



Docket: UE21505
Order: UE26-04

PLAIN LANGUAGE SUMMARY

Application by Maritime Electric to Increase Rates to Recover Restoration Costs Related to Hurricane Fiona

This plain language summary is prepared by Commission staff and is not part of Order UE26-04. It is a summary intended to accompany the order to assist the general public and media in understanding the overarching analysis and decision by the Commission. It is not a comprehensive document. For the Commission's complete findings and determinations in this matter, please refer to Order UE26-04.

WHAT DOES MARITIME ELECTRIC'S APPLICATION ASK FOR?

Maritime Electric's application asks for approval from IRAC to recover from customers the costs of restoring power and fixing the transmission and distribution system after Fiona. The total cost is approximately \$41.2 million dollars. Maritime Electric says that these costs were necessary and reasonable (also known as "prudent" in utility regulation) to get power back on for customers and repair the electrical system after the storm.

The costs Maritime Electric is asking to recover are broken down in the chart below.

Costs	Amount Requested by Maritime Electric	Recovery Period
Capital Costs: Costs that are related to physical property and equipment and labour costs to replace those assets	\$19.3 million dollars	40 years
Operating expenses and financing costs: Operating costs are expenses for the utility to run on a day-to-day basis. Financing costs (also known as carrying costs) in this application refers to the costs of borrowing money to pay for the restoration. This includes things like interest charges.	\$15.3 million + \$6.6 million in financing costs	5 years
Notes: The recovery period is how long Maritime Electric plans to take to collect this amount from customers. Generally, a longer recovery period helps manage the impact on a customer's bill by collecting the money over a longer period compared to collecting the money over a shorter period of time. Maritime Electric's application requests the ability to earn a return (profit) on these expenses.		

BACKGROUND

Hurricane Fiona

Hurricane Fiona hit Prince Edward Island as a post-tropical storm on September 23, 2022 and lasted around 12 hours. The Island experienced significant wind and rain as a result of the storm; the highest wind speeds recorded were over 130km/hr across the Island and more than 60mm of rainfall was observed in many places. The storm arrived during high tide, creating a storm surge not seen before in PEI. Fiona is considered to be the most intense post-tropical storm to have ever hit the Island.

Maritime Electric began working to restore power to customers on the morning of Saturday, September 24th, 2022. Most of Maritime Electric's transmission and distribution system was out of service and the distribution system itself was very badly damaged.

IRAC recognizes the extraordinary effort that Maritime Electric staff made into getting power back on for 83,200 customers after this powerful storm.

Factors That IRAC Must Consider

There are two concepts that are helpful in understanding how IRAC came to its decision: the "regulatory bargain" and "prudence". These are concepts that are used in utility regulation across the country.

Regulatory Bargain

Maritime Electric provides the majority of Prince Edward Island's power and is allowed an opportunity to earn a fair return (profit) by providing this service. In exchange, the utility must provide reliable service to customers and must operate under regulations, including regulations around how much it can charge for electricity. The idea is that the utility must provide service to all customers and the rates paid by customers are reasonable and justifiable.

Prudence

Under the *Electric Power Act*, Maritime Electric is allowed to recover prudent costs from customers. Prudent really just means that the costs related to providing electricity are reasonable. Any time that Maritime Electric asks to recover costs from customers, IRAC must decide if the costs are reasonable. Maritime Electric must show that any cost related to providing electricity service to customers is a reasonable cost.

ANALYSIS

In making this decision, IRAC had to think about three questions:

1. Were the costs to get power back on necessary and reasonable?
2. If so, how should these costs be collected from customers?
3. Can Maritime Electric earn a profit (otherwise known as a return) on these costs?

IRAC accepts that when Fiona hit, Maritime Electric had to do everything it could to get power back on for customers as quickly and safely as possible. IRAC also accepts that the majority of

costs related to getting the power back on after Fiona were reasonable. IRAC is satisfied that the steps the utility took to get ready for and respond to Fiona were reasonable and appropriate. However, most of the damage to the electricity system was a result of trees falling on power lines across the province, resulting in significant cleanup costs. IRAC could not ignore that only months before Fiona, Maritime Electric had told IRAC that they needed to urgently spend more money on their vegetation management program. The vegetation management program is how Maritime Electric manages things like tree trimming to make sure that power lines and other equipment are not at risk from trees.

In reviewing evidence from Maritime Electric and IRAC's independent expert about the condition of the areas around power lines, also known as "rights-of-way" or "power line corridors", IRAC determined that it was more likely than not that the condition of those areas **before** Fiona hit had **some** impact on Maritime Electric's cleanup costs after the storm. Maritime Electric did not provide clear evidence about how much of an impact that trees or vegetation within the areas around the power lines might have had on the cost to restore power to customers.

DECISION

After analyzing the evidence, IRAC is satisfied that 90% of costs to get power back on were reasonable. Maritime Electric took the action it needed to in order to get power back on for customers as quickly and safely as possible after the storm. However, IRAC has denied recovery of 10% of the costs of restoring power because of the condition of Maritime Electric's vegetation management before Fiona. In IRAC's opinion, at least some of the costs to restore power after Fiona were very likely related to clearing trees or vegetation that should have been managed by Maritime Electric before the storm.

IMPORTANT NOTE: As part of its decision, IRAC is requesting Maritime Electric to file a report that outlines the impacts of these costs on customer bills before it will approve any rate increases. This means that IRAC must receive this report and approve any rate changes before they can come into effect.

The following chart outlines what Maritime Electric asked to recover in this application and what IRAC has approved based on its analysis and conclusions.

Cost	Amount Requested by Maritime Electric (in millions)	Amount Approved by IRAC (in millions)
Capital Costs	\$19.3	\$17.37
Operating Costs	\$15.3	\$13.77
Financing Costs	\$6.6	\$5.94

The chart below outlines the recovery periods that Maritime Electric asked for and what IRAC approved.

Costs	Recovery Period Requested by Maritime Electric	Recovery Period Approved by IRAC
Capital Costs	40 years	40 years
Operating and Financing Costs	5 years	8 years

Other Decision Highlights

- IRAC has approved Maritime Electric to include the capital costs in its rate base, which allows them to earn a return on capital costs. This is normal practice in utility regulation.
- IRAC changed the recovery period for operating and financing costs to 8 years to help manage the impact on customers by spreading these costs over a longer period of time.
- IRAC **is not allowing** Maritime Electric to earn a return on operating costs or financing costs.
- If Maritime Electric receives any government funding to cover Fiona-related costs, that money must be used to pay down the balance and, if there is any leftover, it must be refunded to customers.