



Docket: UE20603
Order: UE21-05

IN THE MATTER of an application by Maritime Electric Company, Limited for an Order of the Island Regulatory and Appeals Commission approving certain changes to the Energy Cost Adjustment Mechanism, and for certain approvals incidental thereto.

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Cheryl Mosher,
Senior Financial Advisor
Island Regulatory & Appeals Commission

BEFORE THE COMMISSION on
Wednesday, July 28, 2021.

J. Scott MacKenzie, Q.C., Chair
M. Douglas Clow, Vice-Chair

ORDER

ORDER

1. In accordance with Order UE19-08, Maritime Electric Company, Limited (“MECL” or the “Company”) was required to undertake a thorough review of the Energy Cost Adjustment Mechanism (“ECAM”) as it currently exists, including the expenses and accounts that are currently collected through the ECAM, and the practice of deferring a portion of energy supply costs for collection from future ratepayers (the “ECAM Review”).

2. MECL was ordered to file the ECAM Review on or before April 1, 2020.
3. In March 2020, MECL asked that the filing deadline be extended to June 1, 2020. This request was approved by the Commission in Order UE20-01.
4. MECL filed the ECAM Review with the Commission on June 1, 2020. As part of the Review, MECL obtained an external expert report from JT Browne Consulting, a copy of which was filed with the Commission.
5. As a result of the ECAM Review, MECL is proposing several changes to the ECAM. These changes are as follows:
 - a. MECL is proposing to remove 27 accounts (representing approximately 4% of the total energy supply costs) from the ECAM. According to MECL, these accounts can be accurately determined and have little variability, or are within the control of the Company. MECL recommends that these changes be implemented in 2022, as part of the next rate setting period.
 - b. MECL recommends that the ECAM rate rider be automatically reset annually, on March 31st, based on the actual ECAM balance at December 31st of the prior year. MECL proposes to continue reporting on variances between forecast and actual costs throughout the preceding year so that the Commission has the opportunity to review the variances prior to the automatic rate rider reset.
 - c. MECL further recommends that any future Rate of Return Adjustment ("RORA") amounts realized in a year be credited or offset against the ECAM balance at December 31st, prior to, or part of, the March 1st ECAM rate rider reset process.
6. JT Browne Consulting concluded that MECL's proposals were consistent with established regulatory practice. Although the ECAM is generally inconsistent with the principle of intergenerational equity, where amounts are deferred, they should be recovered from, or returned to, ratepayers as soon as is reasonable from the perspective of setting just and reasonable rates. JT Browne Consulting concluded that the practice of collecting and amortizing the deferred ECAM amounts over a period of approximately two (2) years is consistent with Canadian utility practice.

7. On June 7, 2021, the Commission issued interrogatories to MECL regarding the ECAM Review. In particular, the Commission asked MECL to comment on two findings made by John Murphy in his December 2004 report regarding the ECAM (the "Murphy Report"). In the Murphy Report, it was recommended that capacity costs and volume fluctuations should not properly be recovered through the ECAM.
8. MECL filed responses to the Commission's interrogatories on June 24, 2021.
9. In its responses, MECL submits that capacity costs (recorded in account 7002 and 7049) should continue to be recovered through the ECAM because there is the potential for these costs to vary significantly and the variations are largely outside the Company's control. MECL explained that although the unit price of capacity (up to the forecast level in the Energy Purchase Agreement) is stable and predictable, the volume is not. The variability caused by volume (i.e. the demand for energy) can significantly impact the level of capacity and the resulting cost. This variability cannot be controlled by MECL.
10. MECL also submits that fluctuations in the volume of energy sold should continue to be recovered through the ECAM to ensure the Company has a fair opportunity to recover the costs of providing service.
11. Under the ECAM as it currently exists, all expenditures over and above the ECAM base rate are recorded in the ECAM account and fully recovered from ratepayers. As a result, the ECAM minimizes financial risk for MECL as it allows the Company to fully recover its cost of service.
12. If volume fluctuations are removed from the ECAM, MECL would assume the risk associated with volumes higher than forecast. If, for example, the cost of purchased and produced energy for volumes above forecast are higher than the ECAM base rate, these expenditures would be recorded on MECL's income statement in the current year. The result is higher recorded expenses and, therefore, lower reported earnings, for the Company.
13. By way of example, MECL calculated that in 2019, this methodology would have increased the expenses recorded on its financial statement by approximately \$5.4 million. As a result of the increase in expenditures, the Company's net income would have decreased, the RORA balance of \$3.5 million would have been eliminated, and MECL's rate of return would have been 8.50%.

Commission Findings

14. The Commission is satisfied that the 27 accounts proposed by MECL should properly be removed from recovery under the ECAM. The Commission accepts that these accounts can be accurately determined and have little variability, or are within the control of the Company. As a result, they should not properly be included in the ECAM.
15. The Commission agrees that this change to the ECAM should be implemented as part of the next rate setting period.
16. The Commission accepts MECL's justification for continuing to recover capacity costs and fluctuations in the volume of energy through the ECAM. As a result, these costs will continue to be recovered through the ECAM without change.
17. The Commission does not approve the automatic resetting of the ECAM rate rider on March 31st of each year, or the automatic offsetting of the RORA balance against the ECAM balance.
18. Although the proposal would alleviate some of the concerns regarding intergenerational equity, it would also remove regulatory oversight entirely. Without regulatory oversight, there may reasonably be greater annual fluctuations and less predictably in electric rates, which is not in the best interest of ratepayers.

NOW THEREFORE, pursuant to the *Electric Power Act*, the Commission orders as follows:

1. The 27 accounts attached hereto in Schedule "A" shall be excluded from the ECAM, effective in the next rate setting period.
2. MECL shall continue to recover capacity costs and costs associated with volume fluctuations through the ECAM without change.
3. The automatic resetting of the ECAM rate rider on March 31st of each year is not approved. The ECAM rate rider will continue to be regulated by the Commission and subject to Commission approval.
4. The automatic offsetting of the ECAM balance and the RORA balance in each year is not approved. Any such offsetting will continue to be regulated by the Commission and subject to Commission approval.

DATED at Charlottetown, Prince Edward Island, on Wednesday, July 28, 2021.

BY THE COMMISSION:

(sgd) J. Scott MacKenzie

J. Scott MacKenzie, Q.C., Chair

(sgd) M. Douglas Clow

M. Douglas Clow, Vice-Chair

NOTICE

Section 12 of the *Island Regulatory and Appeals Commission Act* reads as follows:

12. The Commission may, in its absolute discretion, review, rescind or vary any order or decision made by it, or rehear any application before deciding it.

Parties to this proceeding seeking a review of the Commission's decision or order in this matter may do so by filing with the Commission, at the earliest date, a written Request for Review, which clearly states the reasons for the review and the nature of the relief sought.

Sections 13(1), 13(2), 13(3), and 13(4) of the *Act* provide as follows:

13(1) An appeal lies from a decision or order of the Commission to the Court of Appeal upon a question of law or jurisdiction.

(2) The appeal shall be made by filing a notice of appeal in the Court of Appeal within twenty days after the decision or order appealed from and the rules of court respecting appeals apply with the necessary changes.

(3) The Commission shall be deemed to be a party to the appeal.

(4) No costs shall be payable by any party to an appeal under this section unless the Court of Appeal, in its discretion, for special reasons, so orders.

NOTE: In accordance with IRAC's *Records Retention and Disposition Schedule*, the material contained in the official file regarding this matter will be retained by the Commission for a period of 5 years.