Maritime Electric Co. Ltd. (MECL) 2023 Application to Collect Operating and Capital Costs Related to Hurricane Fiona – UE21505.

Comments to the Island Regulatory and Appeals Commission

Review of: Application - November 3rd, 2023 and First Interrogatories – January 19, 2024

1) Premier Dennis King has failed to deliver on his 2022 commitment that government funding would offset the restoration costs incurred by MECL. Ownership of the accrued debt now defaults, not to MECL but to MECL customers. The Commission is challenged to allocate this significant cost ($37M) and minimize the financial impacts on customers.

2) The most significant customer impact of Government failure to offset any of the restoration costs is not assisting with the cost of new capital. By contributing to or absorbing the $14.8M capital cost of this single weather event, Government could have eliminated a cost that continues for many years for both existing and future customers.

3) This Application presents an additional challenge for the Commission in that, despite the approved high Return on Equity (ROE), the recent escalation in MECL capital expenditure requires a matching accelerated increase in MECL shareholder equity. The hitherto "self-funding" mechanism of increasing MECL equity by retaining shareholder dividends is becoming inadequate. Additional shareholder equity injection will be required, driving even more added costs for customers.

4) This Application is the latest example of how the regulatory "Cost-of-Service" model currently protects MECL from ALL cost risks and clearly demonstrates that the Bond Rating Agencies rating of investment risk is too narrow for assessing MECL's actual risk. The proposal is that MECL be totally absolved from any Storm Fiona costs; in fact MECL receives an accumulated increased profit of $4.4M over the next five years. Whatever form of risk protection against Climate Change that evolves in the future, customers will eventually pay unless a more equitable cost sharing mechanism is introduced.

5) The Electric Power Act (EPA) is the principle legislation guiding the Commission in regulating MECL. The EPA excludes Summerside Electric Utility but defines the PEI Energy Corporation (PEIEC) as a companion Utility thereby indirectly authorizing a level of regulatory direction from the Commission. A precedent here is the 2022 GRA/IRAC process that accepted the PEIEC partnering with MECL to present a joint GRA proposal.

6) The MECL response to IR-17 was "Since it is not normal practice for the Federal Government to provide funding to investor-owned utilities such as Maritime Electric, the Company did not approach the Federal Government directly for funding to offset its Fiona-related costs". The Federal Government's "Fiona Disaster Financial Assistance Program" (FDFAP) is simply referenced in the Application. This IR practice response is counter to the application made by MECL in June 2021 (before Storm Fiona) to the

Federal Government's SREPs program for support. The PEI Smart Metering program application was successful by being awarded $19M in July 2023.

Proposed Order Content:

1) Direct the PEI Energy Corporation (PEIEC), on behalf of the PEI Government, to absorb the $2.4M 2023 carrying costs incurred while waiting for Governments support decisions.

2) Direct the PEIEC to finance the Operating debt of $15.3M as a non-MECL debt held for MECL customers which reduces the customer financing cost from 7.5% to less than 5%. To minimize the overall cost for customers this debt should be repaid in two (2) years as a fixed rate rider to be removed at the end of the existing General Rate Agreement (GRA) in 2025. This avoids a one-time cost event being carried forward into the next GRA (and for future customers) but does create a temporary "rate shock" for existing customers. However a potential benefit here could be conveying the true cost of electricity with consumers and the true cost of electrification for our Government.

3) The $4.5M retired capital portion of the total $19.3M capital debt will apparently be debited against the MECL accumulated depreciation account, leaving $14.8M new capital to be financed. Normally the Electric Power Act (EPA) requirements of MECL debt and equity would apply here but perhaps the Commission can suggest an alternative, creative mechanism that will reduce the normal costs for customers and prevent a new equity injection from shareholders.

4) Reference Review #4 above, the resulting "rate shock" should be mitigated by MECL temporarily reducing the Return-on-Equity" (ROE) until the end of the current GRA. As Order UE20-06 opines, the approved ROE is a maximum and is NOT guaranteed. MECL shareholders are obligated to share some of the burden and contribute financially!

5) MECL did not investigate or apply for financial assistance from the Federal Government's "Fiona Disaster Financial Assistance Program" (FDFAP) yet it has been successful in the earlier Federal Government's SREPs application. MECL should be encouraged to invoke a standard practice to investigate all Federal programs involved with storm recovery, renewable energy and increased electrification programs.

6) The PEI Energy Corp appears to have evolved as the PEI Government communication conduit for MECL suggesting that the companion "Utility" now has the dual role of financing PEI energy initiatives combined with representing Government. MECL should be encouraged to use an alternative, arms-length PEI Government communication mechanism; perhaps the Natural Resources and Environmental Sustainability Standing Committee would be prepared to offer MECL an open invitation at the table?