Maritime Electric (MECL) 2015 Depreciation Application (UE21603) – Comments to IRAC

Baseline Regulatory Issues

1) This application appears to be a timely correction to deferred action of the past but will still require a further study and update due by June 2018.
2) The assumption by MECL that the depreciation deficit arising from past decisions rests entirely with current customers has to be reviewed. MECL has benefitted from a Return on Investment (ROE), and hence income stream, of between 9% and 10% for the last twelve years. Justification for such high returns has been the recognition of capital risk attaching to MECL shareholders. Is this depreciation deficit not such a risk?
3) The future cost control of the Charlottetown Generating Station (CTGS) until final retirement is paramount, requiring frequent updates between IRAC and MECL.

Interrogatories Questions Commentary

This brief commentary offered to the Commission refers directly to the questions I presented to MECL and the subsequent responses:

1) Overall I found the MECL responses to be informative and offered clarity to the original application. The case for adjustments is clear. Whether these adjustments result in a rate increase for customers calculated at 2.1% or a cost to MECL shareholders must be considered.
2) The probability of a future rate increase following the release of the June 2018 Depreciation and CTGS decommissioning study was not acknowledged by MECL; neither were the potential cost offsets of $3M CTGS annual operating cost saving nor the $2M one-time value of CTGS fuel inventory. Both of these offsets should come into effect starting in 2018.
3) MECL revealed that a CTGS site removal reserve of $3.1M exists as of December 2014. Between the accumulated amortization account and the Site Removal/restoration reserve it appears that a CTGS upside salvage value of $8M or the estimated -$6.2M is a likely recovery/cost range.

I conclude that the case for depreciation adjustments is clear but that the disposition of ownership of the deficit should be assumed by MECL shareholders. Further, the Commission should request annual updates on progress towards the June 2018 Updated Depreciation Study planned by MECL, noting that there remain significant variables and future risks of further depreciation and restoration costs.