Maritime Electric Co. Ltd. (MECL) – 2022 General Rate Application - UE20946.

Comments to the Island Regulatory and Appeals Commission

Summary of the Application:

As for previous General Rate Applications, this 2022 submission is complex and voluminous. In general it references three past annual actual revenue and costs data for 2019 to 2021 and attempts to forecast the next four years revenue and costs data for 2022 to 2025 with the objective of setting customer rates for the next three years – 2023 to 2025. The combination of the actual and forecasted data that is provided suggests that over the six years to the end of 2025:

a) The energy sales (GWh) will only increase by 2% each year
b) The average customer price to be paid (Revenue) should increase by 2% each year
c) The energy supply (purchased) costs should increase by 4% each year
d) The peak load (MW) growth will only increase by 3% each year

However somewhat conflicting data suggests that over these six years:

a) Operating costs will increase by 6% each year
b) Capital expenditure will increase by 16% each year
c) Transmission capital expenditure will increase by 23% each year
d) Residential space heating energy (which will be a strong influence on the peak load growth) will increase by 8% each year

Finally, one disturbing factor contained within the data is that the ECAM balance owed by customers (a debt held by MECL) has been increasing since 2020 and is expected to be $12M by the end of 2022. Further concern is that this debt will accumulate to $21M by the end of 2025. This arises because the full cost of energy supply has apparently not been collected. MECL costs must be reduced. One obvious candidate here is the ROE (profit) collected by MECL. Over the four years to 2022 this cost will be around $61M with a projection of an additional $60M over the following three years.

A Proposed Application Reset and Re-Direction:

1) The proposed practice of employing the ECAM mechanism to preempt customer price increases and attempt to hold near-term rates lower than costs should be denied. ECAM is a method of correcting monthly forecasts within a year; previous IRAC directives, requiring that year-end balances of ECAM should be zero, are clear.
2) The multi-year General Rate Application process was introduced with the objective of providing customer rate stability. However this process now seems to require agreement to all future energy estimates and associated costs, and an implied approval of escalating capital expenditures. The PEI objective of net-zero energy is a major change factor driving increased electrification; I propose to temporarily return to a single-year rate application process.