



Docket: UE20736
Order: UE23-02

IN THE MATTER of an application by Maritime Electric Company, Limited for an order approving the purchase of certain transmission assets from the Province of Prince Edward Island, pursuant to section 17 of the *Electric Power Act*, RSPEI 1988, c. E-4.

CERTIFIED A TRUE COPY

Cheryl Mosher

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Island Regulatory & Appeals Commission

Order

BEFORE THE COMMISSION ON Wednesday, the 1st day of February, 2023.

J. Scott MacKenzie, K.C., Chair
M. Douglas Clow, Vice-Chair
Erin T. Mitchell, Commissioner

INTRODUCTION:

1. On July 6, 2022, Maritime Electric Company, Limited (“MECL”) filed a supplemental capital budget request with the Commission (the “Application”). MECL is seeking approval to acquire certain 138 kV overhead transmission assets from the Province of Prince Edward Island. The proposed purchase price for the assets is \$1.00.
2. Upon receipt of the Application, it was made publicly available on the Commission’s website for public review and comment. The Commission received three written submissions from two interested members of the public, namely Mr. John te Raa and Mr. Roger King.
3. Following a detailed review of the Application, Commission staff issued written interrogatories to MECL. Responses to these interrogatories were filed on September 9, 2022 and December 9, 2022.
4. All documentation filed with the Commission has been made publicly available on the Commission’s website under Docket UE20736.
5. The Commission has reviewed all of the evidence and is satisfied that the Application can be decided without a public hearing.

APPLICATION:

6. The assets that MECL seeks to purchase are owned by the Government of Prince Edward Island and form part of the Interconnection Facilities as defined in the Interconnection Lease Agreement. The Interconnection Facilities include the four submarine cables that deliver energy from New Brunswick to PEI, the cable termination stations that change the mode of transmission of energy from submarine cable to overhead conductor, and all related transmission, switching, control and metering facilities and equipment.
7. All aspects of the Interconnection Facilities are owned by the Government of Prince Edward Island. Although the Government retains ownership of the Interconnection Facilities, the Facilities are leased to MECL in accordance with the Interconnection Lease Agreement. The Interconnection Lease Agreement requires MECL to operate, repair and maintain the Interconnection Facilities for the duration of their service life.
8. According to the Interconnection Lease Agreement, MECL is required to pay for the operating and maintenance costs (“O&M costs”) of the Interconnection Facilities. MECL must also contribute \$375,000 per year to the Contingency Fund.
9. The Contingency Fund is a trust fund that is used to pay for capital replacements for the Interconnection Facilities. Although MECL is required, pursuant to the Interconnection Lease Agreement, to make annual contributions to the Contingency Fund, the Fund is owned and controlled by the Province.

10. The Interconnection Lease Agreement states that the Contingency Fund will be fully funded when it reaches \$5 million; however, MECL and the Government can mutually agree to increase or decrease the required maximum balance.
11. MECL does not pay out-of-pocket for the O&M costs or the Contingency Fund contributions. Instead, these expenses are recovered from MECL's transmission customers through charges in MECL's Open Access Transmission Tariff.
12. As MECL is itself a user of the transmission system, it pays a proportionate share of the Contingency Fund contributions and the O&M costs for the Interconnection Facilities each year. MECL ultimately recovers all of these costs from its distribution customers through the rates charged for electric service.
13. In this Application, MECL is seeking permission to purchase certain assets that form part of the Interconnection Facilities. These assets include two 138 kV H-frame transmission lines that span ten kilometres, from the cable riser station in Richmond Cove to the Bedeque Switching Station, and certain transmission equipment located in the Bedeque Switching Station (all of the assets are collectively referred to as the "Assets").
14. The Assets are now at the end of their useful life. As a result, the proposed purchase price for the Assets is \$1.00. Although the purchase price is nominal, MECL estimates that the Assets will require capital investments of approximately \$9.47 million between 2023 and 2030.
15. Historically, capital repairs and replacements of the Interconnection Facilities, including the Assets, have been paid out of the Contingency Fund. If MECL purchases the Assets from the Government, the capital investments will be paid entirely by MECL's transmission and distribution customers.
16. In this Application, MECL does not propose to use any part of the Contingency Fund balance to pay for the replacement of the Assets. Instead, MECL proposes to preserve the Contingency Fund balance and to recover the replacement costs, and other costs associated with the Assets, from ratepayers.
17. Interested members of the public, Mr. te Raa and Mr. King, made written submissions to the Commission opposing the Application. Mr. te Raa submitted that transferring the Assets to MECL would increase costs to ratepayers while increasing returns to shareholders. He submitted that the matter could be resolved by increasing Contingency Fund contributions to cover the capital replacements.
18. Mr. King submitted that the Application, if approved, would increase costs to ratepayers. He noted, for example, that the Government can fund capital at a lower rate – and therefore lower cost – than MECL. Mr. King also expressed concerns about the precedent that would be set, and questioned what will happen when replacements are needed at the government-owned wind farms or when new on-Island generation needs to be purchased. Mr. King, like Mr. te Raa, submitted that ownership of the Assets should not be transferred to MECL, and that the Contingency Fund contributions should instead be increased to cover the capital costs.

19. The Government of Prince Edward Island is not a party to the Application. However, MECL has filed a letter from the former Minister of Transportation and Infrastructure in support of the Application.

DECISION:

20. For the reasons that follow, the Commission does not approve the purchase of the Assets by MECL.
21. The Assets that MECL seeks to purchase are at the end of their useful life. If the purchase was approved, MECL's ratepayers would be required to pay replacement costs, decommissioning costs, and depreciation costs totalling \$12.537 million between 2023 and 2030. A breakdown of these annual costs, as provided by MECL, is as follows:

TABLE 3			
Estimated Annual Investment, Cost of Removal and Depreciation			
Year	Investment (\$000s)	Cost of Removal (\$000s)	Depreciation (\$000s)
2023	142	29	2
2024	146	30	7
2025	-	-	10
2026	2,138	438	46
2027	4,322	885	155
2028	2,436	499	270
2029	286	59	316
2030	-	-	321
Total	9,470	1,940	1,127

22. These are costs that relate directly to the Assets and would not otherwise be borne by MECL's ratepayers.
23. In addition to these costs, MECL's transmission customers would also be required to pay the O&M costs for the Assets, and make annual contributions of \$375,000 to the Contingency Fund.
24. All of this, taken together, would have a material impact on the rates paid by MECL's transmission and distribution customers.
25. MECL forecasts that the Application, if approved, would increase the cost of transmission service (Point-to-Point and Network) by 9.3 percent by 2030. As MECL is also a user of the transmission system, its transmission costs would increase accordingly. These increased costs would not be paid by MECL, but would instead be recovered from MECL's distribution customers through increased electric rates.
26. In response to interrogatories, MECL estimated that the purchase of the Assets, if approved, would result in a 1.45 percent increase in electric rates for Residential customers, and a 1.19 percent increase in electric rates for General Service customers, by 2030.

27. The purchase of the Assets would also have the effect of increasing MECL's rate base. The rate base is the value of assets upon which MECL can earn a rate of return. An increase in MECL's rate base therefore means increased returns on rate base for MECL and its shareholders.
28. According to MECL, if the purchase was approved, MECL's rate base would increase by more than \$9.7 million by 2028. Between 2023 and 2030, MECL would earn a cumulative return on the Assets of \$2.7 million:

Year	Increase in Rate Base (\$000s)	Annual Return on Rate Base (\$000s)
2023	155	11
2024	310	21
2025	297	20
2026	2,647	182
2027	7,311	504
2028	9,727	670
2029	9,637	664
2030	9,230	636

29. In summary, if the purchase of the Assets was approved, MECL's customers would be required to pay \$12.537 million to replace the Assets. As the capital replacements would, most likely, be financed by MECL, ratepayers would also be required to pay for the cost of borrowing, including interest payments. It is reasonable to assume that the current owner of the Assets, being the Government of Prince Edward Island, could finance the capital replacements at a lower cost of borrowing – resulting in a lower cost for ratepayers.
30. Further, the capital improvements of \$12.537 million would not only be paid for by MECL's customers, they would increase MECL's rate base by more than \$9.7 million. As MECL earns a return on its rate base each year, the increase in rate base means an increased rate of return for MECL's shareholders. If the Application had been approved, MECL's shareholders would earn an additional return of \$2.7 million between 2023 and 2030. This return would be funded entirely by MECL's customers, through increased rates for electric service.
31. There is clear and cogent evidence before the Commission of the financial benefits of the proposed purchase for MECL. However, there is no evidence of any corresponding benefit to MECL's ratepayers. In the absence of any material benefit for ratepayers, and in light of the impact that the proposed purchase would have on transmission and distribution rates, the Commission does not approve the supplemental capital budget request.
32. For all of these reasons, the Application is denied.

ORDER:

The Commission Orders as follows:

1. The Application is denied.

DATED at Charlottetown, Prince Edward Island, this 1st day of February, 2023.

BY THE COMMISSION:

(sgd) J. Scott MacKenzie

J. Scott MacKenzie, K.C., Chair

(sgd) M. Douglas Clow

M. Douglas Clow, Vice-Chair

(sgd) Erin T. Mitchell

Erin T. Mitchell, Commissioner