

## Interrogatories of Commission Staff

**TO:** Maritime Electric Company, Limited

**FROM:** Cheryl Mosher, Senior Financial Advisor

**DATE:** August 11, 2022

**RE:** 2023-2025 General Rate Application

**DOCKET:** UE20946

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1. On page 8 of the General Rate Application (the “Application”), lines 5 to 7, Maritime Electric states:

*Second, the Net Zero Report plans to evaluate and invest in ways to convert various types of waste into clean energy that can be then used to heat homes and power vehicles. Maritime Electric will be required to play a role in distributing this energy source to its customers.*

- a) Why is Maritime Electric “required” to play a role in distributing energy from waste to its customers?
  - b) Please explain what Maritime Electric’s role would be in distributing energy from waste.
  - c) Would this require any operating or capital expenditures? If yes, please provide specifics including forecast operating and capital costs.
  - d) Will Maritime Electric be required to purchase energy from waste? If yes, what is the unit cost of energy from waste, and how does the unit cost compare to other energy sources purchased by Maritime Electric?
2. On page 8 of the Application, lines 17 to 18, Maritime Electric further states that “*analyses and actions must begin now to ensure the Net Zero Report goals and objectives can be achieved.*”

Maritime Electric continues to state (page 8, lines 20 to 24) that the Net Zero Report will influence Maritime Electric’s long-term planning of the electrical system, and that the Integrated System Plan will address the investment required to accommodate the increased demand for electricity.

- a) What, if any, obligation does MECL have to achieve the goals and objectives of the Net Zero Report?
- b) What impact will the Net Zero Report goals and objectives have on Maritime Electric’s Integrated System Plan and anticipated capital expenditures?

- c) What are the forecast costs (operating and capital) of achieving the Net Zero Report goals and objectives?
  - d) Who will pay for the forecast operating and capital costs?
3. On pages 11 and 12 of the Application, Maritime Electric states that it is not proposing any change to the monthly service charge for applicable customer classes. However, Maritime Electric has removed the Residential Rural rate (Rate Code 130) from the Schedule of Rates in Appendix A to the Application.
- a) Please explain. Is Maritime Electric proposing a single monthly service charge for all Residential customers (rural and urban)?
  - b) Please explain why Maritime Electric is not proposing any change to the demand charge or the monthly service charge for applicable customers. When were the demand charge and monthly service charge last changed?
4. On page 20 of the Application, lines 10 to 12, Maritime Electric states that customer outages under normal operating conditions have improved since 2012. However, according to Chart 4-4 (page 20 of the Application), it appears that SAIDI under normal operating conditions has remained fairly constant. Please explain how SAIDI has improved since 2012.
5. According to Chart 4-4 (page 20 of the Application), SAIDI under normal operating conditions (MED Excluded), it appears as though Maritime Electric's infrastructure is on par or performing better than Electricity Canada and Atlantic utilities. However, based on Chart 4-5 SAIDI (All In) (page 22 of the Application), Maritime Electric's outages are trending higher than both Electricity Canada and Atlantic utilities. Please explain why major storms or events appear to have a more negative affect on Maritime Electric's grid.
6. On page 29 of the Application, lines 24 to 28, Maritime Electric states that its methodology in developing the sales forecast for the rate-setting period is consistent with that used in recent filings and with the sales forecast reviewed by Grant Thornton in 2020.
- a) Please provide an explanation of the sales forecast methodology.
  - b) Please explain any changes in the methodology since it was reviewed by Grant Thornton in 2020.
  - c) Please provide an explanation of any material change in the inputs or assumptions since the methodology was reviewed by Grant Thornton in 2020.
7. Table 4-3 (page 30) of the Application provides the 2023 forecast number of customers, energy sales and total revenue by customer class. Please provide the same table and information for 2024 and 2025.
8. According to Table 4-4 (page 31 of the Application), Maritime Electric is forecasting a 29.7 percent increase in the Residential space heating load in 2022, and annual increases of 3.1 to 6.3 percent during the rate-setting period.
- a) Please explain how Maritime Electric forecast the 2022 Residential space heating load, including all inputs and assumptions.
  - b) Please provide Maritime Electric's load forecast for the rate-setting period, together with an explanation of the forecast methodology, including all inputs and assumptions.

- c) Please explain any changes in the methodology since it was reviewed by Grant Thornton in 2020.
  - d) Please provide an explanation of any material change in the inputs or assumptions since the methodology was reviewed by Grant Thornton in 2020.
  - e) Specifically, please explain Maritime Electric's assumption that the Residential space heating load will remain at 2022 forecast and continue to grow.
9. According to Table 4-4 (page 31 of the Application), Maritime Electric is forecasting a decrease in the General Service energy sales during the rate-setting period.
- a) Is this decrease in energy sales due solely to efficiencyPEI's DSM programs (discussed on page 33 of the Application)?
  - b) If no, please explain other factors that may result in a decrease in General Service sales during the rate-setting period.
10. On page 32 of the Application, lines 5 to 6, Maritime Electric states that "*a number of factors have contributed to the historical increases in residential sales year over year, some of which are not expected to continue through the rate-setting period.*"
- a) What are the factors that Maritime Electric is referring to and why are they not expected to continue through the rate-setting period?
11. According to Table 4-5 (page 34 of the Application), Maritime Electric is forecasting a 40 percent (approximate) increase in both Transmission and Distribution operating costs and General and Administrative operating costs between 2019 and 2025.
- a) Please provide justification for a 40 percent increase in operating costs over a 6 year period.
  - b) What measures has Maritime Electric taken to reduce or minimize operating costs during the rate-setting period?
12. According to Table 4-6 (page 36 of the Application), Maritime Electric is forecasting capital contributions of \$10.25 million in 2024 and \$8.75 million in 2025.
- a) Please explain the increased capital contributions in 2024 and 2025.
  - b) Do the capital contributions in Table 4-6 include Government funding available for the CIS and advanced metering infrastructure?
13. On page 38 of the Application, lines 5 to 9, Maritime Electric states that the cost of service elements are forecast based on the methodology used in the previous GRA and reviewed by Grant Thornton.
- a) Please explain any changes in the methodology since it was reviewed by Grant Thornton in 2020.
  - b) Please provide an explanation of any material change in the inputs or assumptions since the methodology was reviewed by Grant Thornton in 2020.
14. On page 38 of the Application, lines 27 to 29, Maritime Electric states that energy supply costs account for approximately 46 percent of the Company's forecast rate increase.

- a) Please confirm when the current Energy Purchase Agreement with NBEM will expire.
  - b) Please explain why Maritime Electric's energy supply costs are forecast to increase during the rate-setting period.
  - c) Is the increase due to a change in the unit price for purchased energy or due to increased sales?
  - d) If the increase is due to increased energy sales, why does this impact the base rate for electricity?
15. In Table 5-2 (page 40 of the Application), Maritime Electric has provided the Energy Supply Cost by Source. Please provide the unit cost for each of the energy sources listed in Table 5-2.
16. Maritime Electric is forecasting a single 50-day outage at Point Lepreau for April to May 2024 (see page 41, lines 7 to 8).
- a) What is the forecast cost of the 50-day outage?
  - b) Please calculate the rate impact of this outage for each rate class.
  - c) Please explain the financial implications of an extended outage.
  - d) Please confirm if the replacement energy for the 50 day outage is included in the 2024 forecast figures, and if so please provide forecast assumptions and calculations.
  - e) What measures has Maritime Electric taken to reduce or minimize outages at Point Lepreau?
  - f) Has Maritime Electric completed a cost versus benefit analysis of Point Lepreau taking into consideration the number of outages in recent years. If so, please provide this analysis.
17. There have been a number of delays with the anticipated wind farms coming online.
- a) Please elaborate further on the likelihood of the increased energy sourced by Wind & Other Renewables in Table 5-2 (page 40 of the Application) included in the 2024 and 2025 forecasts.
  - b) If the wind farms do not come online in the timeframe expected, please explain the potential impact.
18. On page 42 of the Application, lines 9 to 10, Maritime Electric states that the ratchet clause in the EPA was triggered in 2022, resulting in the requirement to purchase secure energy in 2023.
- a) Please explain the ratchet clause, the financial impact on the 2023 forecast, and confirm this impact has been included in the forecast figures.
19. On page 42 of the Application, Maritime Electric states that they are not forecasting to exceed the forecast load, with the exception of 2023 due to the ratchet clause in the EPA. However, Maritime Electric has also stated that they anticipate a 50 day shut down of Point Lepreau in 2024, which will require replacement energy.
- a) Please explain where the replacement energy related to the 2024 50 day shut down of Point Lepreau is included in Table 5-2.

20. Based on Table 5-2 (page 40 of the Application), the costs for CT1 and CT2 have more than doubled between 2019 and 2025. Please explain the reason for this increase.
21. On page 48 of the Application, lines 2 to 3, Maritime Electric states that its forecast OATT costs assume new OATT rates are effective July 1, 2022. However, in Appendix C, page 31 (lines 9 to 11), Maritime Electric assumes that new OATT rates will be effective July 30, 2022.
  - a) Please clarify whether Maritime Electric has assumed an effective date of July 1<sup>st</sup> or July 30<sup>th</sup> for the new OATT rates.
  - b) What, if any, impact will an alternate effective date for the new OATT rates have on the General Rate Application and the rates proposed therein?
22. Referring to Table 5-5 (page 45 of the Application), there are a number of significant variances between the 2021 actual and the 2022 forecast costs for transmission.
  - a) Please provide more detailed variance analysis between the 2021 actuals and the 2022 forecasts.
23. Referring to Table 5-7 (page 48 of the Application), there are a number of significant variances between the 2021 actual and the 2022 forecast costs for distribution.
  - a) Please provide more detailed variance analysis between the 2021 actuals and the 2022 forecasts.
24. The weather normalization reserve (“WNR”) has been in place for approximately 6 years on an interim basis. Maritime Electric is now requesting that the WNR be approved on a permanent basis for the rate-setting period and future years.
  - a) Please provide compelling evidence to support maintaining the WNR deferral account.
  - b) Please explain why it is reasonable to assume that the WNR will have a stable balance over the rate-setting period.
25. On page 49 of the Application, lines 18 to 24, Maritime Electric is forecasting an increase of 2.9 percent annually for line maintenance costs.
  - a) Although Maritime Electric states that the forecasts for 2023 to 2025 are based on historical actuals adjusted for inflation, from 2019 to 2021, actual costs decreased by an average of 4.0 percent annually. Please explain.
  - b) Maritime Electric’s forecast also “assumes responding to weather-related outages based on the 10-year average”. Please explain what is meant by this, including the impact of the 10-year average on line maintenance costs during the rate-setting period.
26. On page 50 of the Application, lines 1 to 6, Maritime Electric is forecasting an average increase of 2.4 percent annually for line control devices. Although Maritime Electric states that the forecast for 2023 to 2025 reflects historical actuals adjusted for inflation, from 2019 to 2021, the cost for line control devices actually decreased by an average of 11.6 percent annually. Please explain.

27. On page 51 of the Application, Maritime Electric refers to a normalization of historical costs for both Communication Systems and Supervisory SCADA. Please explain why these cost items were normalized and others were not.
28. On page 52 of the Application, Maritime Electric is forecasting an increase in insurance cost of 5.5 percent annually “*as predicted by Fortis Inc.’s insurance specialist*” (see lines 5 to 6). Please provide evidence to support the forecast increase in insurance costs.
29. On page 53 of the Application, lines 17 to 18, Maritime Electric states that the 2023 to 2025 forecast for Customer Service costs has been reduced to reflect the 2019 and 2021 trend with respect to bad debt expense and damage claims. What trend is Maritime Electric referring to?
30. On page 54 of the Application, lines 9 to 18, Maritime Electric details costs associated with sustainability activities, including an additional employee position in 2021 and a climate change study to be completed in 2022.
  - a) What are the operating and capital costs associated with sustainability activities?
  - b) Has Maritime Electric obtained Commission approval for these expenditures?
  - c) Is Maritime Electric seeking to recover these expenses from ratepayers?
31. In Section 5.1.9 – Credit Metrics (pages 62 to 63 of the Application), Maritime Electric indicates that without the proposed rate increases, their credit metrics will decline significantly. What would be considered reasonably acceptable ratios within utility industry standards? Please provide examples.
32. There appears to be a discrepancy between Table 5-10 (page 56 of the Application) and Table 5-30 (page 81 of the Application). Although Table 5-10 has a 2022 forecast RORA balance of \$506,000, Table 5-30 has a 2022 forecast RORA balance of \$500,000. Please clarify and explain.
33. Please provide a detailed calculation, including all inputs and assumptions, for the revenue shortfall account for 2022 and 2023.
34. Table 5-19 (page 70 of the Application) details actual and forecast dividends for 2019 to 2025.
  - a) The Table states that it is in \$ millions. Is this correct?
  - b) Please explain why the payout of regulated dividends fluctuates significantly year over year.
35. In Table 5-27 (page 78 of the Application), Maritime Electric sets out the Proposed ECAM Rate Adjustment to Customers’ Bills Effective March 1 in each of 2023 to 2025. Maritime Electric provides the forecast ECAM balance for December 31 of the prior year, as well as the forecast sales for March 1 to February 28.
  - a) Do the proposed ECAM rate adjustments include the ECAM collection amounts recovered from January 1 to February 28 of each year?

36. In Table 5-31 (page 83 of the Application), please explain why Maritime Electric is using the forecast sales from March 1, 2022 to February 28, 2023 to calculate a rate rider that is intended to be refunded from March 1, 2023 to February 29, 2024.
37. In Table 5-33 (page 89 of the Application), do the calculations include the approved extension of the EE&C Plan? Please include all inputs, assumptions and calculations.
38. Please provide any cost versus reliability analysis completed by Maritime Electric to support the proposed vegetation management plan.
39. Assuming the rates proposed by Maritime Electric in the Application are approved, please provide updated revenue-to-cost ratios for each of Maritime Electric's rate classes.
40. Please provide a detailed breakdown of compensation paid, or forecasted to be paid, to MECL's senior management and executive position employees for the years 2019 to 2025 (inclusive). The breakdown should clearly show the compensation paid to each senior management and executive position, identifying the title of the position and a breakdown of the compensation paid by salary, bonus(es), stock option(s), and any other compensation paid or payable.
41. Please confirm the dollar amount of compensation paid or forecasted to be paid to MECL's senior management and executive positions included in the revenue requirement for 2023 to 2025.
42. In Appendix I – Financial Statements, Maritime Electric breaks out Fortis Inc. Head Office Costs (net of tax) which have been disallowed in calculating the annual revenue requirement and regulated return per Order UE09-02.
  - a) Please provide supporting documentation that supports the total expenditures and the amount that is excluded as it relates to Fortis Inc. admin charges.
  - b) Please describe the process followed to determine the amount that should be excluded and the supporting calculation for the amount excluded in the 2023 to 2025 forecast.
43. In Appendix C to the Application, at page 16 (lines 2 to 4), Maritime Electric is forecasting a reduction to the interconnection lease payments, which reflects new lease terms effective July 1, 2022.
  - a) At the time the Application was filed, negotiations of the new lease terms were ongoing. Have the negotiations been finalized? If so, is there any change to the lease payments forecast in the Application?
  - b) Please provide particulars of the new lease terms, including any amendments to the existing interconnection lease agreement.
44. At pages IV-4 to IV-5 of the Depreciation Study, Gannett Fleming states:

*During this year's study it became evident that Maritime Electric's actual retirement costs are trending much higher than contemplated in previous depreciation studies, as indicated by the accumulated GER balance. The Company has initiated an analysis of its use of standard distribution as the manner in which labor costs are allocated to capital, retirement and operating activities to assess the accuracy of the standard distribution allocation. The*

*results of that analysis may affect the future recognition of labor costs to this GER account. The analysis completed by Gannett Fleming, to assess the impact of reflecting the full extent of the GER balance in the determination of the recommended net salvage percentages, resulted in net salvage percentages that are considered abnormally high. A summary of that analysis is shown on page VIII-42. This indicates that further analysis of the GER account is warranted. Therefore, while the GER costs were reviewed during this study, they were not fully factored into the net salvage estimates at this time. When and to what extent the GER costs are included in the net salvage estimates of a future depreciation study, the expectation is that net salvage percentages will be higher (i.e., higher negative net salvage percentages) and this will increase depreciation rates, all else being equal.*

[emphasis added]

- a) Has Maritime Electric conducted any additional analysis of the GER account?
- b) Please provide the analysis (if conducted) and include any results of the analysis.
- c) Will the results of this analysis impact depreciation rates?

**Additional interrogatories may follow.**



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