

The Cost-of-Service Model is Costing Islanders

Right now, Maritime Electric operates under a Cost-of-Service model for rate setting. This means that the rates Islanders pay for electricity, and the rate increases Maritime Electric proposes, are determined by the company's annual operating costs, including capital infrastructure investment.

So rates = operating costs (payroll, maintenance, administrative costs, etc.) + the cost of capital investments in the grid (purchasing new infrastructure or updating existing infrastructure) + **9.3-9.7% profit.**

There's a flaw in this system. **The more Maritime Electric spends** on new infrastructure and maintaining existing infrastructure, **the higher the dollar value of its profits.**

So why would Maritime Electric invest in lower-cost, more efficient renewable energy technology if it's going to drive down its operating costs and capital investments, and thus its profits? The answer is they wouldn't.

Maritime Electric recently proposed purchasing two diesel-powered turbines that would cost upwards of \$ 350 million. This would be detrimental to PEI's carbon-reduction goals and would cost more than renewable energy and supply-side demand solutions, yet under our current cost-of-service model, Maritime Electric has a financial incentive to pursue this option.

There is nothing in the Electric Power Act that incentivizes Maritime Electric to improve performance or innovate with less-expensive or cleaner sources of energy because there is no requirement for the utility to analyze alternative options to meet energy demands.

But it doesn't have to stay this way. Many communities across Canada and around the world draft their legislation so that energy utilities are rewarded for aligning their services with public-interest goals.

A new bill, [An Act to Amend the Electric Power Act](#), would change the system to a performance-based model, financially incentivizing Maritime Electric to improve the reliability, affordability, and sustainability of its service. The bill would also require that infrastructure investments represent the lowest-cost option.

An Act to Amend the Electric Power Act is up for a vote this week. To ensure decision-makers understand how important this issue is to Islanders, you can [send a message to elected officials](#) asking them to support this change.

