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MAINE PUBLIC UTILITIES COMMISSION'S

2002 STRATEGIC PLAN

for

Fiscal Years 2006 and 2007

due

pursuant to

P.L. 1998, CHAPTER 764

December 1, 2004



STATE OF MAINE
PUBLIC UTILITIES COMMISSION
242 STATE STREET
18 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0018

THOMAS L. WELCH
CHAIRMAN

STEPHEN L. DIAMOND
SHARON M. REISHUS
COMMISSIONERS

February 4, 2005

The Honorable Phillip Bartlett II, Senate Chair
The Honorable Lawrence Bliss, House Chair
115 State House Station
Augusta, ME 04330

Dear Senator Bartlett and Representative Bliss:

Pursuant to P.L. 1998, Chapter 764, "An Act to Delay the Implementation of Performance Budgeting for State Government," I am attaching our draft Strategic Plan for Fiscal Years 2006 and 2007. This is an updated version of the report that we submitted for Fiscal Year 2004 and 2005.

In this plan we have reviewed both internal and external forces that impact our work and our approach to meet the challenges that confront us. As in the past, we will work closely with you to ensure that the Commission meets our legislative mandate.

We believe that we have many useful measures, tracking state, regional, and national statistics to help us determine the extent to which we are meeting our goals and objectives. Unfortunately, we have had questions about the accuracy of data provided by federal government agencies that we have used in the past. We are currently evaluating the data and will work to have it corrected by the responsible agency. We also have questions about the usefulness of some of our past measures used to determine our performance. In this report we have stopped using some measures that we have found to be inadequate for our purposes and have added others. We are regularly reviewing measures that we report to you in an effort to provide you with the best information available for you to assess our efforts. Please let us know if the measures we are using are useful or whether there are other measures that you would like us to develop.

Please call me if you have any questions please contact Marjorie McLaughlin at 287-1365 or me at 287-1353.

Sincerely yours,

Dennis L. Keschl, Administrative Director
Maine Public Utilities Commission

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Executive Summary

P.L. 1995, Chapter 704, “An Act to Implement Performance Budgeting in State Government,” established a time line and system for implementing performance budgeting by the biennium 2000-2001 beginning with a comprehensive strategic plan for each agency. P.L. 1998, Chapter 764, “An Act to Delay the Implementation of Performance Budgeting for State Government,” delays the implementation to allow departments and agencies of State Government time to further refine strategic plans and to solicit additional input from the Legislature. This draft outlines the Maine Public Utilities Commission’s (the Commission’s) strategic plan, revised pursuant to P.L. 1998, Chapter 764 and guidance from the Bureau of the Budget, and provides our current strategic planning mission statement, goals, and objectives for the 2005 – 2006 (the FY2006 and FY2007 biennium). This draft is subject to revision, as deemed appropriate, based on input from the Legislature and other stakeholders.

The Commission’s strategic planning mission statement is:

The Maine Public Utilities Commission regulates utilities to ensure that safe, adequate and reliable utility services are available to Maine customers at rates that are just and reasonable for both customers and public utilities. For the purposes of this document, “utility services” means electric, gas, telecommunications and water services.

The Commission’s goals, derived directly from statute, are:

To assure safe, reasonable, and adequate electric utility services at rates which are just and reasonable.

and,

To develop and implement electric energy conservation programs... (that must be) consistent with the objectives of an overall energy strategy developed by the Commission and be cost effective.

This strategic plan continues to reflect our preference for competition and market mechanisms to meet our goals to reduce the costs of utility services and to provide superior service quality and reliability for consumers. Meeting our goals will help to improve Maine’s regional, national, and global competitiveness and improve its business climate and overall economic health.

II. ANALYSIS OF ENVIRONMENT

In this section we briefly discuss the Commission’s evolving mandate, analyze the trends that shape the Commission’s ability to carry out its duties,

and summarize some of the Commission's recent responses to the changing regulatory environment.

A. Commission Profile

The Commission was created in 1913 to regulate monopoly providers of essential services identified by the Legislature. The Commission's activities are governed by Title 35-A of the Maine Revised Statutes. Section 101 of Title 35-A provides that "[t]he basic purpose of this regulatory system is to assure safe, reasonable and adequate service at rates which are just and reasonable to customers and public utilities." MRSA 35-A §3211-A requires that "the commission shall develop and, to extent of available funds, implement conservation programs...consistent with the objectives and overall energy strategy developed by the commission and be cost effective..." The Commission is working to meet the requirements of this mandated program.

Three Commissioners, who are nominated by the Governor and confirmed by the Legislature, head the Commission. The Governor designates one of the Commissioners as Chairman. The Commissioners serve staggered six-year terms.

The Commission, which is authorized 67 full-time positions, currently employs 60 full-time employees. These employees are allocated among the Commission's six divisions: Legal, Finance, Technical Analysis, Consumer Assistance, Energy Programs, and Administrative.

As of December 31, 2004 there were nearly 645 certified public utilities in the State of Maine over which the Commission has jurisdiction. These public utilities fall into the following categories:

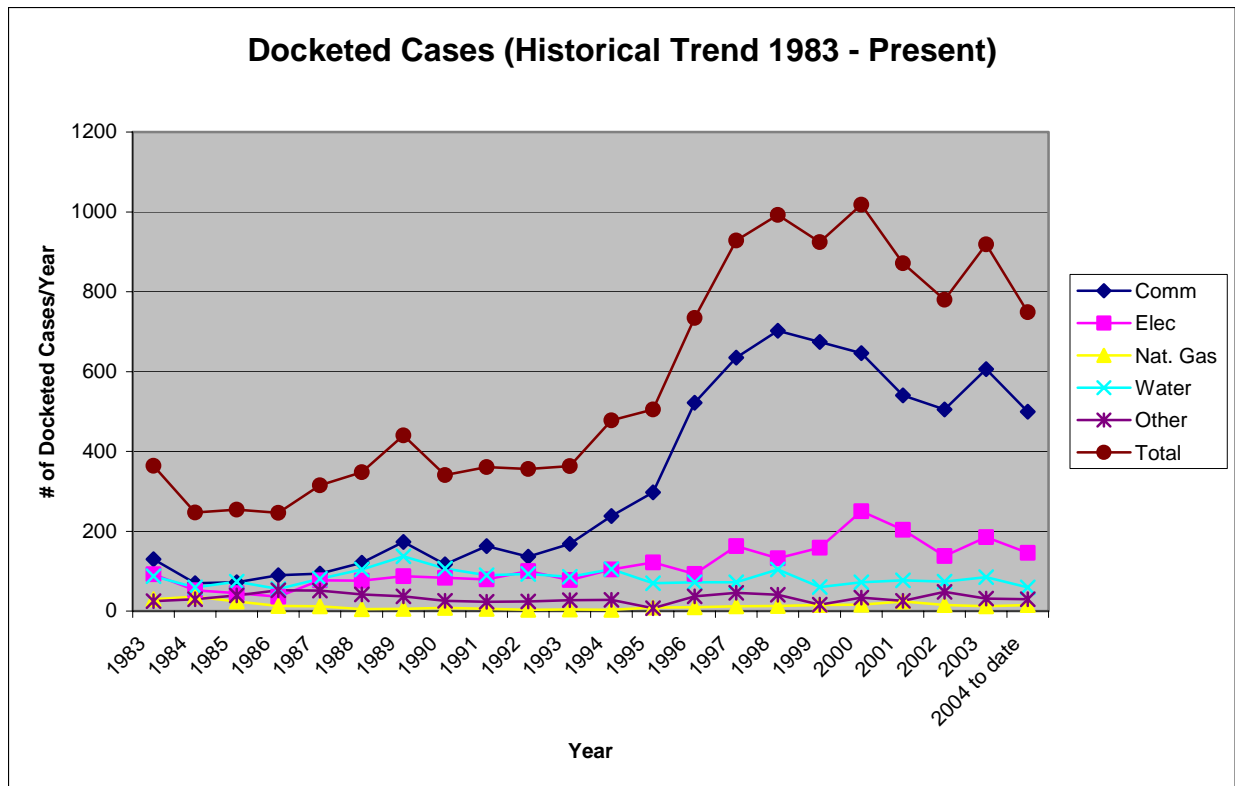
Electric	13
Communications:	
Local Exchange Carriers	23
Interexchange Carriers	212
Competitive Local	13
Competitive Local and IXC	66
Facilities Based IXC	16
COCOTs ¹	132
Gas	3
Water	154
Water Carriers	13
	<hr/>
Total	645

¹ Coin Operated Customer Owned Telephones

The Commission continues to process new requests for authority to provide utility service, particularly from telecommunication carriers.

The Commission had three sources of funding in FY04: a Regulatory Fund, funding for Efficiency Maine, and a federally fund State Energy Program Grant. Funding for the Regulatory Fund and Efficiency Maine are derived from an assessment on utilities pursuant to 35-A M.R.S.A. § 116. In FY04, the Commission was authorized to spend \$6,435,212 from its Regulatory Fund and actually spent \$5,379,918. We were authorized to expend \$7,690,314 for Efficiency Maine, and spent \$4,500,353. The State Energy Program was authorized to expend \$1,884,568 in federal grant money and actually spent \$770,340. The difference in authorized versus actual expenditures in this program is largely due to encumbrances that will be paid in FY2005

During the first 11 months of 2004, the Commission had docketed 809 cases and closed 791 with approximately 171 pending on December 21, 2004. During 2003, the Commission docketed 919 cases and closed 1007. See Chart 1 (MPUC Docketed Case Trend, 1983 to present).



B. External Assessment:

The regulation of public utilities in Maine, and across the nation, has changed significantly in recent years as technology has enabled certain utility markets, especially telecommunications and to a lesser extent electricity and natural gas, to become increasingly competitive. Maine's utility industries are evolving rapidly, and both state and federal law are shaping the Commission's roles and responsibilities. Maine's rural character and demographics will continue to have a major impact on how these utilities evolve to meet the state's needs. If local, regional, and national competitive utility markets do not develop as anticipated, the underlying approach to reaching the goals and objectives reflected in this Strategic Plan will necessarily change.

The events of September 11, 2001 have prompted a need for utility regulators throughout the country to work more closely with our federal and state counterparts, and with the utility industry as a whole, to ensure that the critical utility infrastructures that we rely on are less vulnerable to such attacks. We are participating in the New England Governor's Conference and Maine Emergency Management Agency's (MEMA's) emergency planning efforts and have expanded our ability to meet any security challenges that may arise in the state or region. Our role is to ensure that utilities are adequately prepared to meet the threat of terrorist attacks, winter fuel shortages, or drastic price spikes, so that, to the extent possible, harm and dislocation to Maine's citizens and businesses may be avoided or mitigated. We are continually working to improve communications with all of our utility sectors. We are active on the MEMA Emergency Response Team (ERT) and have developed internal emergency response plans that will allow us to respond more quickly to any events that may occur and are participating in routine and major exercises of the State's emergency response capabilities. We continue to expand our Geographical Information Systems (GIS) capabilities. This technology is growing in importance as federal, state, and local governments move to improve their ability to respond to catastrophic events either man-made or naturally caused.

I. Electric Industry

During its 1997 session, the Legislature enacted P.L. 1997, ch. 306, codified at 35-A M.R.S.A. §3201-3217 (the Restructuring Act), which directed comprehensive restructuring of Maine's electric utility industry. Since then, the Public Utilities Commission (Commission) has disaggregated the vertically integrated electric utilities into delivery and generation functions, established the rates of transmission and distribution (T&D) utilities, established rules that govern the activities of competitive electricity providers and utilities, purchased standard offer service through competitive bid processes, monitored retail market development, and participated in regional wholesale market activities that affect Maine's electricity consumers.

Electricity prices include four distinct components – transmission rates, distribution rates, stranded cost rates, and energy prices. The first three, bundled

together, comprise the rate charged by the transmission and distribution (T&D) utility. Transmission rates cover the cost of constructing and operating the transmission system and are regulated by the Federal Energy Regulatory Commission (FERC). Distribution rates cover costs incurred by the T&D utility to construct and operate the local distribution system and are regulated by the Public Utilities Commission (Commission). Stranded cost rates reflect the net, above-market costs for generation obligations that utilities incurred prior to industry restructuring, and are regulated by the Commission. Finally, energy prices are unregulated retail prices charged for generation service by competitive electricity providers (CEPs) that, in Maine's restructured environment, operate in the competitive market. The Commission licenses CEPs. Consumers may obtain generation service directly from a competitive market provider or through standard offer service that is obtained by the Commission through a competitive bid process.

The Commission prefers incentive rate plans to traditional rate-of-return regulation as the best means to ensure that customers receive adequate T&D service at just and reasonable rates, and has implemented incentive rate plans for the distribution rates of the two largest T & D utilities in Maine, Central Maine Power Company and Bangor Hydro-Electric Company. The Commission has taken steps to ensure that the utilities subject to incentive rate plans maintain an adequate level of service quality. Due to the passage of P. L. 2003, c. 45, section 1, the Commission must conduct a rate-of-return rate case for CMP and BHE before extending the current or implementing a new incentive rate plan.

The Restructuring Act allows CMP, BHE and MPS to recover stranded costs in the rates they charge for delivery service. Stranded costs reflect the net, above-market costs for generation obligations that utilities incurred prior to industry restructuring. For example, stranded costs include the difference between payments the utilities must make pursuant to pre-existing purchased power contracts (primarily with qualifying facilities (QFs)) and the current market value of that power. Stranded cost rates are re-set for CMP, BHE and MPS every two to three years. The adjustments coincide with the sale terms of the utilities' QF entitlements, because the amounts received from the entitlements sales offset stranded costs and are a significant component of total stranded cost rates.

Because of the nature of stranded costs, it is not possible to set stranded cost rates using an incentive mechanism. Therefore, the Commission must conduct traditional, rate-of-return rate cases to set stranded cost rates every two or three years (albeit on a smaller scale). Stranded costs are declining, but are expected to remain significant until at least 2015.

After almost five years of operation, the retail market for Maine's medium commercial and industrial (C&I) and large C&I customers² has exhibited a reasonable level of competitive activity, and bidding for standard offer service has been healthy. In addition to attracting a significant number of bidders, the standard offer process resulted in different providers winning the bids during each of the solicitations in 2004. Increases in the cost of wholesale electricity, largely caused by increases in natural gas prices, have caused Maine's CEP and standard offer prices to increase.

The market continued to offer minimal competitive choice for residential and small commercial customers, but a low standard offer price obtained in previous years contributed to relatively low overall electricity prices. The current arrangement for residential and small commercial standard offer service for BHE and CMP will terminate in 2005, and the Commission recently conducted a bid process to obtain residential and small commercial standard offer service for a term beginning March 1, 2005. Competition among standard offer service bidders remained vigorous in the CMP and BHE territory during the recent bidding process, although standard offer prices will be higher beginning on March 1, 2005 because of the wholesale price increases. The Commission adopted a three-year staggered approach by also accepting bids for a portion of the standard offer load for the 12-month periods beginning March 1, 2006 and March 1, 2007. The Commission will procure the remainder prior to the start of each period. This approach will help moderate volatility in standard offer prices resulting from future changes in wholesale prices, but will require the Commission to conduct a bid process annually for the residential and small commercial customers.

During 2003, "green" products, featuring hydroelectric and biomass generation, became available through residential and public sector aggregation groups. In early 2004, additional green supply options were developed, including products containing wind generation and low-impact hydroelectric generation, and by the end of 2004, six green generation products were available to Maine consumers. These activities have continued a modest but steady gain in recognition and customer support. Over 5,000 customers currently purchase green power products, and a number of well-known businesses, as well as the State of Maine, have publicly announced green purchases.

The wholesale market operates under a set of rules approved by the Federal Energy Regulatory Commission (FERC). New England's Independent System Operator, ISO New England (ISO-NE), is the day-to-day operator of the electric grid and the generation markets. ISO-NE, in turn, operates under contract with the New England Power Pool (NEPOOL), a New England organization comprised of generators, competitive electricity providers, T&D utilities, municipal electric systems, and representatives of end-use customers. NEPOOL or ISO-NE files changes to market

² Commission rules establish three standard offer classes: residential and small commercial, medium commercial and industrial (C&I), and large C&I.

rules for approval by FERC. These changes are developed through NEPOOL committees, each of which is chaired by ISO-NE. In some cases, these filings have close to unanimous support. In others, there is a wide range of conflicting positions. While the Commission is not a NEPOOL member, it often takes an active role in the committees. The Commission also intervenes and takes positions at FERC on matters affecting (1) the competitiveness of the wholesale electric markets, (2) reliability, and (3) prices paid by Maine electricity consumers. The Commission anticipates that our work at ISO and FERC will continue for at least the next few years while the competitive market issues are being resolved.

The “northern” Maine region presents unique electricity reliability and market issues. By northern Maine, we mean the service areas of MPS and three consumer-owned utilities: Houlton Water Company, Van Buren Light and Power District, and Eastern Maine Electric Cooperative.³ In contrast to the rest of Maine, which is electrically part of the ISO-NE region, northern Maine is electrically part of the Canadian Maritimes region. The Maritimes region also includes the electric loads and generation of New Brunswick, Nova Scotia, and Prince Edward Island. Load and generation in northern Maine are connected to the rest of Maine and New England only by transmission through New Brunswick. Northern Maine load is supplied by a combination of generating plants located in-region and in New Brunswick. The Northern Maine Independent System Administration (NMISA) administers the bulk power and transmission systems for the region.

There have been only two suppliers active in the northern Maine retail market since retail access began – Energy Atlantic (EA) and WPS Energy Services, Inc. (WPS-ESI). Energy Atlantic no longer accepts new customers in northern Maine and WPS-ESI has been the primary standard offer service provider in all rate groups since restructuring began. Thus, the retail market in northern Maine is considerably less competitive than the market in the remainder of the State. While it does not appear that this has resulted in higher prices for consumers, it is a subject of concern.

Measures that would make northern Maine part of a larger market (e.g., a transmission line connecting northern Maine to the New England grid or an open market in New Brunswick) may result in increased interest in the region by competitive electricity providers. During 2004, MPS announced plans to increase the capacity of generation that could flow between MPS and New Brunswick by increasing the transmission capacity between the two regions from 200 to 250 MW.⁴ This would improve the ability of generation located in southern New England and New Brunswick to reach northern Maine, thereby potentially increasing the number of suppliers willing to serve the northern Maine market. The Commission is reviewing the MPS proposal.

³ Collectively, the customers of the four northern Maine utilities consume approximately 7% of the kWhs purchased in Maine.

⁴ Currently, approximately 90 MW of transmission capacity is available on a firm basis.

In addition, BHE has filed for permission to build a second tie-line between New Brunswick and the ISO-NE grid. The proposed tie-line would increase the north-to-south capacity from 700 to 1000 MWs and the south-to-north capacity from 100 to 400 MWs. Under BHE's proposal, the tie-line would run through northern Maine but would have no connection to the grid in northern Maine. The line could, however, advantage northern Maine by allowing more electricity to flow between New England and New Brunswick. Furthermore, the new line would provide the opportunity for future construction to link the line with the northern Maine grid. The Commission is reviewing this BHE proposal.

Finally, in the second session of the 120th Legislature, the Legislature passed P.L. 2001, ch. 624, (the Electric Energy Conservation Act), directing the Commission to develop and implement cost effective electric energy conservation programs. The Commission responded by implementing 12 interim programs that resulted in 5,827 MWh of annual energy savings to Maine consumers. From 2003 to 2004, the Commission streamlined and converted the 12 interim programs to 6 ongoing programs. The estimated annual savings from the first year of on going program operation is 17,918 MWh. More detail on the structure of each program and individual program budgets can be found in the Commission's Efficiency Maine 2004 Annual Report.

2. Telecommunications Industry

Since the passage of the federal Telecommunication Act of 1996 (TelAct), the Commission has been dealing with significant changes in the telecommunications industry, and the level and pace of change show no signs of abating. The telecommunications industry has undergone major changes in its operations and structure, driven by changes in technology, customer expectations, and public policy, as evinced through regulatory mechanisms. The breakup of AT&T in 1984 largely paved the way for the opening of the toll market to competition. The purpose of the TelAct is to transform the local exchange market into a competitive environment through: 1) interconnection of facilities based competitors' networks to the incumbent local exchange carrier's (ILEC) network; 2) resale of the service provided by the ILEC; and 3) use of elements of the ILEC's network by competitors in conjunction with some facilities provided by the competitors themselves.

The TelAct established the general principles for competition, but it left to the Federal Communications Commission (FCC) and state regulatory agencies, such as the Maine Commission, the responsibility to determine the specific policies and rules needed to implement the law. This lack of specificity has created tremendous uncertainty and led to continuing controversy about how the TelAct should be interpreted and implemented. The FCC has issued numerous orders attempting to codify the rules under which ILECs, primarily the former Regional Bell Operating Companies (RBOCs), must allow Competitive Local Exchange Carriers (CLECs) to enter the local market. Unfortunately, the language of the TelAct as enacted resulted from numerous compromises by competing political interests and is not a model of

clarity. Therefore, nearly all FCC decisions that attempted to interpret and implement the principles of the TelAct were appealed to federal courts. The ILECs, CLECs, state regulators and telecommunications users have sought court review of various aspects of the FCC's decisions. The federal Circuit Courts and the U.S. Supreme Court have, at various times, upheld, vacated and remanded parts of all the FCC orders. This constant battling at the FCC and in the federal courts has created shifting legal and policy foundations for the implementation duties that must be carried out by state regulators.

The most recent attempt by the FCC to establish rules for local competition came in the form of the Triennial Review Order (TRO), issued in August 2003. In the TRO the FCC attempted to respond to mandates established in decisions rendered by the U. S. Supreme Court and the D.C. Circuit Court of Appeals in cases involving appeals of earlier FCC orders. As with the other FCC orders, various parties immediately filed appeals with the D.C. Circuit Court. In March 2004, the D.C. Court issued its opinion in which it upheld, remanded and vacated various portions of the TRO. Recently, the U.S. Supreme Court refused to accept the D.C. Circuit Court decision for review, thus allowing the Circuit Court decision to become final. In response to the Court's vacate and remand decisions, the FCC issued a set of Interim Rules that are designed to be in place only until the FCC can attempt once again to issue permanent rules that will pass muster with the courts.

In addition to the uncertainty created by the FCC and court actions, there is speculation among many industry participants and observers that Congress might modify the TelAct in its next session. Thus, the Commission is faced with the potential for even greater upheaval in the legal and policy bases on which it conducts its required functions in implementing the TelAct.

The TelAct allowed Verizon, as an RBOC, to enter the business of originating interLATA telecommunications traffic in Maine only after it proved that the local exchange market in Maine was fully and irreversibly open to competition. While the FCC has authority under the TelAct to grant interLATA entry, the FCC must consult with the affected state regulatory agency and the United States Department of Justice prior to approving the application. With the Commission's support, Verizon filed its application to offer interLATA services in Maine with the FCC on March 19, 2002. On June 19, 2002, the FCC granted Verizon's request. Since then, Verizon has offered interLATA (in addition to intraLATA) toll service to customers in Maine. The ability of Verizon to offer a combined package of local and toll services benefits telecommunications users in Maine because it provides more choices and increases competition.

A key condition of the Commission's decision to support Verizon's request for interLATA authority was the adoption of a Performance Assurance Plan (PAP) that sets standards against which the Company's performance in meeting its obligations to CLECs is measured. The PAP is intended to prevent "backsliding" on the part of Verizon after it gained interLATA authority and contains performance standards

and applies automatic penalties if Verizon fails to meet the standards for over 200 individual performance metrics involving virtually all aspects of the process by which CLECs order and Verizon provisions and maintains service to end user customers of the CLECs, using some or all parts of Verizon's facilities and equipment. The Commission adopted a PAP modeled after one previously adopted in other states served by Verizon, but with some unique statistical methods used to measure the Company's performance. The Commission has monitored the workings of the PAP and is in the process of evaluating the results in order to determine if changes in any aspect of the PAP may be necessary.

The establishment of the rates that Verizon charges CLECs for the use of portions of its network created considerable controversy. Those network pieces are known as unbundled network elements (UNEs), and the economic principle established by the FCC for setting their prices is known as the total element long-run incremental cost (TELRIC). The Commission employed FCC guidelines to set TELRIC-based rates for UNEs in Maine just prior to the time that it recommended that the FCC approve Verizon's request for interLATA authority. UNE pricing is an important input into most competitors' cost of service. Because most CLECs use some UNEs in providing their service, and UNE rates help determine whether competitive entry will occur in the State, in setting UNE prices, the Commission balanced the competing interests of Verizon and the CLECs.

The increase in competition has caused a dramatic shift in the type of cases that the Commission must decide. Today, rate cases are limited to certain situations that will be described below. Instead, the Commission spends considerably more time addressing issues related to competition and the associated terms and conditions applicable to wholesale services provided by Verizon to CLECs who want to compete. Currently each CLEC operating in Maine has an agreement with Verizon that sets out the prices (based on the Commission's UNE pricing order) and the terms and conditions under which the CLECs can obtain UNEs and can interconnect their networks with Verizon's. A CLEC may opt into an existing agreement, or it can negotiate its own with Verizon.

As part of its recommendation that Verizon be allowed to enter the interLATA toll market, the Commission required Verizon to file a tariff that spells out all its prices and terms and conditions for providing wholesale services to CLECs. Having a wholesale tariff approved by the Commission would alleviate the need for CLECs to negotiate individual interconnection agreements with Verizon. Verizon initially made its wholesale tariff filing over two years ago, but because of numerous changes in federal rules and policies (as discussed earlier), as well as other intervening cases with shorter deadlines, the tariff has been revised several times, and the Commission has not yet been able to bring the matter to a conclusion. The parties have now identified the issues that must be decided, and the Commission will move forward to complete the wholesale tariff case in a timely fashion, so that current and potential competitors will be able to know with certainty the UNEs that are available, and the prices and terms and conditions under which they are available. As described earlier, the standards

established by the FCC for the provision of UNEs are not completely settled, and future actions by the FCC, federal courts and/or Congress could again disturb the underpinnings of the wholesale competition.

Maine CLECs have shown interest in competing in an economically rational fashion and in bringing voice and broadband services to all parts of Maine. In order to do so, the CLECs need access to some specific parts of Verizon's network, but the rules governing the provision of those elements are not completely settled, and the FCC is in the process of re-writing its rules. We will do our best to interpret the rules and adjust to any changes that occur. We will also use our authority under State law to require that certain UNEs be made available, even when those elements are not required under federal rules, if we determine that their availability is a necessary ingredient for local competition in Maine. Of course, the Commission cannot contravene federal law or FCC rules, but we will make independent choices to implement the Maine Legislative policy of bringing advanced telecommunications services to residents of all areas of the State.

The increase in competition in the telecommunications industry has also created some challenges for consumers, who are vulnerable to a very small, but highly visible, number of unscrupulous competitors. The two most common tactics used by these types of companies are known as "slamming" (the unauthorized switching of a customer from one carrier to another) and "cramming" (the inclusion of unauthorized charges on a customer's bill). Both slamming and cramming are illegal, but the added complexity of the telecommunications marketplace and the proliferation of new carriers and services create an environment that can be exploited by these unscrupulous carriers. The Commission spends a considerable amount of time and resources to investigate claims of slamming and cramming by customers and to stop the activities and gain restitution for the effected customers. The Commission will increase its efforts in these areas as necessary. As competition replaces the old monopoly regime in telecommunications, providing information to customers about their options and about potential dangers will be one of the most important functions performed by the Commission.

35-A M.R.S.A. § 7101-B required that, beginning in 1999 and every two years thereafter, the Commission set the intrastate access charges that interexchange carriers pay equal to or less than the interstate access charges that the FCC establishes. In 1998, the Commission approved a stipulation with Verizon that implemented the first required reduction in access charges and simultaneously increased basic rates to allow Verizon to recover a portion of the lost access revenue. In 2001, the Commission, as part of its AFOR renewal for Verizon, allowed another relatively small local rate increase to offset a portion of the revenue the Company lost because of the intrastate access rate cuts that occurred on May 30, 2001.

The access parity statute was amended in 2003, allowing the Commission to spread out the required 2003 intrastate access rate reduction over two years, or until May 2005. If any local rate increase needed to offset the access rate

reduction exceeds 50% (including the Maine USF), the Commission is required to phase in the access reduction and the local rate increase. If interstate access rates are reduced below the January 2003 levels, the Commission can order additional reductions to intrastate access rates, but it must consider the effect on local rates before implementing the rate changes.

For Verizon, the Commission approved a phase-in of the access rate reductions and the local rate increases during 2004 and 2005, as permitted under the statute. The local rate increase is considered an exogenous change under Verizon's AFOR. The AFOR itself is scheduled to expire in June 2006, and during 2005, the Commission will begin to examine the form of regulation that will apply to Verizon after the current plan ends. The future regulatory scheme will be influenced by many factors, including competition and technological changes.

For the independent telephone companies (ITCs), the access rate reductions have been implemented with a series of stipulations that took into account the earnings of each ITC. Companies with "excess" earnings prior to the date of the initial access rate reductions generally agreed not to file rate cases to recover the lost revenue for a certain period of time after the access reductions. ITCs without over earnings were allowed to phase in the initial round of access rates reductions while the Commission completed work on the Maine Universal Service Fund (MUSF). Under the amended statute, rate realignments will continue with access rate reductions and local rate increases occurring through May 2005. Also, as discussed below, basic service calling areas (BSCA) have been modified to bring more uniformity throughout the State, and rate groups (based on number of customers in the BSCA) have been eliminated. In order to offset the revenue losses caused by the access reductions, BSCA modifications and rate group elimination, the Commission implemented a policy of requiring ITCs to raise their local rates to the Verizon level before they can receive MUSF support. About half of the ITCs currently receive USF funding for part of their revenue requirements, and some additional companies will receive funding as access rates continue to decline, while local rates are capped at the Verizon level. The Commission will examine the revenue requirements situation for each of the ITCs when it is appropriate. Companies may seek USF support, but before it is granted, they will have to undergo some type of earnings investigation.

The Commission contracts with an independent Joint Administrator for the MUSF and the Maine Telecommunications Education Access Fund (MTEAF), which provides funding for advanced telecommunications services to schools and libraries. LECs other than Verizon obtain support from the MUSF in order to meet their overall revenue requirements (as determined by the Commission in a rate case or similar proceeding) while maintaining basic exchange rates that are no higher than those charged by Verizon. The Administrator collects assessments, including the costs associated with administering the Fund, from all providers of intrastate telecommunications services, including paging companies and mobile carriers, as provided in the authorizing statute. The size of the MUSF might gradually expand over the next several years as more companies become eligible for support and the

Commission completes the necessary procedures to determine the amount of support needed.

During 2002, the Commission examined the matter of BSCAs, which are sometimes referred to as extended area service (EAS). Concerned that the BSCA Rule did not sufficiently address the expanding calling area needs of local telephone customers, and that there was a lack of consistency in local calling areas around the State, the Commission adopted changes to the BSCA Rule, Chapter 204, to resolve many of the problems that were identified. The most significant change made to the rule required the addition of all contiguous exchanges that were not already included in an exchange's BSCA to the Premium option for that exchange. Adding contiguous exchanges alleviated virtually all of the problems areas identified in the inquiry. The Commission implemented the changes required under the revised BSCA Rule in 2003, and it will address any "outlier" calling area situations on a case-by-case basis. In early 2005 the LECs will also file reports that show the effect on their revenues of implementing the BSCA changes, and any required true-up will occur shortly thereafter, most likely simultaneously with the access reductions in May 2005.

Probably the most important agent for change in the telecommunications industry is technology, which is constantly providing additional choices for consumers and new challenges for policy makers and regulators. Use of the traditional public switched telephone network (PSTN) is declining as more and more voice traffic and Internet access moves onto the wireless service networks or is provided as part of broadband service. Wireless (cellular and Personal Communications Service) use has expanded rapidly over the past five to eight years, and now there are more wireless phones in use in Maine than there are wireline phones. The majority of wireless customers are using those phones in addition to their wireline phones, rather than in place of them, although there are some customers who no longer use wireline services. As wireless phones become even more sophisticated and add numerous features, including video and broadband Internet access, the trend toward wireless usage will no doubt continue. In Maine, wireless service providers are, by law, not considered to be public utilities, except under certain very specific instances. Further, federal law prohibits states from regulating wireless entry or rates, except under certain limited circumstances.

The technological change that likely will have the greatest influence on the manner in which telecommunications traffic is transported and regulated involves the use of Internet protocol. Voice Over Internet Protocol (VOIP) transforms a voice telephone conversation into packets of digital information, similar to other Internet transmissions. The packets travel over private or public Internet networks to their destinations, where they are assembled into a coherent speech pattern, so they are indistinguishable from traditional telephone service to the users on either end of the conversation. VOIP is added onto a broadband connection, and it is a much more efficient way of transmitting voice communications, because unlike traditional voice phone calls, an individual circuit is not kept open for the duration of the call. As VOIP equipment and functions improve, and more customers subscribe to a broadband

connection, additional voice traffic will very likely migrate to VOIP service. Because VOIP telephone service is considered part of the Internet, the FCC has declared it to be interstate in nature, and thus out of the reach of state regulators. Further, a federal district court has prohibited one state from regulating VOIP service in any way.

This major technological change is likely to substantially impact the functions of the Commission, as competition and new ways of providing services (indeed, even new services and combinations of services) continue to alter the type and manner of regulation. Traditional monopoly regulation will continue to be replaced by the need to educate consumers and prevent unscrupulous, unfair and illegal competitive activities. Establishing the conditions under which competition can flourish (the so-called "level playing field"), while protecting the interests of customers who don't have access to competitive options, will become the focus of telecommunications regulators. The Commission will continue to examine whether market forces are sufficient to bring advanced telecommunications capabilities to all citizens of Maine, or if there are steps the Commission can take to encourage broadband deployment.

3. Natural Gas Industry

In 1999, two new interstate pipelines, Portland Natural Gas Transmission System (PNGTS) and Maritimes & Northeast Pipeline, began to bring increased natural gas supplies into Maine. As a direct result, natural gas utilities authorized to serve in Maine expanded their facilities into several new areas in the state, including Windham, Bucksport, Old Town, Veazie, Bangor, Brewer, Sanford, Kittery, Orono, Brunswick, Topsham, Rumford, and Gorham. Maine's natural gas distribution utilities are contracting with increasing numbers of large commercial and industrial customers that are converting to natural gas from other fuels such as propane or oil, as well as businesses that have chosen to expand their use of natural gas.

Since 1999, commercial and industrial customers have been able to make competitive gas supply arrangements, taking transportation-only service from the local distribution utility. Significant numbers of larger commercial and industrial customers have made the change from obtaining gas commodity from their distribution utility in favor of competitive options. We continue to monitor the progress that gas supply competition is making in Maine and the region and the affect that Maine's current regulatory policies may be having on these markets. Based on information we have received to date from gas marketers, due to a number of factors including Maine's relatively low population density and low sales volumes per customer, there is little interest on the part of suppliers in extending choice to residential consumers at this time. However marketers and suppliers are increasingly extending service to smaller commercial entities, such as restaurants.

The new gas supplies also support five gas-fired electric generation facilities, located in Westbrook, Bucksport, Veazie, Rumford, and Jay, which consume a substantial portion of the natural gas supplied to Maine and provide 1500 MW of

electricity to the northeast region. The Commission continues to work with other agencies, both state and federal jurisdictions, involved in the construction and regulation of these entities to ensure that we conduct appropriate and adequate, but not onerous, public review of issues that fall within our purview.

Due to substantially increased natural gas prices and increased natural gas market volatility nationwide beginning in 1999, we now actively monitor regional supply and market conditions, as well as corresponding natural gas utility programs, with an eye toward mitigating adverse impacts on natural gas consumers where appropriate. In 2000, we were directed by the Legislative Task Force to Reduce the Burden of Home Heating Costs on Low-Income Households to monitor the issue of whether interruptible natural gas services may adversely impact Maine's price of home heating oil during the winter months. We also participated in the legislative "Study Committee on Gasoline and Fuel Prices." During 2002 we approved Northern Utilities, Inc.'s use of financial hedging instruments to stabilize gas commodity rates. In 2003, we approved a budget payment program and a hedged fixed price option for customers of Bangor Gas Company to offer customers predictable monthly payment options. In early 2004, we also approved a hedged fixed price option for customers of Maine Natural Gas.

We are participating in the New England Governor's Conference and Maine Emergency Management Agency emergency planning efforts being coordinated throughout the state and region. Our role is to ensure that utilities are adequately prepared to meet the threat of terrorist attacks, winter fuel shortages, or drastic price spikes, so that, to the extent possible, harm and dislocation to Maine's citizens and businesses may be avoided or mitigated. In January 2004, during extremely cold weather, the New England region only narrowly met its natural gas and electricity demands. This realization has prompted efforts among gas and electricity purveyors and state and federal regulators to assess what can be done to ensure the reliability of these services during extreme conditions. We will continue to consider such matters as which gas users have priority in the event of a supply shortage to the region and how the demand for electric generation can be better coordinated with gas heating needs. We are participating in the Maritimes & Northeast Pipeline rate case in an effort to ensure that Maine's consumers' interests are represented.

Working with the federal Office of Pipeline Safety (OPS), we are continue to ensure compliance with vital safety standards in the construction and operation of natural gas, propane, and liquefied natural gas facilities. In 1999, the legislature gave "Dig Safe" underground facilities safety enforcement responsibility to the Commission. The Commission adopted a new rule, Chapter 895, outlining the underground facilities safety requirements and our newly implemented enforcement procedures. In 2001, based on our growing experience the law, we proposed several amendments to improve the practical workings of the "Dig Safe" law that were adopted by the legislature. In July 2004, we completed a Legislative directive to develop procedural exemptions for drinking water well constructors in our rule. This year we expect to seek additional amendments to the law to enhance its safety benefits. We

expect to prosecute approximately 400 enforcement actions this year for damage prevention incidents where violations have been indicated. Many of these violators, both excavators and underground facility operators, are required to attend training sessions conducted by our Damage Prevention Inspectors to increase their working knowledge of the damage prevention law, thereby reducing further violations. We scheduled 21 training sessions with 938 individuals enrolled throughout the state during 2004 and expect to repeat this effort in 2005.

The Commission's gas safety inspector also holds training sessions for propane system operators to inform them of federal and state safety code requirements and is in the process of locating and inspecting systems that exist within Maine to ensure their compliance. To date, we have identified and inspected (or reinspected) over 650 jurisdictional propane facilities located within Maine. We produced a "Model Operations, Maintenance and Emergency Plan" to assist propane facility operators achieve compliance.

In recent years, Maine's natural gas and electric utilities have increasingly been acquired by or have merged with larger regional energy corporations. The effects of these mergers often require that we monitor customer service and safety standards to ensure that the utility meets adequate levels. When standards are not met, we develop regulatory incentive mechanisms and other interventions to effect improvement or maintenance of customer service and safety standards to offset the cost-cutting pressures that the parent entity places on the local utility subsidiary. In this regard, we recently initiated a management audit of Northern Utilities, Inc.'s customer services and are reviewing its service contracts with affiliates, NiSource Corporate Service Corporation and Bay State Gas Company. In addition, we have developed a bare steel facility integrity ranking system and are working to determine what level of cast iron pipe replacement may be warranted. We continue to consider developing performance-based regulatory mechanisms for Maine's largest gas distribution company, consistent with our treatment of both start-up companies now operating in the state.

Finally, we have been reviewing costs associated with proposed environmental remediation plans for two manufactured gas plant locations owned by Northern Utilities that have been developed under the Department of Environmental Protection's Voluntary Response Action Program.

4. Water Industry

Title 35-A M.R.S.A guides our oversight of water utilities. The effects of the federal Safe Drinking Water Act (SDWA) Amendments of 1987, which raised costs for many small systems dramatically, have dominated our activity in this area. The passage of the SDWA Amendments of 1996 gave more flexibility and time to meet its requirements; nevertheless, compliance continues to require significant rate increases to cover the increased capital costs and expenses.

Since the early 1990's, the Commission has supported legislation to remove water utilities from its regulatory authority. These attempts, whether initiated by the water utility industry or the Commission, have failed. During the first regular session of the 120th Legislature, legislation that would have allowed water utilities to "opt-out" of our regulatory oversight was also defeated. We do not expect further efforts to reform the law in the near future. Our regulatory involvement will thus continue to be focused on ratemaking for the investor-owned utilities, and on technical assistance and limited ratemaking oversight (where customers petition for our review) of consumer or municipally owned water utilities. This means that we will continue to apply traditional rate of return regulation to the few remaining investor-owned water utilities, and the consumer-owned water utilities will continue to set their own rates, subject to Commission review only when customers petition the Commission.

5. Consumer Assistance

The Commission's Consumer Assistance Division (CAD) is the Commission's primary link with customers. The CAD is charged with ensuring that consumers, utilities, and the public receive fair and equitable treatment through education, resolution of complaints, and evaluation of utility compliance with consumer protection rules. Furthermore, with ratemaking authority, the Commission can take actions that have a direct financial impact on a utility with significant customer complaint problems. In addition, some utilities are under alternative rate plans that contain expected performance thresholds for customer complaints. These utilities may incur administrative penalties for failure to achieve established performance expectations.

As competitive markets have begun to develop for utility services the number of consumer complaints has increased. Assisting consumers to avoid or resolve disputes with competitive service providers has required a new approach. Consumer specialists must now focus on the needs (e.g. for information) of those who receive service in addition to the activities of those who provide it. Consumer specialists will need new skills to adapt to these changes.

Along with the traditional intake function, additional investigation and mediation will be necessary. The Commission and the CAD will have to respond quickly to unfair and deceptive marketing and advertising practices. More customer complaint data must be compiled and published. This will require increased cross-divisional interaction to ensure that competitive providers are complying with the Commission's rules and providers' licenses. Lacking the leverage that comes with ratemaking authority, the Commission will have to make greater use of traditional enforcement approaches. To this end, CAD staff have increased their skills in the area of enforcement investigations and have used these skills to conduct several investigations that have resulted in the assessment of administrative penalties in the millions of dollars by the Commission.

Competition is expected to increase consumer welfare by providing lower prices and better quality service. For competition to be successful, customers

must be knowledgeable. Accordingly, the Commission must work to educate consumers so that they are better able to take advantage of opportunities in the marketplace. Customers, who have depended on public utility regulation as a proxy for making choices, will not quickly and easily become fully informed consumers. Transitional markets in the telecommunications industry have provided us with evidence that there may be more opportunities for consumer fraud than in fully developed markets. As our utility markets reach maturity, we hope that consumer protection activity will be reduced, although we do not expect it can ever be eliminated. As the Commission's link with the public, the responsibility for educating consumers will reside primarily with the CAD.

C. Internal Assessment

With such fundamental changes occurring in the industries we regulate and the way we regulate those industries, the Commission continually reviews its staff resources to ensure that we are able to make the decisions and implement the policies necessary to meet our mission. We also recognize that the public expects efficiency in state government. Even if industry restructuring and the move to more competitive markets increase our workload during the transition, we will minimize any request for additional resources from the Legislature. This will require closer coordination with other agencies in Maine government, such as the Bureau of the Budget, the Office of the Public Advocate, the State Planning Office, and the University System.

Achieving efficiencies requires innovative administrative processes. The quasi-judicial rate case process is likely to be too cumbersome and too complex to perform many of the new regulatory functions. As market issues continue to replace regulatory issues, we expect that the Commission will find a greater need to use different techniques, including alternative dispute resolution (ADR), and streamlined approaches that emphasize oral argument rather than cross-examination of witnesses. Collaboration can introduce creativity into many areas of regulatory decision-making. Through collaboration, the Commission can gain a deeper and more detailed understanding of the objectives of all stakeholders and engage in discussions that move outside the boundaries of specific events.

In transitioning to competitive utility markets, the Commission increasingly uses ADR-like processes, such as technical and settlement conferences. We must have the flexibility to continue to use ADR and other collaborative administrative processes if we are to achieve our new regulatory objectives within existing resources. As the same time we must develop administrative processes to enforce statutes and rules against providers that are not rate regulated. Before competition, rate regulation was the only enforcement mechanism needed. Because enforcement actions are often "punitive," the Commission will need the authority and expertise to perform our quasi-judicial role. The following are among some of the processes the Commission is adopting to meet these challenges.

1. Alternative Ways to Process Cases

The Commission processes a wide variety of cases. Some cases require complex litigation with many procedural safeguards for the litigants; other cases require much less process. Where the Commission has broad discretion over the process, we employ alternative procedures to maximize efficiency while ensuring due process and a reasonable outcome. For example, when possible, the Commission employs a non-adjudicatory mode, such as a rulemaking or inquiries. Employing a non-adjudicatory process allows the Commissioners direct access to all assigned staff and allows all staff to participate jointly in the case.

In cases that require an adjudicatory process, the Commission uses alternative procedural mechanisms within the litigation mode, such as the expanded use of technical conferences, written filings in lieu of evidentiary hearings, and depositions instead of cross-examinations. This reduces the demands on the resources of the Commission and other litigants while still satisfying due process requirements.

2. Use of the “Hot Bench”

Prior to the late 1990's, in adjudicatory proceedings, the Commission had historically assigned two staff teams: an advocate staff to participate in the building of the record and, because the law requires the separation of the advocate and advisor functions, a separate advisor staff to assist the Commissioners in reviewing the complex record.

In virtually all adjudicatory cases, advisors are performing the key functions traditionally performed by advocates. This “hot bench” approach, started in late 1996, provides for a more efficient use of staff resources available to the Commission, and has proved successful at reducing the need for more staff resources. The Commission will continue to use this model and to improve it where necessary, to ensure the efficient and effective disposition of adjudicatory cases.

The Commission anticipates a continuing increase in the use of more of its resources for non-traditional enforcement proceedings as has occurred in the past two years. These proceedings involve allegations against entities for violations of statutes or Commission rules for which the appropriate remedy is a monetary penalty or the removal of authority to do business in Maine. In these cases, the Commission assigns a staff person to act in the “prosecutorial” role to investigate alleged violations and to bring actions against those responsible in situation that involve potential fines or the loss of authority to conduct business in Maine. For the most part the prosecutorial staff will be used in cases involving slamming and Dig-Safe enforcement.

3. Additional Organizational and Technological Changes

The Commission continually reviews our day-to-day operations to identify organizational and technological changes to make the Commission more efficient while maintaining or improving our effectiveness. We regularly reassign staff and redefine tasks for certain employees. We also continue to review new technology for its application at the Commission to improve the operating efficiency and the quality of the service that we provide to our external and internal customers. Advances include:

- (1) Our website now makes the Commission the most publicly accessible agency in Maine state government. This site, updated daily, provides full-time access to information that the public wants, i.e., deliberation agendas, orders, rules, reports, and other documents. The site served as the primary, “up-to-the-minute” communication medium between the Commission and potential bidders during the “standard offer” bid process.
- (2) Our Internet broadcasts of our deliberations and hearings are extremely popular and remove the requirement for those that want to listen to our processes to come to our office, and just as importantly, if you miss the broadcast, we archive them for use by the public at a later time.
- (3) Our “Virtual Case File” allows access to all Commission documents (except for confidential material) to the public 24 hours a day, seven days a weeks for the convenience of a citizen’s use at his home or office. We are currently working to allow for confidential materials to be placed on our website, accessible only with the appropriate access codes.
- (4) Our electronic filing system has significantly reduced the amount of paper filed to the Commission. Furthermore, the amount of resources spent by those who have frequent business with the Commission has been reduced significantly. This is due to the ready 24/7 access to Commission information. All aspects of the Commission’s activities are now available on the world-wide-web.
- (5) Our “Virtual Tariffs File” provides the public with access to all Maine utility tariffs over the Internet. As competition comes to our utilities, the public is now able to compare tariffs to decide which service is best suited to their needs.
- (6) Our telecommuting program provides efficiencies for our staff and the Commission. This program currently limits telecommuting to a maximum of two days per week. Telecommuting staff has access to the office via modem and telephone, and are able to conduct their work in the “virtual office” at

home, as if they were at work, and maintain access to resources and staff at the main Commission offices.

- (7) We are investing a significant effort in enhancing our Geographic Information System (GIS). We expect this effort to improve our ability to monitor our utilities and respond to catastrophic natural or manmade events with greater speed and at lower costs. This long-term effort will provide the Commission with greater operational efficiencies, increased capabilities to explain or educate Mainers about our work, and greater abilities to provide timely and more understandable information to the Legislature and major issues that are affecting utilities in Maine.

We are continuing to work with national and regional organizations to develop mechanisms to use new technology to improve how public utility regulatory commission interact and communicate. Improvements in this area will help us provide for better oversight of our utility service providers, especially in the transition to well-developed markets for these services.

These changes help the Commission oversee the provision of service, rates, and practices of the utilities authorized to provide service to customers within the state and address related public concerns and informational needs at reduced costs.

The Commission is committed to a continual review of new technology in an effort to reduce operating costs, increase our productivity and improve the quality of our customer service.

III. GOALS, OBJECTIVES, STRATEGIES, MEASURES

The Commission's strategic planning mission statement is:

The Maine Public Utilities Commission regulates utilities to ensure that safe, adequate and reliable utility services are available to Maine customers at rates that are just and reasonable for both customers and public utilities. For the purposes of this document, "utility services" means electric, gas, telecommunications and water services.

Our goals and associated objectives for our programs are:

Program: Maine Public Utilities Commission Regulatory Fund - Administration

Goal: To assure safe, reasonable and adequate utility services at rates which are just and reasonable.

Objective: Assure the provision of utility services that meet customer needs at prices that are at or below the national average.

Strategy: Oversee the reliability and quality of utility services in Maine while implementing the legislative policies for utility regulation.

Measures: (1) price of utility services in Maine as a percentage of the national average for comparable services

(2) number of utility service complaints made to the Commission

(3) number of utility service interruptions

(4) number of consumer accidents related to utilities

(5) satisfaction with the Commission's service as expressed as a ratio of the number of CAD cases appealed/year to the number of cases resolved (this measure is being reviewed and may be replaced with one that better reflects satisfaction with Commission services using actual survey data)

Program: Maine's Electric Energy Conservation Fund

Goal: To develop and implement electric energy conservation programs that increase the efficiency of electricity use in Maine in an equitable manner.

Objective: To provide cost-effective programs that conserve electric energy and meet the specific constituency targets established by the Legislature.

Strategy: (1) Define an overall electric energy strategy for Maine and determine which cost-effective electric energy conservation programs to implement, while providing extensive public involvement throughout the process.

Measures: [Being Developed]

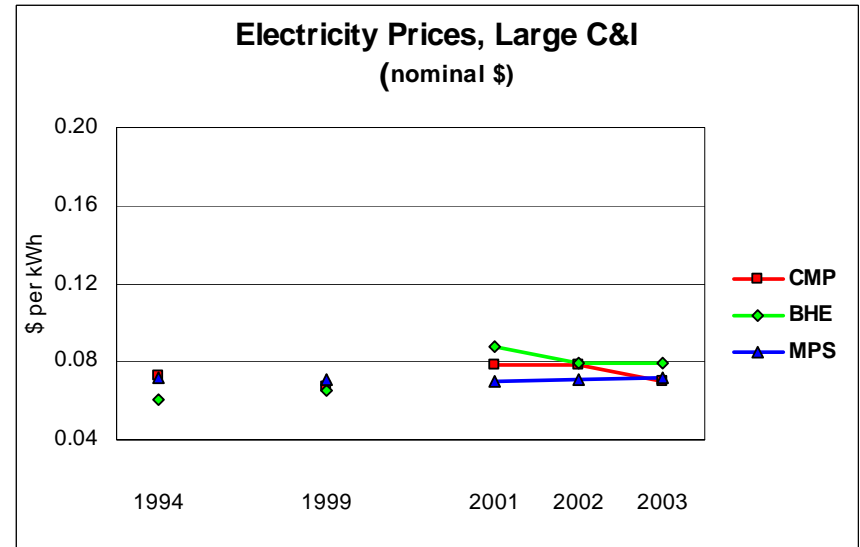
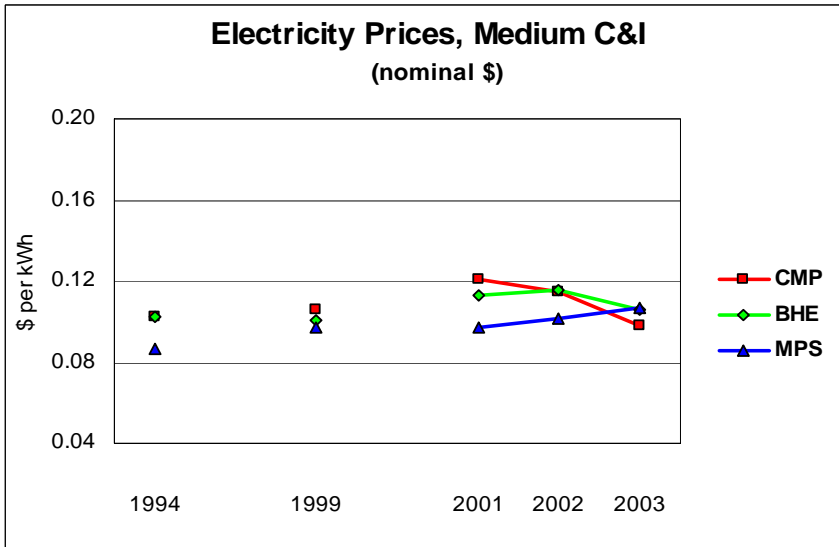
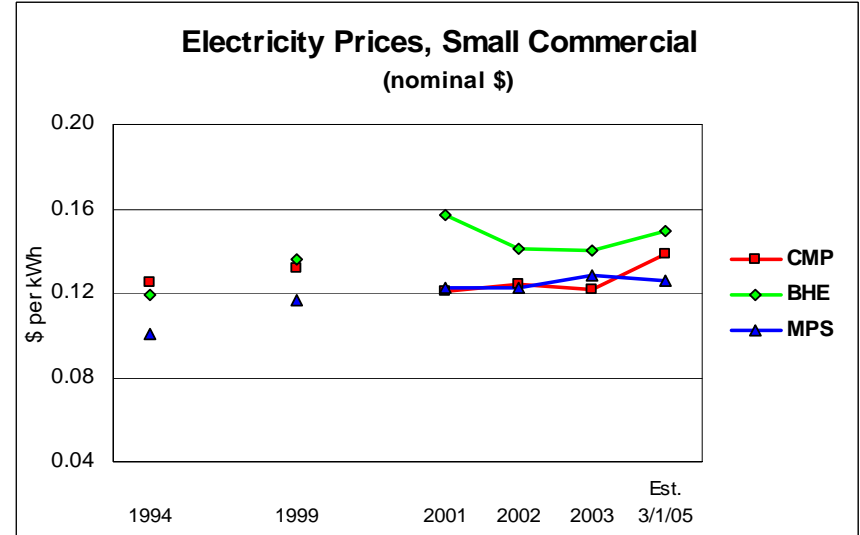
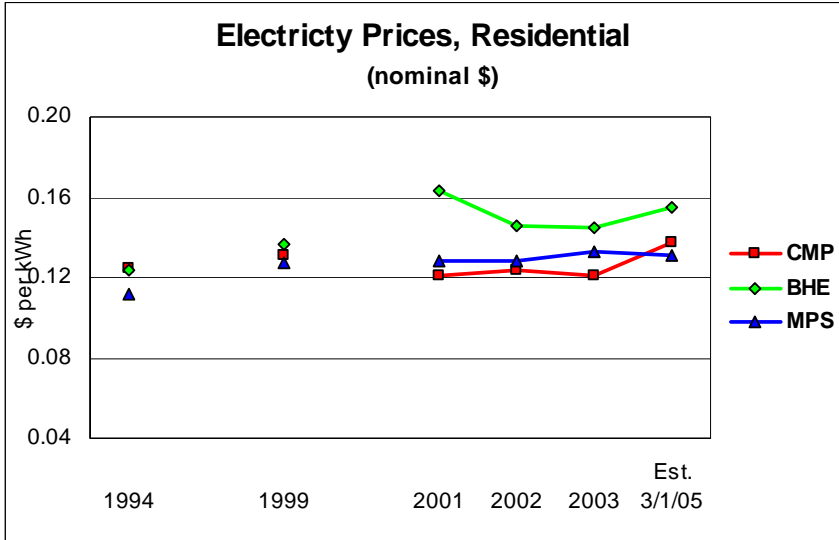
The Commission has determined that pursuing each of these initiatives is an efficient use of the our Regulatory Fund, the Efficiency Maine funds, and the State Energy Program federal grant, and, that service to external and internal customers will improve as a result of the implementation of these initiatives.

Graphical Presentation of Performance Measures

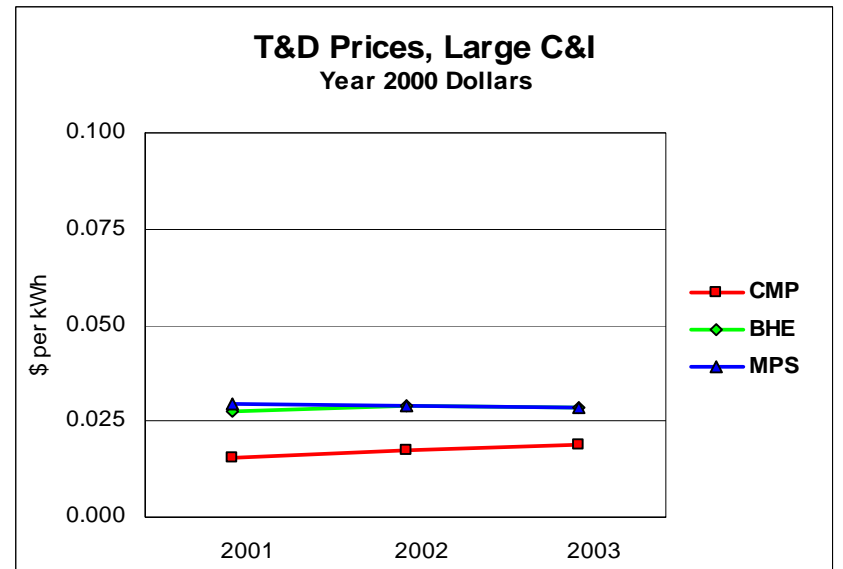
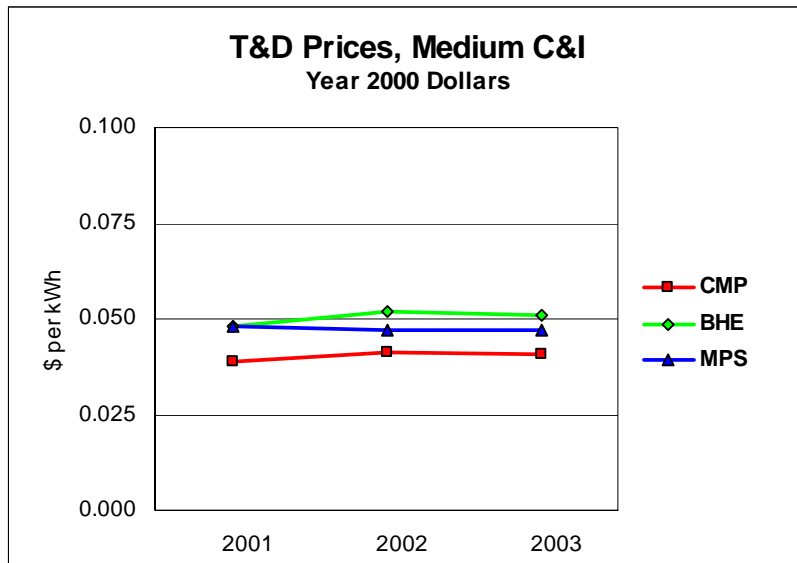
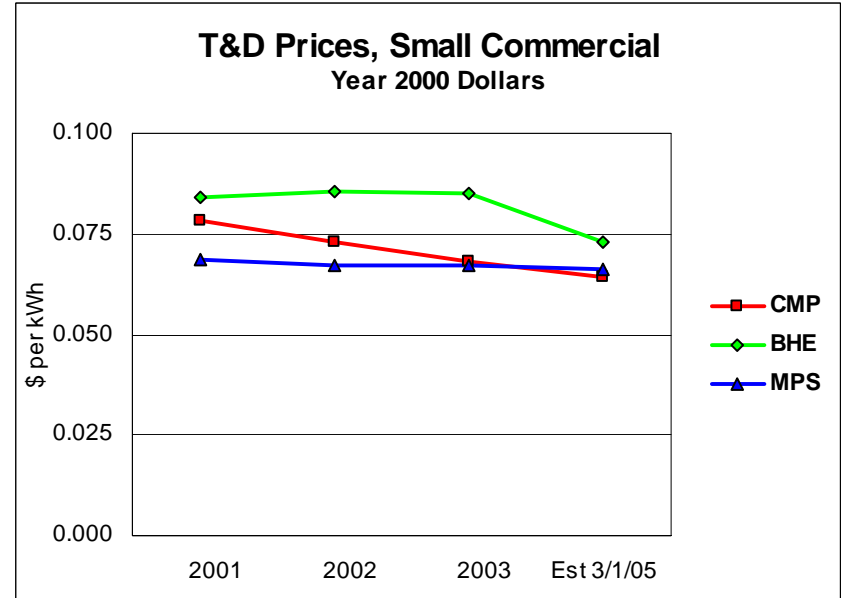
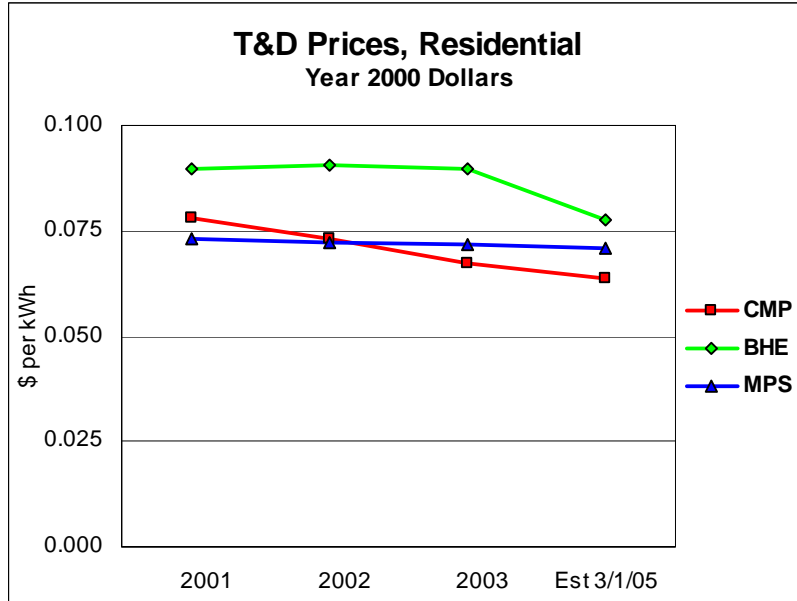
ELECTRIC PRICE MEASURES

This year we are using Maine data only to provide information on our price measures. We will provide measures using the Energy Information Agency's (EIA's) database when we are confident in the numbers that they are using.

Total Electricity Prices (Nominal Dollars)



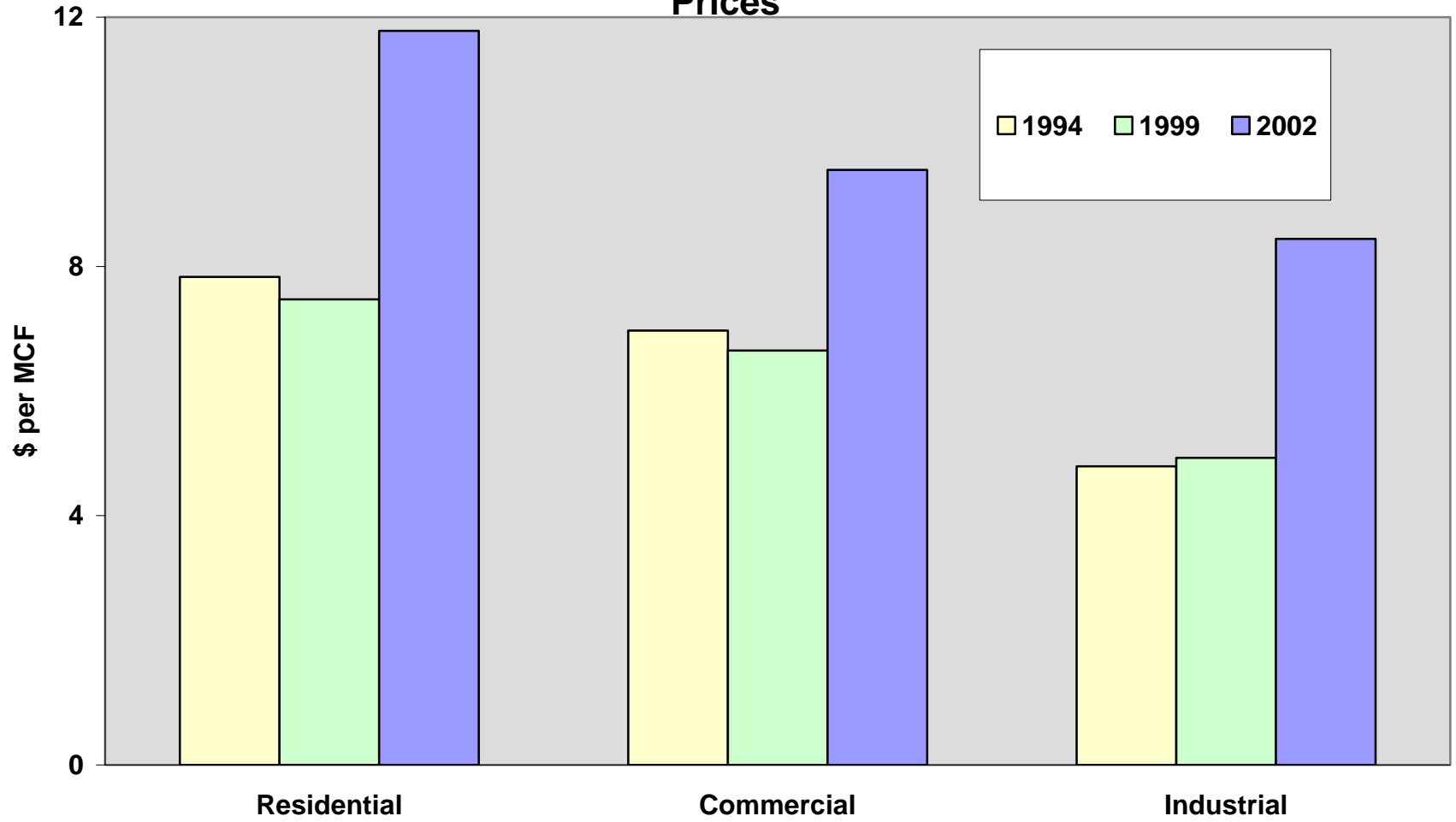
Transmission and Distribution (T&D) Prices (Real Year 2000 Dollars)



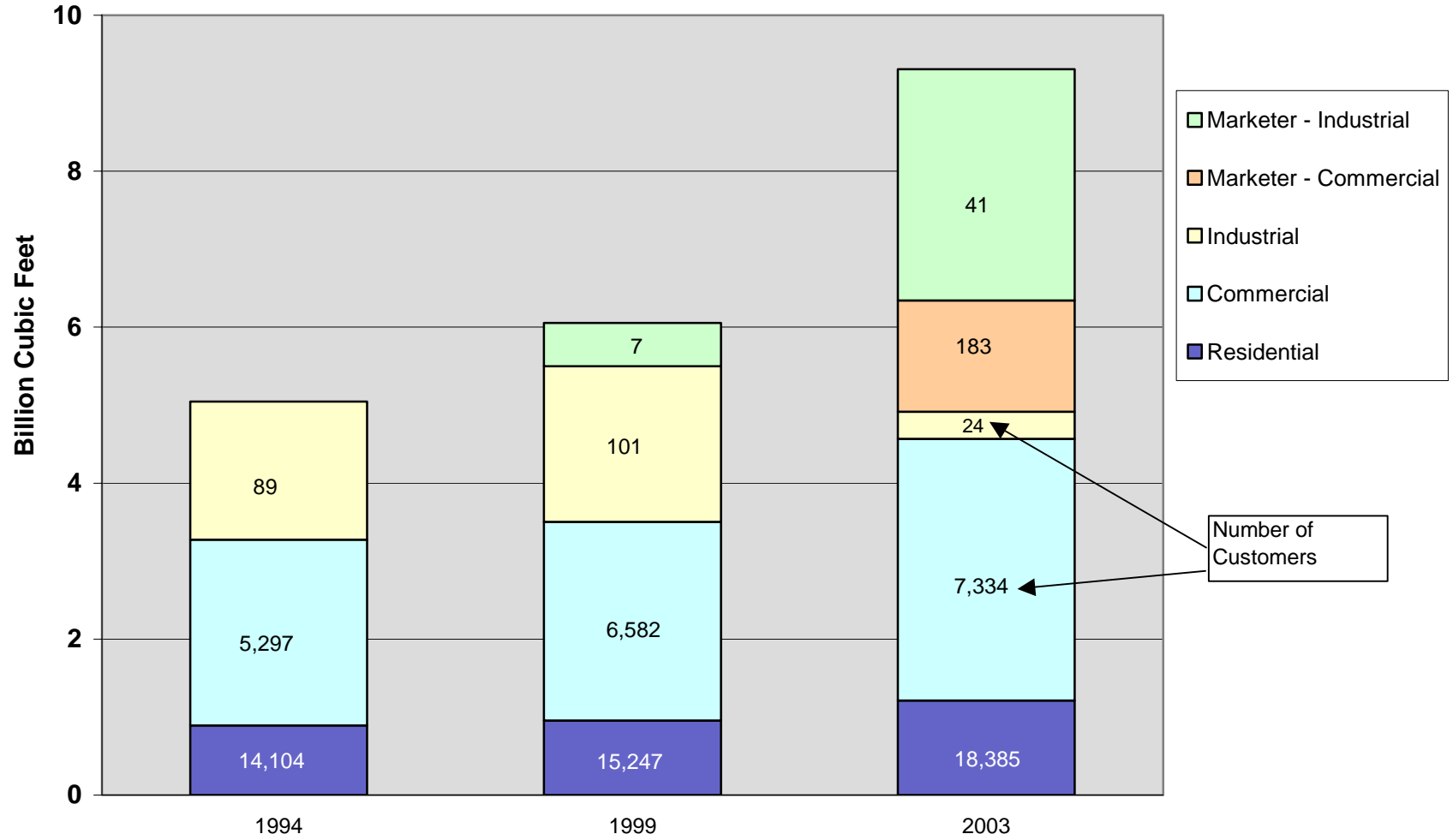
NATURAL GAS PRICE MEASURES

This year we are using Maine data only to provide information on our price measures. We will provide measures using the Energy Information Agency's (EIA's) database when we are confident in the numbers that they are using.

Residential, Commercial & Non-Electric Industrial Natural Gas Prices



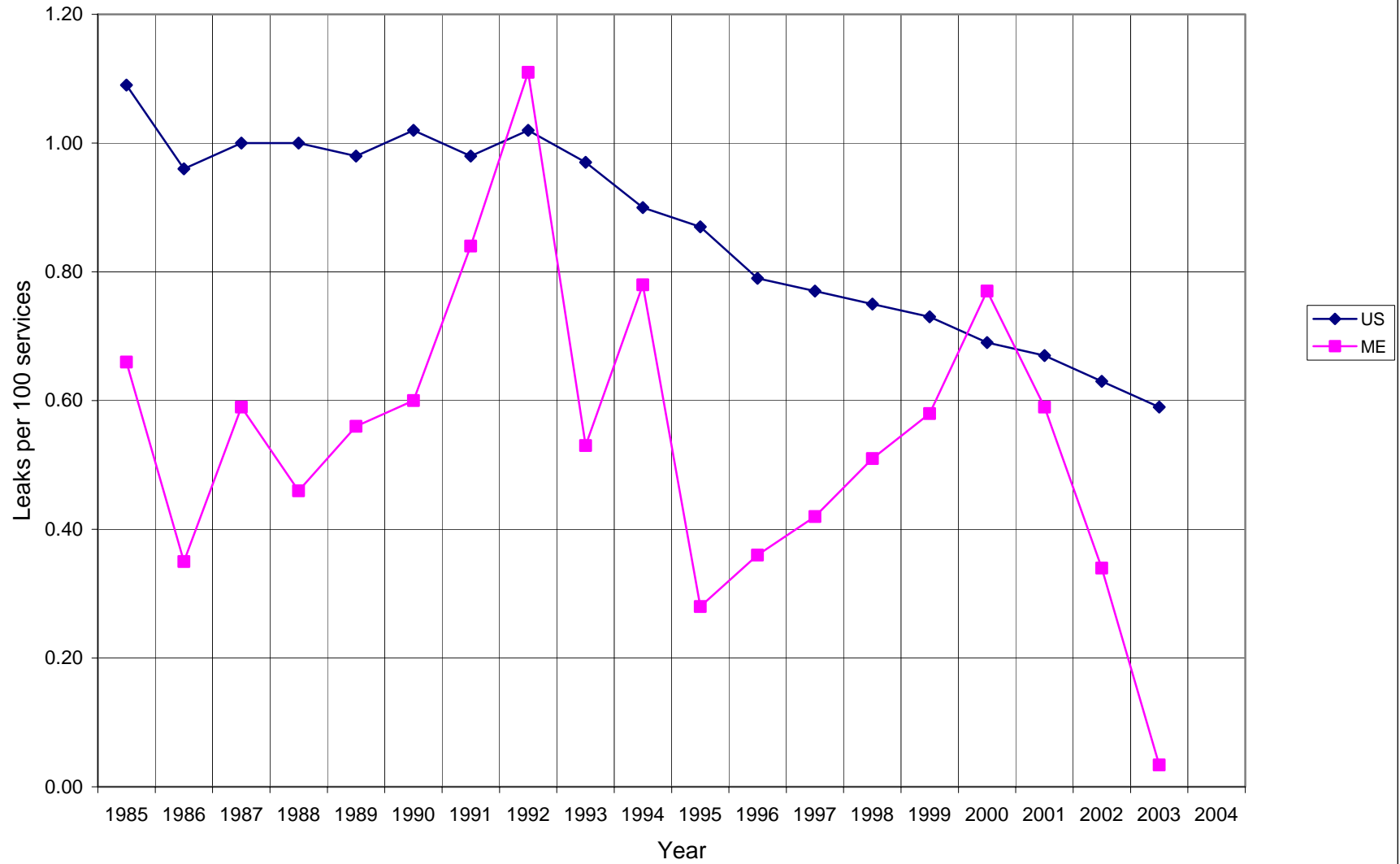
Gas Utility and Competitive Gas Supplier Deliveries in Maine (except gas used by electric generators)



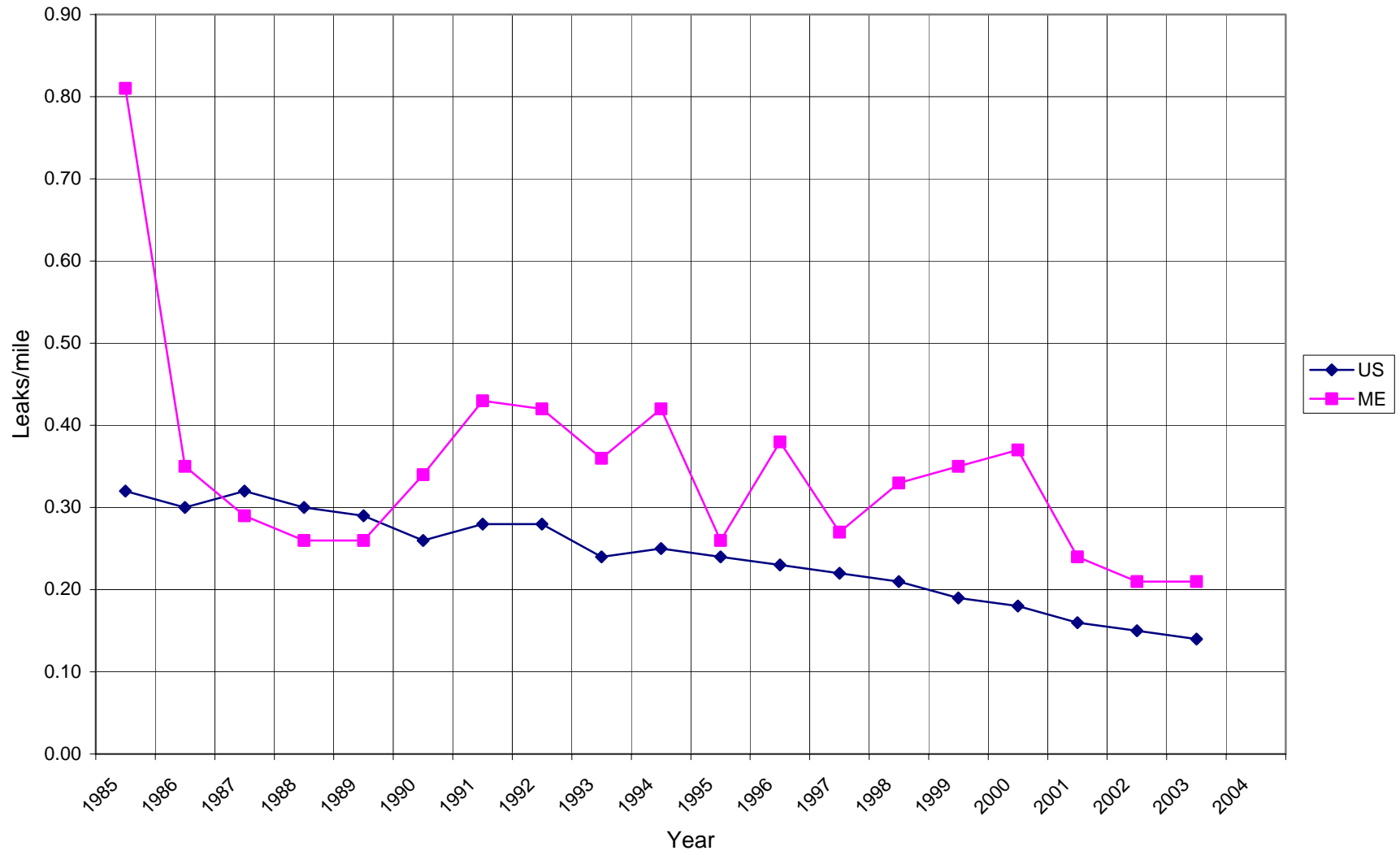
GAS SAFETY MEASURES

Communication with the Office of Pipeline Safety (2004)

Natural Gas Leaks - ME vs US (leaks/100 services)



Natural Gas Leaks - ME vs US (leaks/mile)



TELECOMMUNICATION PRICE MEASURE

Home Exchange (Company)	County	1994 Local Calling Area	1994 Basic Monthly Rate	1994 Monthly Toll Bill:		1994 Total Telecommunications Bill		Current Local Area (Prem. Eff. 12/15/03)	Current Basic Monthly Rate (Premium, 6/1/04)	2004 Monthly Toll Bill:		2004 Total Telecomm Bill (+MUSF/MTEAF Surcharges***)
				100 mins Near *	100 mins Far **	Nominal Dollars	Real or 2004 \$s			100 mins Near *	100 mins Far **	
Augusta (Verizon)	Kennebec	Augusta Belgrade Gardiner No. Whitefield Readfield Sidney West Gardiner Winthrop	\$12.46	\$9.00	\$9.00	\$30.46	\$38.90	Augusta Belgrade Gardiner Palermo No. Whitefield Readfield Sidney West Gardiner Winthrop Waterville East Vassalboro South China	\$19.08	\$0.00	\$4.25	\$23.79
Bangor (Verizon)	Penobscot	Bangor Aurora Bradford Bucksport Corinth Eddington Hampden Hermon Levant Old Town Orono Orrington Winterport	\$12.46	\$9.00	\$9.00	\$30.46	\$38.90	Bangor Alton Aurora Bradford Bucksport Corinth Eddington Etna Exeter Hampden Hermon Levant Newburgh Old Town Old Town Rural Orono Orrington Otis Stetson Winterport	\$19.08	\$0.00	\$4.25	\$23.79

Home Exchange (Company)	County	1994 Local Calling Area	1994 Basic Monthly Rate	1994 Monthly Toll Bill:		1994 Total Telecommunications Bill		Current Local Calling Area (Prem. Option Eff. 12/15/03)	Current Basic Monthly Rate (Premium, 6/1/04)	2004 Monthly Toll Bill:		2004 Total Telecomm Bill (+MUSF/MTEAF Surcharges***)
				100 mins * Near	100 mins ** Far	Nominal Dollars	Real or 2004 \$s			100 mins * Near	100 mins ** Far	
Bar Mills (Saco River Telephone Co.)	York	Bar Mills Waterboro West Buxton	\$4.66	\$9.00	\$9.00	\$22.66	\$28.94	Bar Mills Biddeford Goodwins Mills Gorham Scarborough Waterboro West Buxton	\$11.32	\$0.00	\$4.25	\$15.88
Bath (Verizon)	Sagadahoc	Bath Brunswick Wiscasset	\$12.11	\$9.00	\$9.00	\$30.11	\$38.46	Bath Bowdoinham Brunswick Richmond Wiscasset	\$19.08	\$0.00	\$4.25	\$23.79
Damarascotta (Lincolntonville Telephone Co.)	Lincoln	Damariscotta Bremen New Harbor Sheepscot South Bristol	\$7.40	\$9.00	\$9.00	\$25.40	\$32.44	Damariscotta Bremen New Harbor Sheepscot South Bristol North Whitefield Waldoboro Boothbay Harbor Wiscasset	\$15.28	\$0.00	\$4.25	\$19.91
Eagle Lake (Northland)	Aroostook	Eagle Lake Clair, NB Fort Kent St. Francis	\$9.65	\$9.00	\$9.00	\$27.65	\$35.31	Eagle Lake Ashland Clair, NB Fort Kent St. Francis	\$16.50	\$0.00	\$4.25	\$21.16
Ellsworth (Verizon)	Hancock	Ellsworth Bar Harbor Blue Hill Franklin Northeast Harbor Southwest Harbor Sullivan	\$12.11	\$9.00	\$9.00	\$30.11	\$38.46	Ellsworth Aurora Bar Harbor Blue Hill Bucksport Castine Eddington Franklin Northeast Harbor Otis Southwest Harbor Sullivan	\$19.08	\$0.00	\$4.25	\$23.79

Home Exchange (Company)	County	1994 Local Calling Area	1994 Basic Monthly Rate	1994 Monthly Toll Bill:		1994 Total Telecommunications Bill		Current Local Calling Area (Prem. Option Eff. 12/15/03)	Current Basic Monthly Rate (Premium, 6/1/04)	2004 Monthly Toll Bill:		2004 Total Telecomm Bill (+MUSF/MTEAF Surcharges***)
				100 mins * Near	100 mins ** Far	Nominal Dollars	Real or 2004 \$s			100 mins * Near	100 mins ** Far	
Farmington (Verizon)	Franklin	Farmington Wilton	\$11.68	\$9.00	\$9.00	\$29.68	\$37.91	Farmington Livermore Falls Madison Mercer Mt. Vernon New Vineyard Rome Strong Weld Wilton	\$19.08	\$0.00	\$4.25	\$23.79
Guilford (Verizon)	Piscataquis	Guilford Dexter Dover-Foxcroft Monson	\$11.68	\$9.00	\$9.00	\$29.68	\$37.91	Guilford Dexter Dover-Foxcroft Monson Harmony West Ripley	\$19.08	\$0.00	\$4.25	\$23.79
Hebron (Oxford Networks)	Oxford	Hebron	\$9.37	\$9.00	\$9.00	\$27.37	\$34.96	Hebron Buckfield Lewiston Mechanic Falls Norway Oxford Turner	\$14.54	\$0.00	\$4.25	\$19.16
Madison (Verizon)	Somerset	Madison Embden Lake North Anson Skowhegan	\$11.68	\$9.00	\$9.00	\$29.68	\$37.91	Madison Athens Embden Lake Farmington Mercer New Vineyard Norridgewock North Anson North New Portland Skowhegan Solon	\$19.08	\$0.00	\$4.25	\$23.79
Morrill (Northland)	Waldo	Morrill	\$9.38	\$9.00	\$9.00	\$27.38	\$34.97	Morrill Belfast Brooks Lincolnville/Bch Washington L berty Freedom Union	\$16.50	\$0.00	\$4.25	\$21.16
Pembroke (Verizon)	Washington	Pembroke Eastport	\$10.90	\$9.00	\$9.00	\$28.90	\$36.91	Pembroke Eastport Calais Lubec Machias	\$19.08	\$0.00	\$4.25	\$23.79
Poland (Maine Telephone Co.)	Androscoggin	Poland Casco Lewiston Naples Raymond	\$9.65	\$9.00	\$9.00	\$27.65	\$35.31	Poland Casco Gray Lewiston Mechanic Falls Naples New Gloucester Oxford Raymond	\$17.50	\$0.00	\$4.25	\$22.18

Home Exchange (Company)	County	1994 Local Calling Area	1994 Basic Monthly Rate	1994 Monthly Toll Bill:		1994 Total Telecommunications Bill		Current Local Calling Area (Prem. Option Eff. 12/15/03)	Current Basic Monthly Rate (Premium, 6/1/04)	2004 Monthly Toll Bill:		2004 Total Telecomm Bill (+MUSF/MTEAF Surcharges***)
				100 mins * Near	100 mins ** Far	Nominal Dollars	Real or 2004 \$s			100 mins * Near	100 mins ** Far	
I (Verizon)	Cumberland	Portland (5 rate centers) Cumberland Freeport Gorham Pownal Scarborough Westbrook Windham Yarmouth	\$12.46	\$9.00	\$9.00	\$30.46	\$38.90	Portland (5 rate centers) Cumberland Freeport Gorham Gray New Gloucester Old Orchard Beach Pownal Scarborough Westbrook West Gray Windham Yarmouth	\$19.08	\$0.00	\$4.25	\$23.79
Washington (Northland)	Knox	Washington	\$9.38	\$9.00	\$9.00	\$27.38	\$34.97	Washington L berty North Whitefield Palermo Rockland Union Waldoboro	\$16.50	\$0.00	\$4.25	\$21.16

Notes:

1994 Best available in-state direct dial toll plan - Pine Tree Plan @ 9¢/min.

2004 Best available in-state direct dial toll plan - TouchTone.Net @ 4.25¢/min.

Near toll calling areas are short distance toll to contiguous exchange.

Far toll calling areas are longer distance intrastate toll.

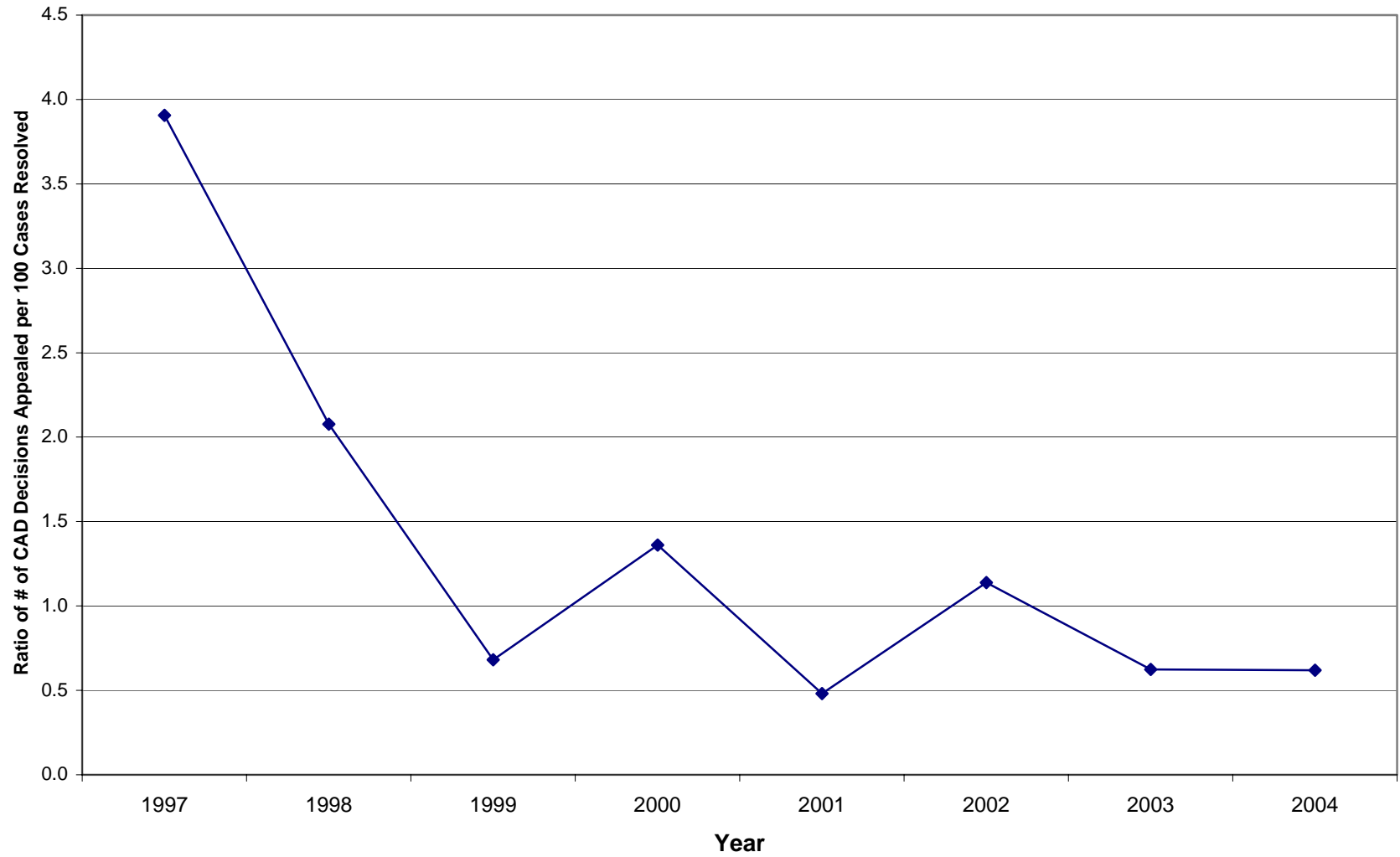
Local bills do not include federal surcharges and taxes, or state taxes and E911 surcharge, 2004 total includes Maine USF and MTEAF surcharges.

Real Dollar Calculation (2004 dollars) -- Federal Reserve Bank of Minneapolis website, 10/22/04.

Pine Tree	\$	0.09
TouchTone	\$	0.0425
MUSF/TEAF		1.96%
Inflation Factor		128%

**UTILITY CUSTOMER SATISFACTION WITH COMMISSION SERVICES
MEASURES**

Customer Satisfaction with Commission Services
(As measured by # CAD cases appealed to 100 cases resolved)



Complaints Received by the MPUC CAD by Utility Type 2000-2004

