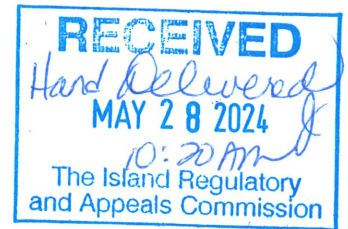


May 28, 2024

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



Dear Commissioners:

**Weather Normalization Reserve Mechanism Comprehensive Report  
(Docket UE 21231)**

In Order UE23-04, paragraphs 20 and 21, the Island Regulatory and Appeals Commission ("Commission") ordered Maritime Electric Company, Limited ("Maritime Electric" or the "Company") to file a Comprehensive Review of the Weather Normalization Mechanism and Reserve ("WNR") by January 31, 2023. On January 23, 2024, the Company requested and was granted a filing deadline to May 31, 2024.<sup>1</sup> The purpose of this letter is to request that the Commission place the WNR in abeyance for the reasons set out herein.

Maritime Electric engaged a consultant, Concentric Energy Inc. ("Concentric"), to assist in the comprehensive review of its WNR to assess this deferral and whether adjustments to its operation are recommended. Much progress has been made, with some key highlights discussed below, but more analysis is required.

Concentric has determined that similar deferrals continue to be used by other utilities in Canada and the United States, and such deferrals are generally used by electric and gas utilities with a higher penetration of space heating and/or air conditioning. However, Concentric's research on the particulars of these deferrals has yielded limited results to date as such particulars are not publicly available and, therefore, an assessment of whether changes to the Company's WNR are recommended remains outstanding. Further time is required to exhaust all efforts to complete this aspect of the analysis.

The early results of Concentric's analysis highlights that Prince Edward Island ("PEI") has experienced the largest increase in residential customers with electric heat installed in their homes between 2000 and 2020 in Canada. Based on data provided by Natural Resources Canada, electric heat was used in just 6.5 per cent of PEI homes in 2000, which has increased to 41.5 per cent by 2020.<sup>2</sup> In turn, the increased use of electricity for space heating will increase sales and energy supply cost volatility as actual temperatures deviate from historical averages. This finding fully aligns with the purpose of the Company's WNR, to stabilize electricity rates charged to customers by removing the volatility in sales and energy supply costs caused by temperature changes relative to historical averages.

Additionally, the analysis highlights the impact the PEI Government's electrification programs are having on Maritime Electric's sales.<sup>3</sup> While the Company's sales forecast anticipated an increase due to electrification programs, the PEI Government has continued to add more electrification programs since the Company submitted its sales forecast in its last General Rate Application, which results in

<sup>1</sup> Filing extension granted in Order UE 24-04.

<sup>2</sup> Subsequent to this date, many electrification programs have been introduced by the PEI Government.

<sup>3</sup> Such electrification programs include: rebates for energy efficient equipment such as heat pumps and water heaters; free heat pumps for low income households; free electric water heaters for low income households; oil to heat pump conversion funding; and electric vehicle rebates.

actual sales growth outpacing the Company's forecast.<sup>4</sup> This is an unanticipated complication as sales growth is masking the increasing sales volatility due to the impact of weather.

Although the funding levels and timing of these electrification programs remains uncertain, the conversion to electric space heating will eventually stabilize on PEI and from that point forward the forecast of new housing construction should be a more reliable predictor of sales growth associated with electric space heating. At that point the risk of volatility in electricity sales and energy supply costs associated with space heating will be evident and may be very material for both the customer and the Company. Therefore, it will be even more important for customers and the utility to have an appropriate WNR in place to mitigate the volatility in sales and energy supply costs caused by temperature changes relative to historical averages.

As directed by the Commission, the Company also continues to assess the impact that air conditioning load has had and will continue to have on sales.<sup>5</sup> Since the accelerated rate of heat pump adoption only began in recent years, that analysis is still in progress and also requires more time to reach an informed conclusion and determine recommendations, if necessary.

To summarize, the Company's analysis to date supports the continued use of the WNR based on: (i) the fact that such deferral mechanisms continue to be used by electric and gas utilities with space heating provided by the utility; (ii) PEI's use of electric space heating has and continues to increase at an incredible pace; and (iii) when energy sales are used for space heating and cooling, variations in temperatures from forecast will cause sales and energy supply cost volatility that could have a material negative impact on customers or the utility. In addition, the focus and pace of the PEI Government's space heating electrification programs is an unanticipated complication. Understandably, this topic is particularly complex and continues to evolve. Therefore, the Company respectfully requests that this docket be placed in abeyance to allow the Company to fully complete the comprehensive review requested.

Should the Commission grant the requested abeyance, the Company would not object to the Commission's Order to cap the balance of the WNR at \$3.9 million.<sup>6</sup> The Company will continue to calculate the WNR impact, adhering to the Commission's cap, and as weather trends result in periods where the Heating Degree Day variance is above normal (i.e., colder temperature than historical average) the resulting incremental marginal revenue (i.e., revenue less energy costs) will be appropriately returned to customers as a credit to the WNR. Therefore, the continuation of the status quo means the current WNR of \$3.9 million will not increase and may decrease as temperature variances warrant.

If you require further information, please do not hesitate to contact me at 902-629-3701.

Yours truly,

MARITIME ELECTRIC



Michelle Francis  
Vice President, Finance & Chief Financial Officer

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<sup>4</sup> The Company's most recent General Rate Application was based on a load forecast prepared in March 2022 and assumptions on space heating were based on government incentives available at that time.

<sup>5</sup> Air conditioning impact is assessed by analyzing Cooling Degree Days.

<sup>6</sup> Order UE23-04, item 19 caps the amount recorded in rate base and the amount recovered from or refunded to ratepayers at a future date to not exceed the WNR balance as of April 30, 2023.