

All our energy.
All the time.



August 18, 2022



*Handled
2:05pm
MLA*

Ms. Cheryl Mosher
Island Regulatory & Appeals Commission
PO Box 577
Charlottetown PE C1A 7L1

Dear Ms. Mosher:

**UE20946 – 2023 - 2025 General Rate Application
Response to Interrogatories from Mr. Roger King**

Please find attached the Company's responses to interrogatories from Mr. Roger King with respect to the Company's 2023 – 2025 General Rate Application filed with the Commission on June 20, 2022.

Yours truly,

MARITIME ELECTRIC

A handwritten signature in blue ink that reads "Gloria Crockett". The signature is fluid and cursive.

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

GCC22
Enclosure

All our energy.
All the time.



Via email: randjking@pei.sympatico.ca

August 18, 2022

Mr. Roger King
519 Simpson Mill Rd
Hunter River PE C0A 1N0

Dear Mr. King:

**UE20946 – 2023 – 2025 General Rate Application
Responses to Interrogatories**

Please find attached the Company's responses to your interrogatories with respect to the Company's 2023 – 2025 General Rate Application filed with the Commission on June 20, 2022.

Yours truly,

MARITIME ELECTRIC

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

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**RESPONSE TO
INTERROGATORIES
FROM
MR. ROGER KING**

**Docket UE20946
General Rate Application**

Submitted August 18, 2022

Maritime Electric

Context of Questions:

Application UE20946 has been submitted prior to pending regulatory decisions for a 2020 new rate structure - UE22503, a 2021 new OATT tariff – UE20945 and a 2021 new efficiency PEI EE&C plan - UE41401 all of which potentially affect customer electricity rates starting March 2023. Another rate variable is the annual Capital Application for 2023 that will be typically submitted for regulatory approval in August 2022.

IR-1 Please compile a summary data table for the years 2019 to 2025 showing the comparisons of each year for:

- a. Revenue Requirement (RR)
- b. The cost allocation of the RR (in both dollar (\$) and percentage (%) form) to each of the three (3) allocated cost categories of Energy, Demand and Service. Here it assumed that the Chymco allocated costs calculations are available for past years (2019 and 2020) but may not be available for the later years; in any event the MECL best estimates will suffice.
- c. Capital amounts for past years and estimated Capital \$ for the future years.
- d. Depreciation amounts for past years and estimated Depreciation \$ for the future years.
- e. Operating Expenses for past years and estimated Operating Expense \$ for the future years.
- f. The OATT revenue for past years and estimated OATT \$ for the future years
- g. The cost of Pointe Lepreau energy for past years and estimated Pointe Lepreau \$ for the future years
- h. Return on Equity (\$ ROE) for past years and estimated ROE \$ for the future years.
- i. The MECL annual energy delivered – actual and estimated (GWh).
- j. The MECL peak loads - actual and estimated (MW).
- k. The PEI peak loads - actual and estimated (MW).

Response:

- a. The Company's revenue requirement for 2023 to 2025, based on the proposals presented in the General Rate Application ("GRA" or the "Application"), was provided in Table 6-5 in Section 6.3.1 of the Application.

The table provided in this response is an excerpt from Table 6-5 that has been expanded to include the actual revenue requirement for 2019 to 2021 and the forecast revenue requirement for 2022, as requested.

**(UE20946) General Rate Application
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from Roger King – July 25, 2022**

Maritime Electric

Revenue Requirement (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Energy Supply Costs	127,020	129,519	138,545	146,030	148,886	155,484	158,798
ECAM ¹ Deferral Adjustment	464	(1,333)	(5,431)	(5,846)	(4,219)	(3,746)	(729)
Transmission and Distribution	16,516	17,110	18,409	19,625	21,394	22,699	23,815
General and Administrative	9,484	10,634	12,329	12,854	13,185	13,559	13,972
Depreciation	23,588	29,445	26,602	24,209	29,094	30,785	32,816
Finance Charges	12,901	12,718	12,503	13,517	13,797	14,277	14,593
Income Taxes	6,483	6,666	6,970	7,429	8,459	8,994	9,538
Return	14,263	14,673	15,329	16,364	18,660	19,850	21,066
Total Revenue Requirement	210,719	219,432	225,256	234,182	249,256	261,902	273,869
Other Revenue	(9,066)	(16,471)	(12,054)	(11,465)	(16,188)	(16,546)	(16,877)
Revenue Requirement from Basic Rates	201,653	202,961	213,202	222,717	233,068	245,356	256,992

- b. Maritime Electric does not have actual allocated costs for 2019 for energy, demand and service (or “site”) categories as a cost allocation study was not undertaken on that year’s revenues and costs. The calculated figures for 2020, as well as the two previous cost allocation studies, are included in the table below.

Breakdown of Annual Revenue Requirement (\$000 and %)						
Year		Demand	Energy	Site	Total	Source
2014	\$	66,977	88,716	23,310	179,004	Chymko Associates, 2014 Cost Allocation Study, Table 5 and 6
	%	37	50	13	100	
2017	\$	57,755	99,691	25,155	182,601	Chymko Associates, 2017 Cost Allocation Study, Table 5 and 6
	%	32	55	14	100	
2020	\$	70,170	105,208	27,935	203,313	Chymko Associates, 2020 Cost Allocation Study, Table 5 and 6
	%	35	52	14	100	

¹ ECAM refers to Energy Cost Adjustment Mechanism.

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Maritime Electric projects that the breakdown of demand, energy, and site costs will continue in roughly the same percentage breakdown as in 2020.² The projections for 2021 to 2025 are in the following table.

Breakdown of Annual Revenue Requirement (\$000)				
Year	Demand	Energy	Site	Total
2021 Actual	74,621	110,865	29,848	213,202
2022 Forecast	77,951	115,813	31,180	222,717
2023 Forecast	81,574	121,195	32,630	233,068
2024 Forecast	85,875	127,585	34,350	245,356
2025 Forecast	89,947	133,636	35,979	256,992

- c. A summary of capital expenditures for 2019 to 2025 was provided in Table 4-6 in Section 4.4.2 of the Application, and is provided below for ease of reference.

Capital Expenditure by Asset Class (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Generation	485	729	1,000	1,245	1,540	1,506	1,921
Transmission	7,721	7,655	9,257	8,889	15,343	15,325	18,440
Distribution	22,507	21,974	24,772	28,249	29,110	43,748	44,170
Corporate	1,434	1,687	2,311	4,035	6,445	11,485	9,062
Subtotal	32,147	32,045	37,340	42,418	52,438	72,064	73,593
General Expense Capitalized	568	490	681	690	721	739	758
Interest During Construction	474	444	548	496	682	950	961
Contributions	(759)	(1,157)	(1,482)	(3,538)	(2,250)	(10,250)	(8,750)
Subtotal	32,430	31,822	37,087	40,066	51,591	63,503	66,562
Prior Year Carryovers	2,641	2,723	5,082	13,641	8,000	7,000	6,000
Carryovers to Following Year	-	-	-	(8,000)	(7,000)	(6,000)	(5,000)
Total	35,071	34,545	42,169	45,707	52,591	64,503	67,562

² Paragraph 38 of the 2020 Cost Allocation Study states that "Table 6 also demonstrates the effect of shifts toward transmission, which is primarily classified as demand-related". The Company expects that transmission refurbishments and upgrades will continue as the system load increases, while at the same time energy purchase costs will increase to meet the increased demand.

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Maritime Electric

- d. A summary of depreciation and amortization expense for 2019 to 2025 was provided in Table 5-11 in Section 5.1.5 of the Application, and is provided below for ease of reference.

Depreciation and Amortization (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Fixed Assets	23,337	28,778	26,359	24,116	26,786	28,462	30,493
CTGS ³ Reserve Variance	-	-	-	-	2,135	2,135	2,135
Provincial Debt Repayment – Under Collection	-	-	-	-	80	95	95
Point Lepreau Write- Down	94	94	94	93	93	93	93
DSM ⁴ Program	157	573	149	-	-	-	-
Total	23,588	29,445	26,602	24,209	29,094	30,785	32,816

- e. A summary of operating costs for 2019 to 2025 was provided in Table 4-5 in Section 4.4.1 of the Application, and is provided below for ease of reference.

Operating Costs (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Transmission and Distribution	16,516	17,110	18,409	19,625	21,394	22,699	23,815
General and Administrative	9,484	10,634	12,329	12,854	13,185	13,559	13,972
Total	26,000	27,744	30,738	32,479	34,579	36,258	37,787

³ CTGS refers to Charlottetown Thermal Generating Station.

⁴ DSM refers to Demand Side Management.

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Maritime Electric

- f. A summary of other revenue for 2019 to 2025 was provided in Table 5-10 in Section 5.1.4 of the Application, and is provided below for ease of reference.

Other Revenue (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
OATT Revenue	11,366	11,114	10,802	12,466	13,888	14,077	14,278
Miscellaneous Revenue	1,975	1,988	2,393	1,866	2,694	2,469	2,599
Rate of Return Adjustment	(3,509)	-	(238)	(506)	-	-	-
2020 Revenue Shortfall	-	3,006	(2,330)	(2,361)	(394)	-	-
Weather Normalization Reserve	(766)	363	1,427	-	-	-	-
Total	9,066	16,471	12,054	11,465	16,188	16,546	16,877

- g. A summary of energy supply costs by source was provided in Table 5-2 in Section 5.1.1 of the Application. For ease of reference, a summary of annual Point Lepreau costs is provided below.

Point Lepreau (\$000)							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Point Lepreau	24,442	23,985	25,758	24,529	25,481	24,661	25,647

- h. A summary of the return for 2019 to 2025 was provided in Table 5-16 in Section 5.1.8 of the Application, and is provided below for ease of reference.

Return							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Return (\$000)	14,263	14,673	15,329	16,364	18,660	19,850	21,066
ROE (%)	9.35	9.30	9.35	9.35	9.95	9.95	9.95

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Maritime Electric

- i. A summary of energy sales for 2019 to 2025 was provided in Table 4-4 in Section 4.3.2 of the Application, and is provided below for ease of reference.

Energy Sales							
	2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
Energy Sales (gigawatt hours or GWh)							
Residential							
Space heating load	178.4	176.8	171.8	222.8	229.8	244.3	258.8
Non-space heating load	462.6	495.1	518.5	505.1	493.7	498.5	505.1
Subtotal	641.0	671.9	690.3	727.9	723.5	742.8	763.9
General Service	392.8	370.5	381.6	401.0	400.4	397.7	395.8
Large Industrial	154.0	151.8	153.8	163.5	163.5	168.0	168.0
Small Industrial	91.7	91.6	93.4	98.1	97.9	97.3	96.9
Street Lighting/Unmetered	7.4	7.0	6.9	6.4	6.4	6.4	6.5
Total Energy Sales	1,286.9	1,292.8	1,326.0	1,396.9	1,391.7	1,412.2	1,431.1

- j. Maritime Electric's actual and forecast peak loads are provided in the following table.

Maritime Electric Annual Peak Load (megawatts or MW)						
2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
247.8	257.5	265.2	282.8	284.2	288.9	293.5

- k. The PEI actual and forecast peak loads are provided in the following table.

PEI Annual Peak Load (MW)						
2019 Actual	2020 Actual	2021 Actual	2022 Forecast	2023 Forecast	2024 Forecast	2025 Forecast
275.2	286.6	294.7	308.4	312.9	318.0	323.0

Maritime Electric

IR-2 Data from the 2022 ECAM application (UE20604) showed that since 2013, the MECL cost contribution to the Pointe Lepreau annual operating and maintenance costs ranged between \$98/MWh to \$130/MWh, with an average \$107/MWh. What has been the total cost of Pointe Lepreau energy - \$/MWh so far for 2021 and 2022?

Response:

The following table provides the Company's contribution to the annual Point Lepreau operating and maintenance ("O&M") costs since 2013 including the forecast for 2022, as included in the GRA.

Year	Energy Delivered (MWh)⁵	Total Point Lepreau O&M Cost (\$)⁶	Cost per MWh
2013	187,098	\$ 21,042,210	112.47
2014	208,034	20,873,776	100.34
2015	191,210	21,214,708	110.95
2016	200,235	20,935,352	104.55
2017	246,050	23,980,233	97.46
2018	215,988	23,109,562	106.99
2019	221,219	24,442,271	110.49
2020	211,087	23,984,800	113.63
2021	197,670	25,758,455	130.31
2022 Forecast	212,280	24,529,250	115.55
Average	209,087	22,987,062	110.27

It is important to note that the Point Lepreau cost in this table includes the cost of securing 29 MW of generating capacity. The cost of replacement generating capacity is confidential per the terms and conditions of the Energy Purchase Agreement with New Brunswick Energy Marketing.

⁵ The energy delivered from Point Lepreau for 2013 to 2021 was originally provided in the Company's response to IR-4 from Mr. Roger King, which was filed with the Commission and Mr. King on January 28, 2022.

⁶ The total Point Lepreau O&M Cost for 2013 to 2021 was originally provided in the Company's response to IR-5 from Mr. Roger King, which was filed with the Commission and Mr. King on January 28, 2022.

Maritime Electric

IR-3 To solve a long-standing customer inequity and lost revenue issue, a pending regulatory application proposes a priority change in the classification of Industrial Farm customers from “Residential” to “Small Industrial”. Residential consumers have been cost-subsidizing these high energy use/high demand customers for many years. This simple classification correction can be made within the current rate structure, with no dependency upon any new rate structure and will reset the future revenue expectations. In which year is it planned to solve this long overdue revenue and customer inequity issue?

Response:

The Company filed a rate design application, Docket UE22503, with the Commission on May 14, 2021, which is currently being reviewed by the Commission and is separate from this Application. The timing of any related rate changes associated with Docket UE22503 is not yet known and is subject to due regulatory process.

Maritime Electric

IR-4 As this Rate Application appears to be submitted in isolation of any outcome of the pending Rate Structure Application what is the current MECL plan for the potential overlay of rate structure changes during the period March 2023 and March 2026?

Response:

As stated in our response to IR-3, the rate design application is a separate regulatory proceeding and any resulting rate design changes will be implemented as approved and directed by the Commission.

Maritime Electric

IR-5 Noting that the planned expansion of new wind energy (30MW) appears to be perpetually stalled from 2019 what specific actions has MECL undertaken to support and expedite new PEI based wind energy?

Response:

Since the construction of the first wind farm in 2001 at North Cape, the Provincial Government policy has resulted in all wind generation projects being owned and operated by the PEI Energy Corporation. As such, the planned 30 MW wind farm expansion in Eastern PEI was proposed by the Prince Edward Island Energy Corporation, not Maritime Electric. Maritime Electric supports the Government's climate action and net-zero plans. Expanding renewable energy production on the Island is an important part of meeting these targets. That being said, there are important regulatory approvals and legal processes that must be adhered to for any project of this size to be approved. Such approvals and processes can take considerable time and effort to ensure that all parties are treated fairly.

Maritime Electric

IR-6 Noting the current inflationary financial environment and future impacts upon customers what specific actions has MECL undertaken to reduce future Operating Expenses? How do these actions reflect/appear in the Rate Application?

Response:

As discussed in Section 5.1 of the Application, the Company has maintained historical inflation in the range of 2 to 3 per cent per year in the forecast cost of service for the rate-setting period. This is not to say that the Company is isolated from the current inflationary financial environment. However, the level of inflation currently being experienced is not expected to continue throughout the rate-setting period. Bank of Canada monetary policy is expected to bring inflation down to more traditional levels by the end of 2023. The Company is assuming some inflation risk in the forecast cost of service in the interim.

With respect to managing operating costs, Maritime Electric makes every effort to provide service to our customers at the lowest reasonable cost. The Company's efforts to manage operating costs are reflected in the forecast cost of service in the Application and include:

- Internal Labour: The Company's workforce is 65 per cent unionized under a Collective Agreement with Local 1928 of the International Brotherhood of Electrical Workers. The Collective Agreement establishes the negotiated hourly rates of the unionized workforce. The remaining 35 per cent of the Company's workforce is non-union positions, the salaries for which are determined using a structured Korn-Ferry process that reflects job functions and comparable employment in the region. Therefore, internal labour costs are supported by either a negotiated Collective Agreement or comparison to regional benchmarks.
- Transportation: The Company operates five classes of vehicles in its fleet: (i) passenger vehicles; (ii) pickup trucks; (iii) vans; (iv) 1 to 3 ton trucks; and (v) trucks over 3 tons. The cost to operate these vehicles includes fuel, insurance, registration, maintenance, parking, washing and lease costs (when applicable). For budgeting, an hourly rate for each class of vehicle is calculated based on the total operating costs for the previous year.
- Contractor labour is typically sourced locally through fixed-term agreements or a competitive bidding process. Fixed-term agreements establish hourly contractor rates that apply to planned work as well as unplanned system events that require external resources (e.g., storm response). A competitive bidding process is used where fixed-term agreements are not in place. However, a competitive bidding process is sometimes used even where a fixed-term agreement is in place in order to validate that the fixed-term rates are reasonably competitive.
- Materials, Supplies and Services: Maritime Electric typically procures materials, supplies and operating services through competitively sourced standing offer material supply contracts or job-specific material and service tenders. The Company has also benefitted from its affiliation with other Fortis companies. For example, the Company participates in group insurance program with other Fortis companies to ensure the best possible premium pricing for customers.

Maritime Electric

IR-7 Noting that the four principle credit metrics used by MECL are set directly or indirectly by the annual increases in debt, what specific debt related actions has MECL taken to minimize the need for an unprecedented high regulated Rate of Return?

Response:

The Company's forecast capital structure, as set out in the Application, is 40 per cent equity and 60 per cent debt. This is in line with the legislated capital structure as set out in Section 12.1, Common Equity, of the *Electric Power Act*, which states:

Maritime Electric Company, Limited shall, as determined in accordance with generally accepted accounting principles,

- (a) maintain at all times not less than 35 per cent of its capital invested in the power system in the form of common equity; and*
- (b) ensure that, for the year, not more than 40 per cent of its capital is invested in the power system in the form of common equity.*

Continued investment in the Company's electrical system over the rate-setting period is assumed to be financed on this basis. The cost of financing the Company's debt and equity is ultimately tied to our investors' perceived risk of investing in Maritime Electric compared to other utilities of similar size.

The Company considers fiscally responsible decision making to maintain a financially healthy balance sheet to be the best opportunity to manage this risk and ensure access to capital markets and equity investments at a reasonable cost under all market conditions. The Commission's approval of this Application is an important part of ensuring the Company's fiscal health is maintained over the rate-setting period.