintained by Maritime Electric.

Transmission customers who obtain an approved Service Agreement with Maritime Electric are awarded access to the transmission system on Prince Edward Island. Currently there are only three transmission customers with approved agreements: Maritime Electric, City of Summerside and New Brunswick Energy Marketing.

- b. The Interconnection Debt Collection Agreement stipulates that each of Maritime Electric and the City of Summerside will have assured access to the import capacity of the interconnection between PEI and New Brunswick in the same proportion as their respective shares of the PEI five-year average 12 month coincident peak load.
- c. The export capability of the interconnection with New Brunswick has not been established. For the purpose of responding to IR-9, a contractual export capability of 300 MW was assumed, based on a physical flow of 100 MW on each of the three 138 kV transmission lines in New Brunswick.

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**Maritime Electric Company, Limited
Transmission System Operator**

Congestion and Curtailment Business Practice

Date: October 3, 2008

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1. Introduction

The Maritime Electric Company, Limited (“Maritime Electric”) transmission system operates in an uncongested manner. From time to time, conditions on the Maritime Electric system may dictate that load and/or generation curtailments are required over a variety of timeframes.

The purpose of this Business Practice is to:

- Provide Transmission Customers with information regarding the process by which the Transmission Provider will inform Transmission Customers that curtailment is required.
- Detail the timeframes under which requested curtailments take place.
- Detail the communication procedure between the System Operator and Transmission Customers to request and cancel curtailments.
- Detail the order in which curtailment(s) will occur.

This Business Practice does not attempt to identify specific system conditions that may result in curtailment, nor does it identify curtailments resulting from specific system conditions that may occur.

In the event of any discrepancies between this Business Practice and the Maritime Electric Open Access Transmission Tariff (“OATT”), the OATT will take precedence over this Business Practice.

2. Contact Information

Mailing Address:

Maritime Electric Company, Limited
180 Kent Street, PO Box 1328
Charlottetown PE C1A 7N2

OATT Administrator

Tel: 902-626-6053

Fax: (902) 629-3630

Email: OATTAdmin@MaritimeElectric.com

3. Definitions

Congestion – A transmission system condition where there is more demand for system resources than the system can physically accommodate.

Curtailment – A reduction in firm or non-firm transmission service in response to planned or unplanned transmission capacity shortages as a result of system reliability conditions.

Good Utility Practice – Any of the practices, methods and acts engaged in or approved by a significant portion of the electric utility industry during the relevant time period, or any of the practices, methods and acts which, in the exercise of reasonable judgment in light of the facts known at the time the decision was made, could have been expected to accomplish the desired result at a reasonable cost consistent with good business practices, reliability, safety and expedition. Good Utility Practice is not intended to be limited to optimum practice, method or act to the exclusion of all others, but rather to be acceptable practices, methods, or acts generally accepted in the region.

IRAC – the Island Regulatory and Appeals Commission.

Transmission Customer – Any Eligible Customer (or its Designated Agent) that:

- i. executes a Service Agreement, or
- ii. requests in writing that the Transmission Provider file with IRAC, a proposed unexecuted Service Agreement to receive Transmission Service under Part II or Part III of the OATT. This term is used in the Part I Common Service Provisions to include customers receiving transmission service under Part II and Part III of the OATT.

Transmission Provider – Maritime Electric (or its Designated Agent) that owns, controls, or operates facilities used for the transmission of electric energy and capacity in interprovincial or interstate commerce and provides Transmission Service under the OATT.

Transmission Service – Point-to-Point and Network Integration Transmission Service provided under Part II and Part III of the OATT on a firm and non-firm basis.

Any undefined capitalized term in this section can be referenced in the OATT Part I Section 1.

4. Congestion

In order to properly maintain its system, the Transmission Provider will from time to time plan maintenance activities that result in equipment outages or reductions in equipment ratings, which may result in system Congestion. An Existing Customer may apply to adjust its level of Transmission Service up to the time of the planned event, subject to the notification periods detailed in Section 6 of the *Right of First Refusal Business Practice*.

Unplanned system events, such as weather-related events or unexpected equipment malfunction, may result in system Congestion for a period of time. Existing Customers cannot apply for a change in level of Transmission Service during the period of Congestion.

An Existing Customer that has its Transmission Service reservation expire during a period of Congestion may extend its Transmission Service at its existing level but cannot apply to raise its level of Transmission Service until the Congestion has been relieved.

Curtailments due to either planned or unplanned Congestion will be ordered based on level of Transmission Service as per Section 7 of this Business Practice.

5. System Conditions Requiring a Curtailment

Curtailment may be required on a short-term basis until such time as on-Island resources can be summoned to counter the system contingency. More severe system conditions may dictate that lengthy curtailments are required.

The Transmission Provider, acting in accordance with Good Utility Practice, shall keep curtailments to a minimum for factors under the Transmission Provider's control by summoning necessary off- or on-Island resources when possible. Transmission Customers shall be responsible for acquisition of resources for factors under their control.

6. Implementation and Cancellation of Curtailments

The Transmission Provider shall attempt to give as much advance notice as possible when requiring a curtailment. The Transmission Provider shall use voice, fax, email or web-based communication, as per a Transmission Customer's Interconnection Agreement, to request curtailments.

The Transmission Provider reserves the right to disconnect the Transmission Customer's service from the Transmission Provider's system if the Transmission Customer does not carry out the requested curtailment, or if system conditions warrant such action.

The Transmission Provider shall post all details of a system curtailment on its website as soon as reasonably possible after the event as per the OATT.

7. Curtailment Queue

The Transmission Provider shall order curtailments to the point where the Transmission Provider feels it can safely and reliably operate the Transmission Provider's transmission system.

The Transmission Provider shall make best efforts to follow the order of curtailment set out in Section 7.1. The Transmission Provider reserves the right to curtail whatever

resources it feels will best offset an emerging system condition. The Transmission Provider will strive to update curtailment levels on an ongoing basis.

In general, Transmission Customers taking Transmission Service will be curtailed in the order shown in Section 7.1 below.

7.1 Order of Curtailment

1. Redirected Transmission Service
2. Non-Firm Transmission Service
3. Short-Term Firm Transmission Service
4. Long Term Firm Transmission Service and Network Service

7.1.1 Generation Curtailment

If two or more Transmission Customers have generating facilities, and such Transmission Customers are taking a similar level of service, curtailment requirements for these generating facilities will be on a pro-rata basis, and will be based on reserved transmission capacity.

7.1.2 Load Curtailment

If two or more Transmission Customers directly serve load, and such Transmission Customers are taking a similar level of service, curtailment requirements for this load will be on a pro-rata basis, and will be based on Transmission customer loadings at the time the curtailment commences. The Transmission Provider will endeavor to optimize the usage on the curtailed transmission path, and may alter curtailment levels in response to load and generation variations.