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

Further Comments to the Island Regulatory and Appeals Commission

Reference: April 18th 2023 Public Hearing

Introduction: My original comments to the Commission of September 2nd. 2022 are recorded. I acknowledge MECL's subsequent correction on my assertion that the ECAM balance would grow each year from 2022; I had incorrectly interpreted the GRA texts. Once I had discovered Appendix H – the ECAM Continuity Schedule – I realized my reference on ECAM should always be Appendix H and not the various references in the Application text.

The Implementation of New Rates: It is important to set new rates for May 1st – further delay will add yet more customer debt.

The Introduction of a Profit Incentive: There are two issues here; a distortion of the "Cost of Service" (COS) Regulatory model and the mixing of objectives and incentives. The COS protects the Utility from all cost increases and cost additions and provides a guaranteed ROE. There are no risks so there should be no need for an incentive. MECL sets the objectives (here the Revenue Requirements) and so cannot determine the incentives. I propose to continue a fixed ROE % with the sharing of actual over-earnings, if deemed appropriate, decided by the Commission at the end of each year.

A Focus upon Consumer Pricing Signals: Without new sources of electricity generation, increased use will drive the unit price of electricity higher. With the new popularity of electricity it is important for consumers to understand the base costs. Conveying cost via pricing is simple and convenient. One annual metric of correct pricing is to track the year-end ECAM balance which ideally should be $0 each year. Typically this has been positive signaling that pricing has not kept pace with costs and hence a debt has to be repaid by customers. For 2020 this was $0, for 2021 and 2022 this was $5.5M and $6.8M respectively. As rates did not change from 2018 to 2021 this increasing customer debt is not surprising; the 3% rate increase in January 2021 was evidently not an adequate increase. Assuming that the Government's objective of the settlement negotiations were supposedly to reduce rates, the 2023 ECAM balance is still $4.5M clearly indicating that the rates should be higher now– not lower.

The 2024/2025 Rates are subject to change: The Settlement Agreement confirms that the second/third years' rates may change subject to the pending Rate Design Application UE22503. However, there are additional future cost risks – significant capital budgets from 2023 onwards, the final disposition of the Hurricane Fiona debt payment of $35.9M and later a new PPA with NB Power due before December 2026.

Mitigation of Future Rate Increases: One way to mitigate future cost risks is to use more PEI wind energy which is currently the lowest cost electricity. But the PEI Energy Corporation's planned deployment of 30MW in 2019 didn't happen and there are no obvious plans for the next 40MW due for 2025. This situation must change. According to MECL's 2022 Sustainability Report 220MW of renewable energy will be required before 2030 – that is an average of 35MW over the next six years

Two summary messages for the Commission are:

a. Appropriate electricity rates are those that signal the actual cost year-by-year. There will be more intense future "rate shock" for consumers if current costs are not reflected in current rates.

b. Increased energy costs with higher electricity consumption will continue, driven by the PEI Net Zero 2030 plans. These future risks can be mitigated by expediting new wind energy. We desperately need, and can supply, more renewable energy yielding both lower costs and reduced emission benefits.

Thank you.