

**Maritime Electric Co. Ltd. (MECL) – 2022 Supplemental Capital Budget Request –
Purchase of Transmission Assets Located in Bedeque, PE
UE20736.**

Comments to the Island Regulatory and Appeals Commission

Summary of the Application:

This Application is the result of a previously negotiated proposal between the PEI Government (represented here by the Ministry of Transportation and not the Ministry of Energy) and MECL to transfer ownership of some of the Government’s transmission assets to MECL for a nominal sum of one dollar (\$1). MECL estimates that the two Bedeque transmission lines which connect the Murray Corner (New Brunswick) to Richmond Cove (PEI) undersea cables to the Bedeque Substation will require successive upgrades over the next six years for a total of around \$10M. The core reason for the Application is that the current Contingency Fund to repair Government owned transmission infrastructure will be exhausted before all estimated repairs are completed by 2029. The simple negotiated solution is that Government has agreed to transfer these assets to MECL for \$1 and allow the estimated \$10M expense to be included in the future MECL Rate Base.

Pertinent Background Information:

The PEI Government owns all four undersea cables including some of the first land-based transmission lines connecting these cables to the appropriate MECL substations in Bedeque and Borden. This “principle of public ownership of critical infrastructure” has also been adopted for Government owned wind generation such that currently the PEI Government owns around 15% of PEI transmission lines (98Km), in addition to the four undersea cables and the PEI wind farms supplying energy to MECL. This public ownership is appropriate when considering that MECL and Summerside Electric are both totally dependent upon imported energy via the undersea cables. The principle of public ownership of critical infrastructure was considered by the PEI Energy Commission when reviewing the aspect of Public versus Private ownership of electricity supply. To strengthen the principle and correct the imbalance between infrastructure capital held privately versus that held publically, the Energy Commission recommended that, in addition to existing Government ownership, all PEI based generation capital should be eventually owned by the PEI Government and that transfer of MECL generation capital should be completed by 2017. This recommendation has not been pursued by successive PEI Governments.

Government ownership of any PEI electricity infrastructure does not avoid costs to electricity consumers. Rate Riders are included within the current rate structure to pay Government for all capital and operating costs; additionally the cables repair Contingency Fund collects \$375,000 each year from OATT customers.

Reasons Why this Application should be Denied:

There are two basic concerns here:

1) The increased costs for rate-payers

The borrowing cost for rate-payers for any electricity capital investment by MECL – repairs or additions – is around 7% annually, 4% of which is MECL profit. Government can fund capital at around 2% - at least half the cost for rate-payers.

2) The precedent being set by the PEI Government of selling off electricity infrastructure assets

The PEI Government appears to be influenced by having an asset at a zero book value and shedding future costs rather than considering the replacement cost of a critical asset. Avoiding a future cost for tax-payers but setting a higher future cost for electricity rate-payers ignores the fact that most tax – payers are rate-payers too.

If the PEI Government is on a path of relinquishing electricity-based capital what will happen when new or replacement wind farms are required? How will Federal Government funding be maximized?

Is the Government also going to pass on the responsibility to own the new, PEI based back-up generation that increasingly appears to be inevitable? Any MECL funded additions here will again cost rate-payers another 7% each year?

Noting that the transmission upgrade costs schedule presented by MECL in the Application is a six year estimate, an obvious solution is to retain Government ownership and provision future costs by progressively increasing the contributions to the Contingency Fund to align with the actual costs. Based upon Table 1 of the Application, this change in funding will not have to be started until 2027. As for previous critical transmission and generation resources, the prime Government entity to orchestrate funding and renew PEI Government ownership is the PEI Energy Corporation. Hitherto, this unique-to-PEI Crown Corporation showed leadership in establishing PEI's first wind energy farms and the second mainland undersea cables project and the Federal partner funding necessary. Similar leadership will be required to maintain a cost effective Murray Corner to Richmond Cove transmission infrastructure culminating with the inevitable replacement of the original undersea cables.