MAINE STATE LEGISLATURE

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

2012 Annual Report

February 1, 2013

Maine Public Utilities Commission
Chairman Thomas L. Welch
Commissioner David P. Littell
Commissioner Mark A. Vannoy
101 Second Street, Hallowell, Maine 04347
18 State House Station
Augusta, Maine 04333-0018
Tel: 207-287-3831
Fax: 207-287-1039
TTY: 711

Website: http://www.maine.gov/mpuc/
Consumer Assistance Hot Line: 1-800-452-4699
E-Mail: maine.puc@maine.gov

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Commissioners

Thomas L. Welch
Chairman

David P. Littell
Commissioner

Mark A. Vannoy
Commissioner

Division Directors

Derek Davidson
Consumer Assistance

Karen Geraghty
Administration

Andrew Hagler
Telephone and Water

Faith Huntington
Electric and Gas

Maria Jacques
E-911

Joanne Steneck
Legal

This Annual Report summarizes the breadth and depth of the Maine Public Utilities Commission's (Commission) work in 2012. As highlighted below and described in detail in the Report, the Commission's activities reflect the continuing impacts of the recent increase in supply, and decrease in price, of natural gas. The Commission also continues to grapple with the implications of changes in Legislative policy concerning telecommunications, which in turn reflects the dramatic increases in competition and advances in technology in that industry. At the same time, the Commission has continued its efforts to facilitate access to the Commission's processes, ensure gas pipeline and other utility facility safety, move to a more flexible and effective 911 system, address the financial issues arising from an aging water utility infrastructure, and ensure that customers are treated fairly in their disputes with utilities.

Natural Gas Industry Developments

During 2012, natural gas continued to be substantially less expensive than oil, spurring a strong interest in natural gas conversion among Maine residential, commercial and industrial customers. As a result, Maine's gas utilities have been adding customers at a robust rate and have been working to expand natural gas service to more areas of Maine. The Commission has also been asked to authorize new proposed gas utilities to serve various areas of the State. Industries such as paper mills are increasingly converting from oil to natural gas, installing facilities for on-site (trucked) liquefied natural gas or pipeline gas supply, to reduce fuel costs and help maintain a competitive cost structure. Compressed natural gas (CNG) is also becoming a fuel choice for business conversions and vehicle fueling. The Commission approved the construction of a CNG facility in late 2012.

Electricity Competition and Pricing

Retail competition in the residential and small commercial sectors increased significantly during 2012. Several new competitive electricity providers were licensed and began to market to and supply this sector, which has been supplied almost exclusively by standard offer service since retail competition begin in 2000. Currently, about 25% of residential and small commercial customers are served by a competitive supplier rather than by standard offer service.

New products for residential and small commercial customers also emerged, including a standard offer time-of-use option that will allow customers who shift more of their usage to off-peak periods to save money and a green power program administered by the Commission that will allow customers to purchase renewable energy credits. The Commission also approved efficient electric heating pilot programs to be administered by Central Maine Power (CMP) and Bangor Hydro Electric/Maine Public Service (BHE/MPS).

Electricity supply prices continued to decline during 2012. The principal factor influencing this decline is the sharp decline in the price of natural gas, which is the dominant influence on regional wholesale electric energy prices. Standard offer prices for BHE and CMP customers declined by about 1.5¢/kWh

compared to 2011, and are now approximately 2.5¢/kWh below levels seen in 2008. At the same time, however, transmission rates (regulated by the Federal Energy Regulatory Commission) increased by about 0.5 ¢/kWh compared to 2011, continuing a trend that over the last five years has driven transmission rates to increase by about 0.7¢/kWh. These increases are largely the result of major transmission system upgrades throughout New England.

Telecommunications Regulatory Reform

During its 2011 session, the Legislature enacted telecommunications regulatory reform legislation to reflect and enhance competition in the industry. As a result, the only retail telephone service offering that falls within the Commission's regulatory authority is Provider of Last Resort (POLR) service. POLR service provides consumers the ability to receive a flat-rate service with voice-grade access to the public switched telephone network within a basic local calling area. The non-POLR offerings of the incumbent local exchange carriers, competitive local exchange carriers, and the wireless and Voice Over Internet Protocol (VoIP) carriers, including ancillary service and in-state long distance, are no longer subject to Commission regulation of price or service quality.

During 2012, at the direction of the Legislature, the Commission conducted a stakeholder process to examine whether consensus could be achieved among various providers of telecommunications services (wireline, wireless, and facilities-based VoIP), and the Public Advocate regarding possible methods for setting POLR service rates and requests for Maine Universal Service Fund support for POLR service providers. Pursuant to the statute, the Commission presented a report summarizing the stakeholder process and set forth its own recommendations on January 15, 2013 for the Legislature's consideration during the 2013 session.

In all aspects of its work, the Commission continues to exercise its regulatory, adjudicatory and public policy responsibilities to ensure that the rates paid by Maine residential and business consumers for utility services are just and reasonable, and services provided follow good utility practices. We look forward to working with the Legislature in the coming year on energy and utilities issues.

With regards,

Thomas L. Welch	David P. Littell	Mark A. Vannoy
Chairman	*Commissioner*	*Commissioner*

THE MAINE COMMISSION

The Maine Public Utilities Commission regulates electric, gas, telephone and water utilities to ensure that Maine citizens have access to safe and reliable utility services at rates that are just and reasonable for residential and business consumers.

The Commission, created by the Maine Legislature in 1913, has broad powers to regulate public utilities in Maine including electricity, telephone, water, and gas providers. The Commission also responds to customer questions and complaints, grants utility operating authority, regulates utility service standards and monitors utility operations for safety and reliability and has limited authority over rates and service of ferry transportation.

Like a court, the Commission adjudicates cases and may take testimony, subpoena witnesses and records, issue decisions or orders, hold public and evidentiary hearings, and encourages participation by all affected parties, including utility customers. The Commission also conducts investigations and rulemakings, investigates allegations of illegal utility activity and responds to legislative directives.

The three full-time Commissioners are nominated by the Governor, reviewed by the Legislature's Joint Standing Committee on Energy, Utilities and Technology and confirmed by the full Senate, for staggered terms of 6 years. The Governor designates one Commissioner as Chairman. The Commissioners make all final Commission decisions by public vote or action of the majority.

The Commission's staff includes accountants, engineers, lawyers, financial analysts, economists, consumer specialists, and administrative and support staff. It is divided into six operating areas according to industry area or function.

The Telephone and Water Division and the **Electric and Gas Division** are designated to work on the issues related to these industries. Division staff conduct financial investigations and analyses of utility operations, analyze applications by utilities to issue securities, advise the Commission on matters of rate base, revenues, expenses, depreciation and cost of capital, engineering, rate design, energy science, statistics and other technical elements of policy analysis for all utility areas.

The Emergency Services Communication Bureau manages the statewide Enhanced 9-1-1 (E9-1-1) system, including program development and implementation.

The Consumer Assistance Division (CAD) provides information and assistance to utility customers to help them resolve disputes with utilities. CAD investigates a variety of complaints involving utility service including: quality of utility service, billing disputes, payment arrangements, rates or charges, disconnection, and utility repairs. The CAD processes complaints and determines what utility practices, if

any, should be corrected. The CAD also educates the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, and evaluates utility compliance with state statutes and Commission rules.

The Legal Division provides hearing officers in cases before the Commission and assists in preparing and presenting Commission views on legislative proposals. This division also represents the Commission before federal and state appellate and trial courts, and various regional and federal administrative and regulatory agencies.

The Administrative Division handles day-to-day operational management of the Commission, with responsibilities for fiscal and personnel matters, contract and docket management, and the physical plant. The administrative staff also provides support services to the other areas of the Commission and coordinates Commission activities.

Launch of New Electronic Case Filing and Consumer Complaint System In July of 2012, the Commission replaced its electronic filing system with a new system to make it easier for consumers and utilities to file, save, search, and access documents in Commission cases. The Commission offered training and information to consumers and utilities before and after launching the new system. Information about how to use the new system is available on the Commission's website and Commission Staff is also available to help answer questions. All case documents are filed and available electronically. Additional benefits of the new system include:

- Improved sorting and searching to make it easier to find case documents and to research topics in cases,
- Ability to keep track of data requests and responses,
- Automatic notices of filings to parties and to others who are interested,
- Robust security functions to manage confidential documents, making them available electronically but only to those given authorization to view them,
- Improved efficiency of CAD's processes, and
- Improved Commission case management and other internal processes.

TELECOMMUNICATIONS

REGULATION OF THE TELEPHONE INDUSTRY IN MAINE

As a result of recent changes in law enacted by the 125th Maine Legislature, the only retail telephone service offering that falls within the Commission's regulatory authority is Provider of Last Resort (POLR) service. POLR service is presently offered by incumbent local exchange carriers (ILECs) and provides consumers the ability to receive a flat-rate service with voice-grade access to the public switched telephone network within a basic local calling area. The non-POLR offerings of the ILECs, Competitive Local Exchange Carriers (CLECs), and the wireless and Voice over Internet Protocol (VoIP) carriers, including ancillary service and in-state long distance are no longer subject to Commission regulation.

Wholesale services and the enforcement of certain provisions of the federal telecommunications statutes remain subject to the Commission's jurisdiction. In addition, the Commission continues to certificate CLECs. The Commission does not regulate the broadband services offered by telephone, cable television, or cellular telephone companies. Interstate services are regulated by the Federal Communications Commission (FCC), which also has exclusive regulatory jurisdiction over wireless mobile carriers. Figure 3 shows the POLR service territories in Maine and appears at the end of this section.

INDUSTRY TRENDS

Competition The telecommunications industry in Maine is characterized by increasing competition. All consumers can obtain long distance service from an Interexchange Carrier (IXC) other than their local exchange carrier. CLECs also serve a large portion of Maine's customers. Telephone service employing VoIP technology – particularly the offerings of Time Warner and Comcast – competes aggressively with traditional ILEC service in those areas where cable broadband is available. The mobile cellular market continues to grow and there are now more cell phone subscribers in the state than there are wireline service accounts. An increasing number of customers are substituting mobile wireless service for traditional wireline service. The following Figure 1 from calendar years 2008 through 2011[1] demonstrates this reduction in traditional wireline telephone service as competition from wireless and VoIP providers increases.

[1] Data for 2012 will not be available until April 2013.

Figure 1

ILEC	2008 Access Lines	2009 Access Lines	2010 Access Lines	2011 Access Lines	Change 2008-2009	Change 2009-2010	Change 2010-2011	Change 2008-2011
China Telephone	2,700	2,265	2,032	1,775	-16%	-10%	-13%	-34%
Northland Telephone Co.	20,764	18,295	17,381	16,232	-12%	-5%	-7%	-22%
Community Service Telephone Co.	9,280	8,156	7,306	6,684	-12%	-10%	-9%	-28%
Sidney Telephone Co.	1,254	1,060	933	777	-15%	-12%	-17%	-38%
Maine Telephone Co.	8,163	6,870	5,928	5,125	-16%	-14%	-14%	-37%
Standish Telephone Co.	5,753	4,677	4,093	3,440	-19%	-12%	-16%	-40%
FairPoint Communications -- NNE	411,345	378,969	340,333	313,254	-8%	-10%	-8%	-24%
UniTel Co.	4,386	4,282	4,001	3,817	-2%	-7%	-5%	-13%
Union River Telephone Co.	1,260	1,224	1,190	1,169	-3%	-3%	-2%	-7%
Cobboseecontee Tel & Tel Co.	645	554	501	478	-14%	-10%	-5%	-26%
Hampden Telephone Co.	2,857	2,581	2,439	2,229	-10%	-6%	-9%	-22%
Hartland & St. Albans Telephone Co.	3,659	3,350	3,104	2,993	-8%	-7%	-4%	-18%
Island Telephone Co.	620	600	591	593	-3%	-2%	0%	-4%
Somerset Telephone Co.	10,509	9,634	9,200	8,874	-8%	-5%	-4%	-16%
Warren Telephone Co.	1,528	1,347	1,250	1,187	-12%	-7%	-5%	-22%
West Penobscot Telephone Co.	2,207	2,056	1,963	1,906	-7%	-5%	-3%	-14%
Lincolnville Networks	1,794	1,749	1,689	1,630	-3%	-3%	-3%	-9%
Tidewater Telecom	10,261	9,762	9,378	8,954	-5%	-4%	-5%	-13%
Mid-Maine Communications	5,228	4,699	4,228	3,890	-10%	-10%	-8%	-26%
Pine Tree Tel & Tel Co.	5,373	4,820	4,202	3,751	-10%	-13%	-11%	-30%
Saco River Tel. & Tel Co.	7,079	6,202	5,444	4,881	-12%	-12%	-10%	-31%
Oxford West Telephone Co.	6,373	6,011	5,709	5,438	-6%	-5%	-5%	-15%
Oxford Telephone Co.	5,595	5,277	5,032	4,810	-6%	-5%	-4%	-14%
Total Retail Lines	**528,633**	**484,440**	**437,927**	**403,887**	**-8%**	**-10%**	**-8%**	**-24%**

Broadband The Commission does not directly regulate broadband services, although it does, within the scope of its authority, support the State's goal of extending broadband access to reach as many Maine customers as possible. The Commission's order approving FairPoint's acquisition of the network previously operated by Verizon requires FairPoint to expand broadband coverage to a large portion of its network, and the Commission continues to monitor and enforce that obligation.

Federal Action Concerning Universal Service On November 18, 2011, the FCC voted to implement changes to the Federal Universal Service Fund (USF) program. In 2012, the FCC also issued several supplemental and clarifying orders concerning universal service and intercarrier compensation. These changes are intended to redirect a substantial portion of the explicit subsidies, historically paid to telephone companies operating in high-cost areas, to expand the availability of broadband service. The change in Federal USF support and the level of intercarrier compensation payments are likely to increase the reliance on the Maine Universal Service Fund (MUSF) as a method to keep rates for POLR service in rural areas reasonably comparable to those in urban areas. Maine is presently a net recipient of Federal USF support, and Federal USF support constitutes a significant portion of the operating revenues of many of the small rural telephone companies in Maine. The FCC also modified the mechanism by which local telephone companies pay one another for the use of each other's facilities. It is too early to know precisely how the changes to the Federal USF and the intercarrier compensation regime will impact Maine's telephone companies, mainly its ILECs, as the changes will take place over a period of several years. In addition to fulfilling the state role in implementing these changes, the Commission will continue its advocacy role at the FCC to help maximize the amount of federal support flowing to Maine's telecommunications carriers.

High Cost Fund Model Support Historically, FairPoint passed through to customers, in the form of a bill credit, High Cost loop support it received from the Federal Universal Service Fund (USF). Following the recent reorientation by the FCC of the USF program towards support for broadband services, FairPoint requested that the relatively modest amount of these customer credits be redirected to fund infrastructure improvements to expand its broadband capabilities in rural areas that would not otherwise be served with broadband. The Commission granted FairPoint's request with the result that $458,243 in federal funds will be used to expand the broadband in a limited number of high cost rural wire centers in lieu of customer bill credits. The Commission reports this matter pursuant to its obligation under 35-A MRSA § 120(5), to describe its activities with respect to its authority to grant exemptions to telephone utilities.

Preservation of Area Code 207 The Commission continues to enforce measures designed to ensure that telecommunications carriers use numbering resources in Maine efficiently so as to maintain a single area code in the state (207) for as long as possible. In this regard, the Commission enforces rules and guidelines established by the FCC. Overall, the industry has cooperated with these efforts while at the same time meeting the needs of their customers for telephone numbers. With more people using wireless phones and devices, however, there has been increased pressure on the State's

numbering resources. The latest forecast from Neustar, the national number administrator, has moved up the area code exhaust date to the third quarter of 2016. The currently projected exhaust date is two years earlier than that indicated in the 2011 Neustar reports. The Commission will continue its activities to promote number conservation in an effort to delay the need to establish a second area code in the State.

KEY EVENTS

Regulatory Reform Plan At the direction of the 125th Legislature, the Commission conducted a stakeholder process to examine whether consensus could be achieved among various providers of telecommunications services (wireline, wireless, and facilities-based VoIP), and the Public Advocate, regarding possible methods for setting POLR service rates and for disbursing MUSF support for POLR service providers. The Commission presented a report to the Legislature summarizing the stakeholder process and set forth its own recommendations, as required by statute, on January 15, 2013.

FairPoint Service Quality Index (SQI) FairPoint operates under incentive regulation (also referred to as an Alternative Form of Regulation (AFOR)) by which its basic service rates are capped for a period of years, and operating efficiencies realized by the company during the period benefit shareholders. Under the recent legislative change, the AFOR will end in August of 2013. A significant component of an AFOR is a Service Quality Index (SQI), the purpose of which is to ensure that operating efficiencies do not come at the expense of service quality. Under the SQI, various service metrics are tracked, and performance below established benchmarks triggers rebates that must be paid to FairPoint's customers.

For the 2011/2012 SQI Year, which ended July 2012, FairPoint missed four metric benchmarks and incurred a total penalty of $1,698,753. Credits for the per-line equivalent of the penalty ($.48) appeared on customers' bills starting in December 2012.

During the 2012 legislative session, the Legislature enacted An Act to Reform Telecommunications Regulation, Public Law, Chapter 623. Section A-23 of the law required the Commission to establish an SQI mechanism with standards addressing five areas of performance for the final year of the FairPoint AFOR. The Legislature also reduced the "amount at risk" under the SQI from $12.5 million to $2 million. Pursuant to these legislative mandates, the Commission adopted an SQI mechanism with seven metrics that measure service quality in the five specified and reduced the maximum total potential SQI penalty to $2 million and the per-metric penalty from $1.135 million to $300,000.

FairPoint Performance Assurance Plan (PAP) Proceeding FairPoint's wholesale business includes a requirement for a Performance Assurance Plan (PAP). The PAP was designed, generally, to ensure that FairPoint does not unfairly favor its own retail interests over CLECs purchasing wholesale service from FairPoint. The PAP was established at the time that the Commission recommended to the FCC that Verizon be

authorized to re-enter the long distance market (a business denied to the “baby Bells” at the time of the breakup of AT&T).

The PAP is similar to the SQI in that performance is measured with metrics and benchmarks. The failure by FairPoint to meet these benchmarks results in credits made to the wholesale accounts of CLECs purchasing services from FairPoint. The PAP is quite similar in Maine, Vermont (VT), and New Hampshire (NH). The Commission, along with the regulatory bodies in VT and NH, recognizing that the PAP metrics inherited by FairPoint from Verizon as part of the merger are both very comprehensive and extremely complex, has been conducting joint, collaborative proceedings with FairPoint and the relevant CLECs in an attempt to simplify the PAP mechanism. By the end of 2012, the parties had informally agreed to a stipulated agreement to reduce the number of PAP metrics, but had not settled other important issues regarding the operation of a new, modified PAP. FairPoint and the CLECs have requested that the regulatory bodies in all three states approve the conditional stipulation even as they attempt, without litigation, to resolve their outstanding differences. The Commission is reviewing the proposed partial stipulation and continues to coordinate with the NH and VT regulatory bodies to resolve the remaining issues.

FairPoint Broadband Build-Out Obligation On January 20, 2011, FairPoint filed a Notice of Broadband Compliance asserting that as of December 31, 2010, it had met the first milestone (83%) towards the completion of its broadband buildout obligation. FairPoint’s obligation to increase its broadband penetration was a significant condition of the Commission’s January 2008 Order authorizing the Company to take over Verizon’s network in Maine. The build-out commitment was subsequently reduced in a Regulatory Settlement approved by the Commission in conjunction with FairPoint’s reorganization in bankruptcy. Following FairPoint’s January 20, 2011 filing, the Commission held hearings to consider issues related to FairPoint’s method of calculating the percentages used to measure its compliance with the build-out requirement. In January, 2012, the Commission resolved these issues in an Order Establishing Broadband Buildout Calculation. The Commission found that that the calculation of whether FairPoint had satisfied its broadband buildout requirement must be based on the number of access lines through which customers can actually receive broadband service, as opposed to a calculation which gauges penetration solely on the basis of the existence of DSL equipment located at a central office or remote terminal but which cannot provide DSL service to Maine consumers due to engineering limitations. FairPoint appealed the Commission’s January, 2012 decision to the Maine Law Court which heard oral argument in November, 2012. A decision is pending.

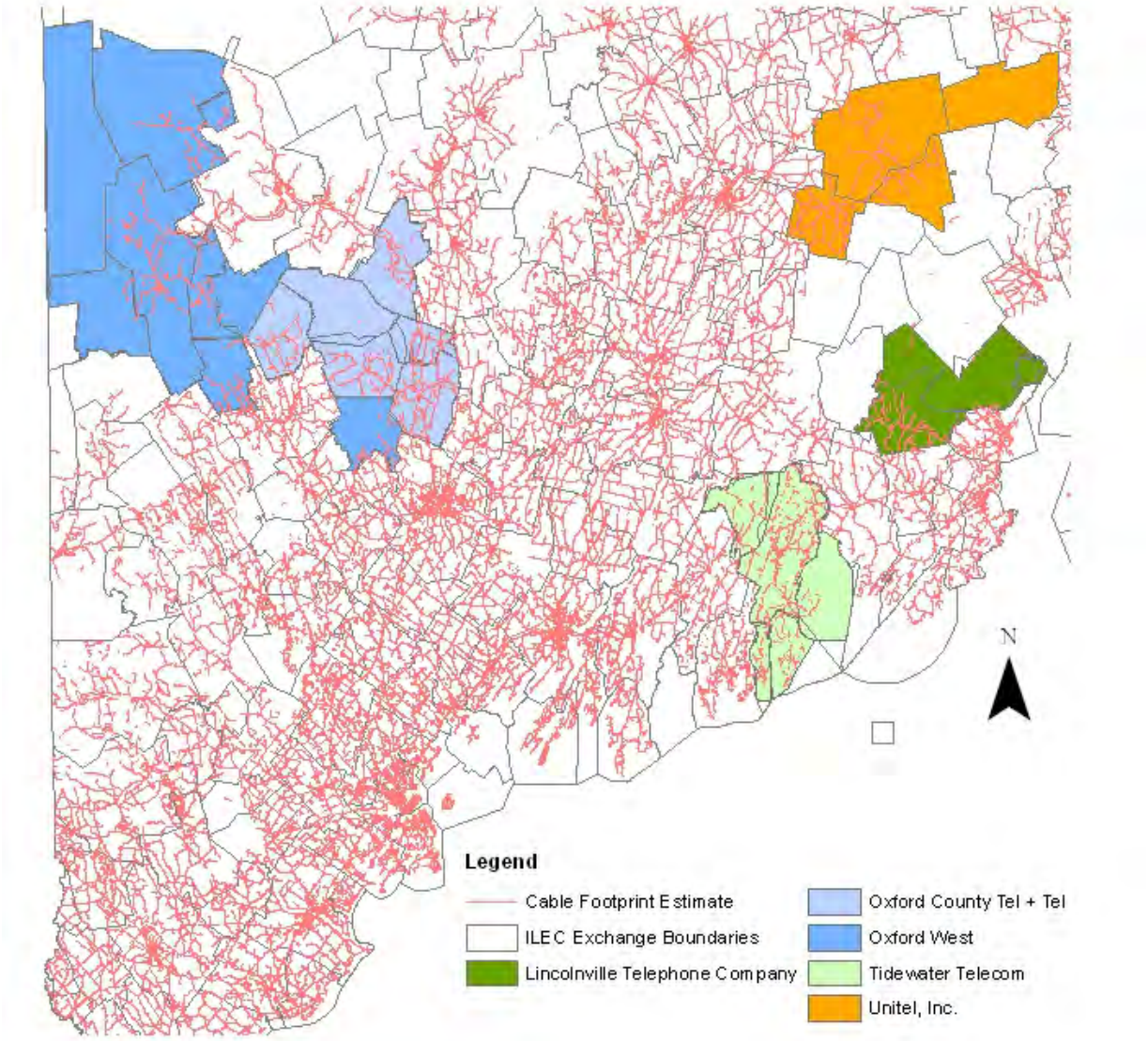
Time Warner Requests for Interconnection with RLECs In March of 2012, Time Warner Cable Information Services (Time Warner) filed with the Commission a request for arbitration as it attempted to negotiate interconnection agreements with five rural ILECs: Oxford Tel., Oxford West Tel., UniTel, LincolnVille Tel., and Tidewater Telecom. Time Warner’s goal is to offer its competing VoIP service product, Time Warner Digital Phone, to customers residing in Time Warner’s cable franchise areas that are part of the service territories of the rural carriers.

Under the Federal Telecommunications Act of 1996 (TelAct), the Commission is authorized to resolve disputes between carriers regarding the terms of an interconnection agreement that sets forth each carrier's obligations with respect to the mutual exchange of telephone traffic. The Commission conducted arbitration proceedings and, on December 13, 2012, approved interconnection agreements between Time Warner and each of the five rural ILECs.

Concurrently with these arbitration proceedings, the rural ILECs brought a petition pursuant to the TelAct for a suspension of the federal requirement that an ILEC permit the "porting" of a telephone number. Porting means customers can maintain their home number when they change providers. The Commission conducted adjudicatory cases on the RLECs' "suspension petitions." UniTel withdrew its petition prior to the hearings. The Commission expects to decide the remaining petitions in the first quarter of 2013.

Figure 2 below depicts Time Warner's cable broadband footprint as defined by the ConnectME Authority in the service territory of the five rural ILECs exchanges. In large part, this cable footprint represents the service area in which Time Warner would like to expand its digital phone service. The Commission reports on this matter pursuant to its obligation, under 35-A MRSA § 120(4), to provide an explanation of its activities that are related to ensuring that rural areas of the State are not disadvantaged as competitive markets develop.

Figure 2



Lifeline The Commission administers the Federal Lifeline program for Maine, which encourages states to help facilitate telephone subscribership among low-income customers. The goal of this federally sponsored program is to help provide access to basic telephone service for those that qualify. To participate in the program, consumers must have an income that is at or below 135% of the federal poverty guidelines or participate in a qualifying state, federal or tribal assistance program. Consumers may also qualify if they receive benefits from programs like Medicaid, the Low-Income Home Energy Assistance Program (LIHEAP), and the Temporary Assistance to Needy Families Program.

All of the ILECs in Maine provide Lifeline service for which they receive a federal subsidy of $9.25 per month per eligible subscriber. As a result, a Lifeline customer receiving service from FairPoint would expect to pay $5.44 for basic local service. Other Maine ILECs offer comparable pricing to eligible customers. Numerous wireless carriers also offer Lifeline service (and receive federal subsidies). In Maine, those wireless carriers include U.S. Cellular, TracFone, Virgin Mobile, Cintex, Nexus, YourTel, Gulf Coast Wireless and Budget Wireless. The Commission also has pending before it several applications from additional wireless carriers for approval to offer Lifeline service in Maine.

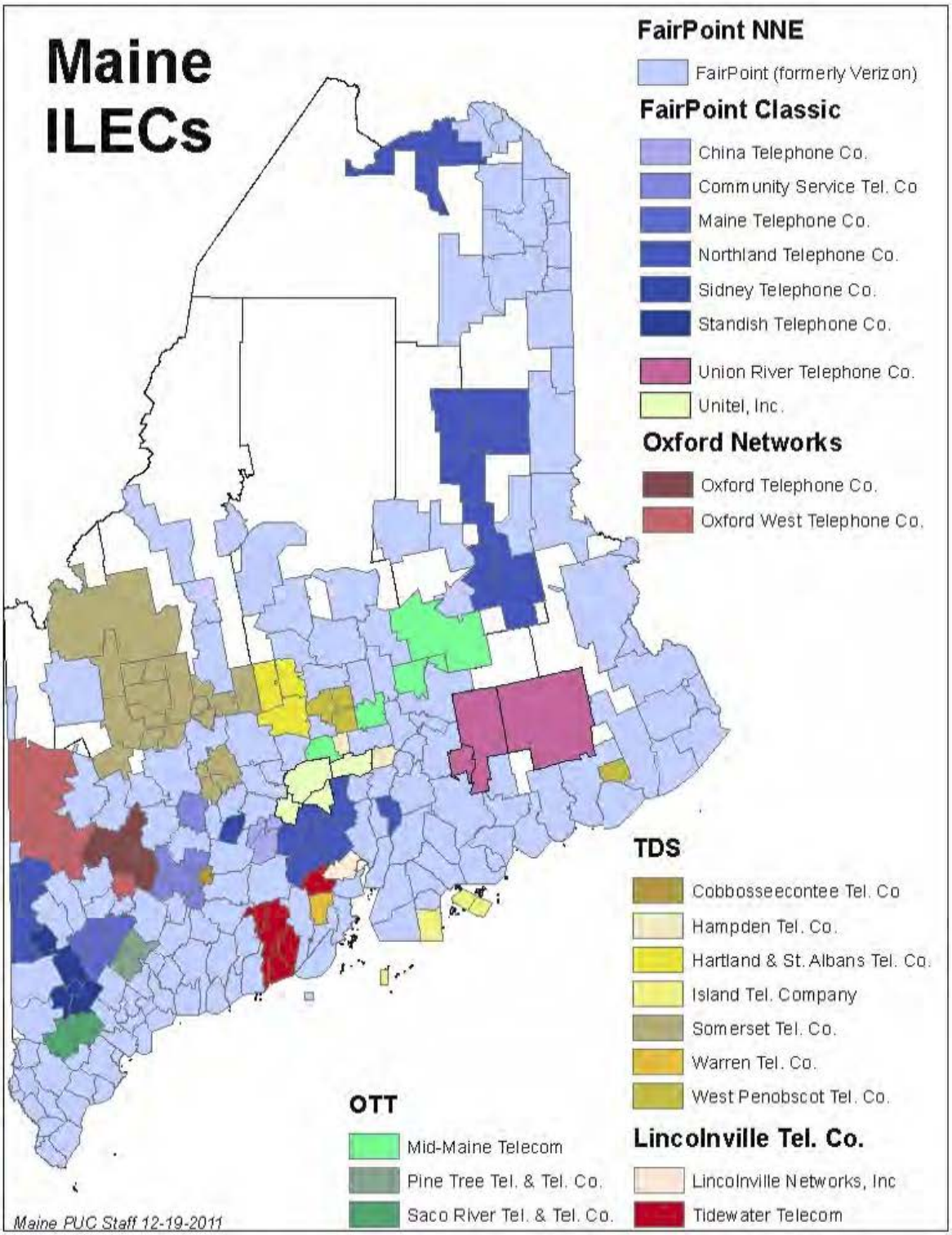
LEGISLATIVE MANDATES

Maine Telecommunications Education Access Fund (MTEAF) The Commission administers the MTEAF, which provides funding to Networkmaine (an entity within the University of Maine System) to operate the Maine School and Library Network (MSLN). The MSLN provides funds for qualified schools and libraries within the State for high-speed Internet access, content databases and search capabilities, content filtering and training, as needed. The MTEAF receives funds from all telecommunications carriers offering telecommunications services in the State. During 2012-2013, the Fund will collect 0.6% of retail charges for intrastate telecommunications services or approximately $3.25 million.

The carriers may pass on their MTEAF contributions in the form of a surcharge that must be explicitly identified on their customers' bills. An independent administrator selected by the Commission implements the process of collecting the required contributions and paying the MSLN's expenses. The Commission approves the annual budget request from Networkmaine and establishes the contribution rate, which by statute cannot exceed 0.7%.

Public Interest Phones (PIPs) Beginning in 2007, in response to Maine law and Chapter 252 of the Commission's Rules, the Commission oversaw the installation of 38 Public Interest Payphone (PIP) sites throughout Maine. The annual cost of the program is just under $42,560 and is funded by the MUSF. The Commission is required to report on this information in its annual report pursuant to 35-A MRSA § 7508(4).

Figure 3


Maine ILECs
FairPoint NNE
FairPoint (formerly Verizon)
FairPoint Classic
China Telephone Co.
Community Service Tel. Co
Maine Telephone Co.
Northland Telephone Co.
Sidney Telephone Co.
Standish Telephone Co.
Union River Telephone Co.
Unitel, Inc.
Oxford Networks
Oxford Telephone Co.
Oxford West Telephone Co.
TDS
Cobbosseecontee Tel. Co
Hampden Tel. Co.
Hartland & St. Albans Tel. Co.
Island Tel. Company
Somerset Tel. Co.
Warren Tel. Co.
West Penobscot Tel. Co.
OTT
Mid-Maine Telecom
Pine Tree Tel. & Tel. Co.
Saco River Tel. & Tel. Co.
Lincolnville Tel. Co.
Lincolnville Networks, Inc
Tidewater Telecom
Maine PUC Staff 12-19-2011

ELECTRIC

THE ELECTRIC INDUSTRY IN MAINE[2]

Electricity service to Maine consumers comprises two components: delivery and supply. Delivery includes transmission, distribution and customer-related items such as metering and billing, and supply includes the production and provision of electric energy and capacity. Delivery encompasses high-voltage transmission and lower-voltage distribution systems, including the construction, operation and maintenance of the necessary facilities. Delivery is considered to be a monopoly service and, thus, is fully regulated. Supply is not considered to be a monopoly service, and is provided by various entities operating in regional and state wholesale and retail markets with lighter regulation and oversight. At the retail level, consumers in Maine receive delivery service from a regulated transmission and distribution (T&D) utility, and supply service from a licensed competitive electricity provider (CEP).

T&D rates comprise three components: transmission, distribution, and stranded costs. Transmission rates cover the cost of constructing and operating the transmission system in Maine, as well as costs allocated to Maine for regional pool transmission facilities (PTF)--high voltage transmission lines which serve as the backbone of the New England system and are paid for by all New England ratepayers. Distribution rates cover costs incurred by the T&D utility to construct and operate the local distribution system, as well as costs for customer-related activities such as metering and billing. Stranded cost rates reflect the net, above-market costs for generation obligations that utilities incurred prior to industry restructuring, as well as net costs from more recent contracts authorized pursuant to specific statutory provisions, such as the long-term contracting statute (35-A MRSA § 3210-C), the Community-based Renewable Energy Pilot Program statute (35-A MRSA § 3601-3609), and unallocated language, Section A-6, of the Ocean Energy Act (PL 2009, Chapter 615). Distribution and stranded costs rates are regulated by the Commission.

The Commission regulates the operations and rates of the Maine T&D utilities, except for transmission rates, which are regulated by the Federal Energy Regulatory Commission (FERC). The Commission licenses retail electricity suppliers and marketers, and generally oversees the Maine retail market. The Commission also administers competitive procurement processes for standard offer service, and administers other power supply procurement processes pursuant to specific statutory direction and authority. Finally, the Commission monitors regional wholesale markets and bulk power and transmission systems, including the New England Independent System Operator (ISO-NE) and the Northern Maine Independent System Administrator

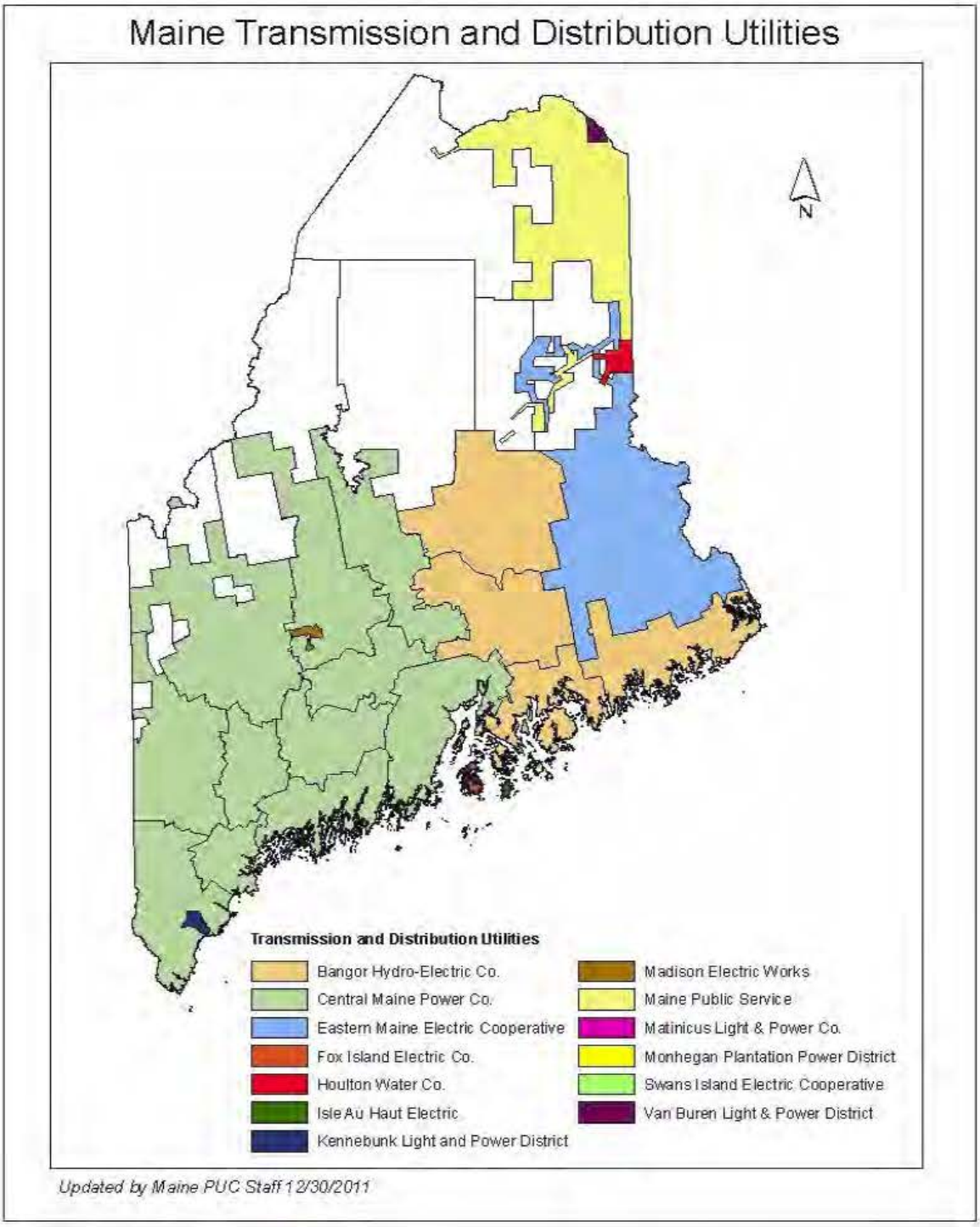
[2] In addition to reporting on the electric industry, this section includes the Commission's Annual Reports on Electric Restructuring required pursuant to 35-A MRSA § 3217, Electric Incentive Ratemaking required pursuant to 35-A MRSA § 3195(5) and Smart Grid Infrastructure pursuant to 35-A MRSA § 3143.

(NMISA) systems, and advocates for Maine consumers in regional forums and before FERC.

There are thirteen T&D utilities in Maine: three investor-owned utilities (IOUs) and ten consumer-owned utilities (COUs). The IOUs, Central Maine Power Company (CMP), Bangor Hydro-Electric Company (BHE) and Maine Public Service Company (MPS), serve about 95% of the total State load. Figure 1 below shows the geographic areas each utility serves. There are just under 200 Maine-licensed CEPs, who collectively currently supply about 42% of Maine's retail electricity usage. The remaining usage is supplied by the suppliers selected to provide "default" service, i.e. standard offer service. There are also several electricity generation facilities located in Maine. Summary information about these facilities is available through the ISO-NE http://www.iso-ne.com/main.html and the NMISA http://www.nmisa.com/

Electricity use by Maine consumers is currently about 12 million megawatt hours (MWh) per year, with a peak demand of about 2100 MW. Maine is currently a net electricity exporter, with total generation capacity from in-state plants in the range of 3500 MW.

Figure 1 – T&D Service Areas



INDUSTRY TRENDS

Retail Supply Market Since March 2000, consumers in Maine have had the right to select their electricity supply products and suppliers. For years there has been a robust market throughout most of Maine for medium and large commercial and industrial (C&I) customers, but virtually none for residential and small commercial customers. During 2012, however, retail competition increased substantially for residential and small commercial customers. Several new CEPs were licensed and began to market to and supply this sector, which has been supplied almost exclusively by standard offer service since retail competition began in 2000. Currently, about 25% of residential and small commercial customers are served by a competitive supplier rather than by standard offer service.

As has been the case in prior years, during 2012 competition remained weak in northern Maine due to its electrical isolation from a functional wholesale market, such as exists in the ISO-NE region. This isolation has hindered the retail market from developing in this part of the State since retail access began in 2000.

New products for residential and small commercial customers also emerged, including a green power program administered by the Commission that will allow customers to purchase renewable energy credits (RECs), and a standard offer time-of-use (TOU) option that will allow customers who shift more of their usage to off-peak periods to save money.

Retail Supply Prices Electricity supply prices continued to decline during 2012, tracking prevailing conditions in the wholesale market. The principal factor influencing this decline is the sharp decline in the price of natural gas, which is the dominant influence on regional wholesale electric energy prices. Standard offer prices for CMP and BHE customers declined by 12%-15% compared to the prior year. Similar trends are likely for non-standard offer retail prices, although data for 2012 is not currently available.

T&D Rates During 2012 there were also changes to the transmission and stranded cost components of T&D rates. Most notable were the increases in FERC-regulated transmission rates, which in 2012 increased by approximately 20% for CMP and 13% for BHE compared to the prior year. The 2012 increases reflect the continuation of a trend that over the last five years has driven transmission rates to increase by about 70%. By way of illustration, the transmission rate for a CMP residential customer has increased from 1.0 ¢/kWh in 2007 to 1.7 ¢/kWh in 2012. The current transmission rate for BHE residential customers is even higher, at 2.4 ¢/kWh. These increases are largely as a result of major transmission system upgrades throughout New England, including by CMP and BHE. Under the ISO-NE tariff, costs of most major transmission projects in New England are shared among all the New England states in proportion to their load, so that Maine customers pay about 8% of the cost of those projects regardless of where they are physically located. The transmission rate for a MPS residential customer is about 0.6 ¢/kWh reflecting, in part, the fact that MPS is not part

of the ISO-NE system and also the relatively lower transmission costs of the lower voltage system in that smaller area. As indicated elsewhere in this report, the Commission has recently expressed concern about the reliability of the MPS system, and it is possible that resolution of the current reliability issues may require increases in the transmission rate.

Stranded cost rates, which include net costs from pre-restructuring power purchase contracts as well as from more recent contracts authorized pursuant to the long-term contracting statute, Community-based Renewable Energy Pilot Program statutes and the Ocean Energy Act also increased in 2012 for both CMP and BHE, largely as a result of higher net purchased power agreement costs caused by lower wholesale market value for the resale of the associated energy. The stranded costs from pre-restructuring contracts have been declining over the past several years as contracts expire, and for MPS are largely eliminated. CMP has remaining contracts with expiration dates at the end of 2016. For BHE, which has contracts that extend through June 2018, these legacy stranded costs will remain in rates for six more years. CMP's stranded cost rates increased by about 25% on March 1, 2012, but remained well below 0.5 ¢/kWh. BHE's stranded cost rates increased by about 4% on July 1, 2012, resulting in a stranded cost rate for residential customers of 1.4 ¢/kWh. CMP and BHE stranded cost rates remain a relatively small component of total rates for most customers. Stranded cost rates for MPS were unchanged in 2012.

Distribution rates increased for CMP by 2.15% and were unchanged for BHE and MPS.

Figure 2 below provides a summary of residential electricity sales and rates for each Maine T&D utility.

Figure 2

RESIDENTIAL RATES IN MAINE

(As of 3/1/13)*

	% of State Residential Load	Standard Offer Delivery Rate kWh	T&D ¢/kWh	Stranded Cost ¢/kWh	Total Delivery ¢/kWh	Rate ¢/kWh	Total Rate ¢/kWh
INVESTOR-OWNED UTILITIES							
CMP	78.7%	3,475,145,000	6 8	0.37	2 6	8	**14.0 ¢/kWh**
BHE	13 5%	597,021,000	7 9	1 3	9.2	7.1	**16.4 ¢/kWh**
MPS	4.1%	179,996,000	6 2	1 3	7.4	7 3	**14.7 ¢/kWh**
COOPERATIVES & MUNICIPAL-OWNED UTILITIES							
Eastern Maine Electric Cooperative **	1.2%	53,668,986	9 2	N/A	9.2	7 8	**17.0 ¢/kWh**
Houlton	0.7%	29,255,889	3 2	N/A	3.2	7 9	**11.2 ¢/kWh**
Van Buren**	0.2%	7,145,710	4.4	N/A	4.4	8.1	**12.5 ¢/kWh**
Kennebunk Light & Power	1.0%	46,324,656	4 5	N/A	4.5	6 5	**11.0 ¢/kWh**
Madison Electric Works	0.4%	16,355,149	3.7	N/A	3.7	6.7	**10.3 ¢/kWh**
Matinicus	0.0%	231,637	Exempt from Standard Offer requirements				**74.8 ¢/kWh**
Monhegan	0.0%	107,735	Exempt from Standard Offer requirements				**70.0 ¢/kWh**
Fox Island	0.1%	6,344,426	16.5	N/A	16.5	10 9	**27.4 ¢/kWh**
Isle au Haut	0.0%	168,537	36.7	N/A	36.7	0 0	**36.7 ¢/kWh**
Swans Island	0.0%	2,070,205	21.9	N/A	21.9	10 2	**32.1 ¢/kWh**
STATE AVERAGE		4,413,834,930	6.94	0.48	7.42	6.91	**14.3 ¢/kWh**

** - Except as noted, delivery rates based on 2011 annual reports and supply rates based on rates to be in effect 3/1/13.*

*** - EMEC and Van Buren supply rates based on 2012 rates as 2013 rates are not yet determined.*

KEY EVENTS

Advanced Metering Infrastructure (AMI or Smart Meters) CMP's meters and related communication and data management systems are now largely in place, and are being used by CMP and its customers for operational efficiencies, and improved access to usage information and pricing programs. BHE's system has had remotely-readable meters in place for several years, and enhancements to bring BHE's system up to full AMI capabilities are ongoing. During 2012, the Commission held proceedings for both CMP and BHE to consider dynamic pricing programs that will be enabled by AMI. The dynamic pricing programs will provide customers with options to purchase electricity supply on a time-differentiated basis, providing for more efficient use of electricity and lower bills. The design and operational terms of a TOU program for CMP residential and small commercial customers were approved by the Commission in March 2012, and TOU prices have been set for the first year of the program, which begins on March 1, 2013. BHE plans to conduct a pilot program in 2013, and to be able to expand the availability of dynamic pricing for its customers within the next year or two.

On July 12, 2012, the Maine Law Court issued a decision vacating the portion of a prior dismissal by the Commission of a complaint raising health and safety concerns associated with CMP's smart meter technology. Accordingly, on July 24, 2012, the Commission initiated an investigation into these health and safety issues. The investigation is pending and is expected to be concluded in 2013.

Maine Power Reliability Program On June 10, 2010 the Commission issued a Certificate of Public Convenience and Necessity (CPCN) authorizing CMP to construct the Maine Power Reliability Program (MPRP). The MPRP is a substantial upgrade of the Maine transmission system, consisting of 437.5 miles of new or rebuilt transmission lines, six new substations and major expansions at seven other substations. The MPRP is estimated to cost $1.4 billion. As of December, 2012, CMP had cleared about 290 miles of corridor, set 2,444 transmission structures and installed 184 miles of transmission line.

CMP estimates that 2,600 people have worked on the MPRP to date and peak employment is expected to exceed 2,800 people. Of the 391 suppliers, contractors and subcontractors on the project, 269 are headquartered in Maine. The MPRP is estimated to increase the Maine Gross Domestic Product by $436.7 million, provide $303 million in wages and salaries and generate $20.9 million in income and sales tax revenue for the State.

The MPRP Ombudsman, a position authorized in 2010 to assist abutting landowners, has handled more than 90 cases to-date, most of which have resulted in a negotiated resolution between the landowner and CMP. Cases which the Ombudsman has been unable to resolve through negotiation have been referred to and adjudicated through the Commission's Landowner Dispute Resolution Process.

Finally, as part of its initial approval of the MPRP, the Commission also determined that the reliability needs in the Mid-Coast area of Maine would be the subject of a non-transmission alternative (NTA) pilot project to be jointly developed and implemented by CMP and GridSolar, LLC. On April 30, 2012, the Commission authorized a three-year pilot plan to evaluate the feasibility and cost of NTA resources, such as energy efficiency, demand response, and distributed generation, as a means to meet reliability needs in the Boothbay region that would otherwise require transmission investments. Specifically, the Pilot Project will be designed to determine:

1. Whether and what type of NTAs can be acquired at reasonable cost to meet grid reliability requirements;

2. Whether and what are the best means by which the new advanced metering systems being deployed by CMP can provide the information and communications requirements to support NTA solutions to grid reliability issues;

3. Whether NTAs are capable of responding in the manner necessary to provide grid reliability service to CMP; and

4. Whether the results of this pilot project can be scaled to meet the grid reliability requirements of other regions of the CMP and BHE networks in Maine.

To-date, GridSolar has conducted an RFP process to acquire NTA resources. The Commission received GridSolar's recommendations regarding the NTA resources to be retained for the pilot project on January 2, 2013 which are under review by the Commission.

Smart Grid Coordinator Investigation On September 8, 2010, the Commission initiated an investigation to determine the potential role of a smart grid coordinator in furthering the reliability, efficiency and environmental policies embodied in the Smart Grid Policy Act. PL 2009, Chapter 539 (now codified at 35-A MRSA § 3143). After receiving filings from a number of parties in the proceeding including CMP, BHE, the Public Advocate and a consultant retained by the Commission, on October 29, 2012, the Commission issued an order approving a stipulation among the parties that recommended dismissal of the investigation pending the results of the Mid-Coast Pilot Project discussed above.

Emera Reorganization Emera Inc., which is the ultimate parent corporation of both BHE and MPS, filed two petitions for approval to reorganize under 35-A MRSA § 708. The reorganizations would allow Emera to have an indirect financial interest in generation projects located in Maine and New England through partial ownership in a subsidiary, as well as to be affiliated with a retail CEP currently active in the BHE and MPS service areas. The petitions would allow Emera Inc. to increase its ownership interest in Algonquin Power & Utilities Corp. (APUC) to 25% and allow for the creation of an affiliated entity named Northeast Wind Holdings. APUC affiliates supply electricity in Maine and also own generation assets in MPS's service territory. Northeast Wind Holdings would be

owned by Emera Inc. and would acquire a 49% interest share in a subdiary that would own certain existing and future wind projects in Maine and the Northeast to be developed and jointly owned (51%) by First Wind Holdings, LLC. On April 30, 2012, the Commission approved the corporate reorganization with numerous conditions it deemed necessary to protect Maine ratepayers. The transactions have closed pursuant to the Commission's approval. However, several intervenors to the proceeding appealed the Commission's decision to the Law Court. That appeal remains pending.

Ocean Energy Contracts During its 2010 session, the Maine Legislature enacted An Act to Implement the Recommendations of the Governor's Ocean Energy Task Force (Ocean Energy Act) (PL 2009, Chapter 615). The Ocean Energy Act (Section A-6) directs the Commission to conduct a competitive solicitation for proposals for long-term contracts to supply electricity from deep-water offshore wind energy pilot projects or tidal energy demonstration projects. The Commission issued an RFP in September 2010, and on April 27, 2012, approved a Term Sheet for a long-term contract with Ocean Renewable Power Company for the output of its Maine Tidal Energy Project located in the Eastport-Lubec area of Maine. Statoil North America, Inc. submitted a term sheet for a deep-water offshore wind project in August, but the Commission declined to approve the terms as submitted (the Commission recessed deliberations rather than issuing a final order). Since those deliberations were recessed, the U.S Department of Energy has awarded development grants to both Statoil and the University of Maine for offshore wind projects. While Statoil has indicated that it may submit revised terms for consideration by the Commission, it is not yet clear what, if any, impact the DOE grants will have on the Statoil initiative or the Commission's review.

Green Power Offer During its 2009 session, the Legislature enacted An Act to Establish the Community-based Renewable Energy Pilot Program. PL 2009, Chapter 329. Part B of the Act requires the Commission to arrange for a green power supply offer. Green power supply is defined in statute as electricity or RECs for electricity generated from renewable resources as defined in statute. The Act required the Commission to administer a competitive bid process to select a green power offer provider or providers. During 2012, the Commission selected 3Degrees, Inc. as the provider for the Maine Green Power program, and concluded negotiations between the host utilities (CMP, BHE and MPS) and 3Degrees for the billing and other administrative elements of the program. Once the program is in place in early 2013, customers will have the opportunity to purchase RECs associated with renewable power generated in Maine and pay for those RECs through their electric bills. Customers can purchase RECs in blocks of 500kWh per month, which will allow them to match their REC purchases to all or a portion of their electricity usage, or to purchase RECs that exceed their electric usage

Electric Heating Pilot Programs During the 2012 session, the Legislature enacted An Act To Improve Efficiency Maine Trust Programs To Reduce Heating Costs and Provide Energy Efficient Heating Options for Maine Consumers (Act). PL 2011, Chapter 637, Section 11 of the Act provides that T&D utilities may implement, upon Commission

approval, efficient electric heating systems pilot programs. Pursuant to this legislative authority, on September 11, 2012, the Commission approved a CMP pilot program that will allow for utility rebates to customers for the purchase and installation of Electric Thermal Storage (ETS) heating systems. On September 19, 2012, the Commission approved a BHE/MPS electric heat-pump on-bill financing pilot program that will allow for utility rebates and loans for qualifying systems. Both programs are underway. Pursuant to the Act, the utilities that implement pilot programs will report certain information to the Commission. The Commission will submit those, as well as the Commission's analysis, to the Legislature by January 2014.

EMT Triennial Plan On July 1, 2010, in accordance with the requirements of the Efficiency Maine Trust Act (PL 2009, Chapter 372), the Efficiency Maine Trust (EMT) assumed full responsibility for planning and administering Maine's programs for energy efficiency and use of alternative energy resources. These responsibilities were previously held by the Commission. The Act requires the EMT to periodically develop a Triennial Plan for energy efficiency and alternative energy resources, and establishes certain oversight roles and responsibilities for the Commission with respect to the Triennial Plan. In April of 2010, the EMT released its first Triennial Plan for the 3-year period beginning July 2010.

On December 23, 2011, EMT filed a Second Updated Plan for Commission approval. The Second Updated Plan contained an explanation of amendments to the Plan budget as a result of various funding changes and updated performance metrics related to the revised program budget. On June 12, 2012, the Commission issued an Order Approving the Second Update to the Triennial Plan. The Commission deferred decision on the portion of the Second Updated Plan related to the use of funds from RGGI for fiscal year 2013, but the Commission subsequently approved that portion of the Second Updated Plan on September 11, 2012.

On November 27, 2012, EMT submitted its Second Triennial Plan to the Commission for approval. The Second Triennial Plan covers the 3-year period beginning July 2013. The Commission is currently reviewing the Second Triennial Plan, and expects to issue and order in early 2013.

Northern Maine Investigation In December 2012, the Commission opened an investigation into reliability issues in the NMISA region, and into the adequacy of existing structures and processes to implement solutions to address the region's reliability needs. For the past several years, the NMISA and in-region stakeholders have raised concerns about the adequacy of the northern Maine transmission system, particularly in the event in-region biomass generation were to become unavailable. Various solutions have been developed and studied; however, to-date, no solution has been implemented. The Commission will examine the scope of the reliability problem, the various solution options, and the extent of its authority to direct a resolution. The Commission reports on this matter pursuant to its obligation under 35-A MRSA § 120(4), to provide an explanation of its activities that are related to ensuring that rural areas of the State are not disadvantaged as competitive markets develop.

Alternative Rate Plan CMP continued to operate under the terms of an alternative rate plan (ARP) that was approved in 2008. The ARP ends at the end of 2013 and the Commission expects that CMP will initiate a new ARP proceeding in the spring of 2013.

Effective July 1, 2012, the Commission authorized CMP to increase its distribution rates by 2.15%. The increase was determined in accordance with the current ARP 2008 price change formula. The increase was principally the result of an inflation rate index increase of 2.11% and qualifying storm restoration cost increases of 3.8%, offset by a productivity offset factor of 1.0% and the removal of several prior one-year adjustments.

Regional Matters During the 2011 session, the Legislature enacted Resolve, To Promote Greater Transparency and Accountability Through Regional Transmission Organization Reform. Resolves 2011, Chapter 68 The Resolve directs the Commission, as well as the Public Advocate and the Office of Energy Independence and Security (OEIS) (now the Governor's Energy Office), to advocate for greater transparency of governance and operations and accountability of ISO-NE, and to confer, to the greatest extent possible with other and comparable commissions or bodies from one or more of the other New England states. The Resolve directs the Commission to report on these efforts and any recommendations as part of the Commission's 2011, 2012 and 2013 Annual Reports. The efforts undertaken during 2012 are summarized below. The Commission participates in regional and national matters in four ways. First, the Commission sometimes participates directly in federal proceedings. Second, the Commission may join with other state commissions in participating in federal advocacy, either through the National Association of Regulatory Utility Commissioners (NARUC) or the New England Conference of Public Utility Commissioners (NECPUC). Third, the Chairman Welch is the governor's designated representative on the board of managers of the New England States Committee on Electricity, an organization established pursuant to an order of the Federal Energy Regulatory Commission (FERC) for the purpose of advice and advocacy in energy matters in New England and funded through the ISO-NE tariff. Finally, individual commissioners may participate in various regional and national activities (such as Eastern Interconnection States' Planning Council (EISPC), the Regional Greenhouse Gas Initiative (RGGI) and various committees of NARUC) that may have an impact on utilities or utility customers in Maine.

The Commission was involved in several other regional matters affecting Maine electricity consumers during 2012. These are summarized below.

1. Energy Efficiency in the Load Forecast Maine, working together with other New England states, persuaded ISO-NE to include projections of energy efficiency program savings in the load forecast that is used to develop the regional transmission plan. The effect of including efficiency in the forecast in this manner is to reduce the expected load thereby deferring or eliminating the need for certain transmission upgrades. The addition, for the first time in 2012, of the expected effects of efficiency

programs resulted in the ISO eliminating a $259 million of transmission upgrades in Vermont and New Hampshire (for which Maine customers would have been responsible for approximately $20 million) from the regional transmission plan.

2. Transmission Planning In response to a request from Maine and the other states through New England States Committee on Electricity (NESCOE), ISO-NE began developing a Transmission Planning Manual that will memorialize the assumptions and criteria used in transmission planning, as well as the planning process itself. The goal is for greater transparency and more consistent, efficient and timely results across the region. An initial draft prepared by ISO-NE was distributed to the states and transmission owners for comment. ISO-NE is currently reviewing comments. The Commission has also supported an effort to bring more transparency to the cost/benefit analyses inherent (but now largely implicit) in planning, principally by asking ISO-NE to explore opportunities to introduce probabilistic analysis into the planning process. The Maine and Massachusetts commissions were successful in obtaining research support from NARUC for this effort.

3. Non-Transmission Alternatives Analysis Working with other states through NESCOE, Maine has proposed changes to how and when NTAs are considered by ISO-NE in its transmission planning process. The goal is to conduct NTA analysis earlier in the process and in a more open and transparent manner.

4. Gas-Electric Coordination The ISO-NE region is increasingly and heavily dependent on natural gas for generation of electricity. Pipeline capacity into New England from the expanding gas fields in the mid-Atlantic region are becoming increasingly constrained, and, while some new pipeline ventures have been described, it is not clear whether new capacity will be built, or if so when. ISO-NE has identified its gas dependency as a strategic risk and has observed that sufficient gas may not be available to meet power system needs during periods of high seasonal demand, under other stressed system conditions, or when facing contingencies associated with natural gas supply/transportation system infrastructure. In addition, FERC has observed a lack of coordination between the gas and electric wholesale industries and has taken steps to consider better coordination, including holding regional conferences on the issue. Maine and the other New England states are working with ISO-NE to gain a better understanding of the reliability issues and to ensure that measures taken to address those issues reflect sufficient concern for customer impacts. To assist Maine and other states, NESCOE has sponsored an independent study of the parameters of the natural gas dependency issues.

5. North American Electric Reliability Corporation (NERC) The North American Electric Reliability Corporation submitted to FERC a new definition of Bulk Electric System (BES) that would require all regions to apply a uniform methodology for operation and planning of the interconnected bulk power system. FERC issued a Notice of Proposed Rulemaking (NOPR) proposing to approve NERC's modified definition and also solicited further explanation and comments on the matter. In coordination with NESCOE, the New England states and New York, the Commission submitted comments. FERC issued its final rule on December 20, 2012 in which it approved NERC's modified definition of BES, including the criteria for inclusions or exclusions of transmission elements from the definition of BES. Additionally, the Commission, in coordination with NESCOE, filed comments to NERC regarding a Cost Effectiveness Analysis Process (CEAP) proposed by NERC. The CEAP will introduce the concept of cost consideration and effectiveness into NERC's process for developing and revising reliability standards.

6. Forward Capacity Market The sixth ISO-NE forward capacity auction was conducted in April and concluded at the floor price of $3.43 per kilowatt-month. In total, the auction procured 30,757 MW of generating resources, 3,628 MW of demand resources, and 1,924 MW of imports. As in previous years, demand resources including demand resources from Maine customers, contributed a significant amount of capacity. The Commission was active in a stakeholder process regarding changes to the ISO-NE forward capacity market (FCM). The process remains ongoing. Among the issues being considered are elimination of the price floor, the introduction of a reward/penalty structure that more closely aligns the FCM with the investment needs of the resources and the effects of failure to perform, and consideration of mechanisms to smooth the expected volatility of capacity payments.

7. Strategic Planning ISO-NE began a strategic planning initiative to examine possible changes to markets to improve the reliability and efficiency of system operations. ISO-NE has begun implementing some of the near term initiatives, including enhancing audit provisions to improve resource performance. The Commission, as well as NECPUC, have filed comments in support of this initial step to improve resource performance.

8. Order 1000 On July 21, 2011, FERC issued Order No. 1000, a landmark order regarding transmission planning and cost allocation of transmission expansion. Order No. 1000 requires, among other things, that ISO-NE amend its Open Access Transmission Tariff (OATT) to explicitly provide for consideration of public policy requirements established by state or federal laws or regulations that may drive transmission needs. In October 2012, the New England Transmission Owners and ISO-NE jointly filed tariff revisions to comply with this requirement. The Commission and

NESCOE have filed comments on the joint filing. Maine and NESCOE were in accord that the ISO-NE tariff should provide for greater opportunities for competition among transmission project developers. Maine departed from NESCOE's position concerning how planning should be conducted for public policy projects, suggesting that the NESCOE approach (which was similar to the ISO-NE and Transmission Owners' position) did not go far enough in developing a regional approach to planning for public policy projects.

9. ROE Complaint The Commission, together with NESCOE and NECPUC, filed comments supporting the request by the Massachusetts Attorney General (MAAG) and others for an investigation into whether the FERC standards for return on equity (ROE) on transmission upgrades built by the New England Transmission owners should be significantly reduced. The Complaint asserts that the ROE should be reduced due to changed market conditions since the ROE was last set by FERC. While the Commission did not propose any specific new ROE, the reduction in interest rates suggests that an appropriate reduction in the allowed ROE could result in substantial savings to New England consumers. For example, the MAAG estimates that the relief it requested would annually save New England consumers over $100 million. FERC set this case for hearing and settlement. The parties did not reach agreement, and the case is currently being litigated at FERC.

10. Incentive Policy FERC issued a notice of inquiry to reexamine its policy regarding the granting of incentives for the construction of certain transmission projects. The Commission joined several other New England states and consumer owned utilities in asking FERC to modify its policy because of concerns that the ROE adders designed to encourage transmission construction result in consumers paying more than necessary to induce transmission owners to build needed transmission. On November 15, 2012, FERC issued an order in which it explained changes to its policy. These changes, including the requirement for applicants to mitigate the risks of a project before seeking incentives, will likely result in FERC granting fewer ROE adders, with concomitant savings to customers through lower transmission costs.

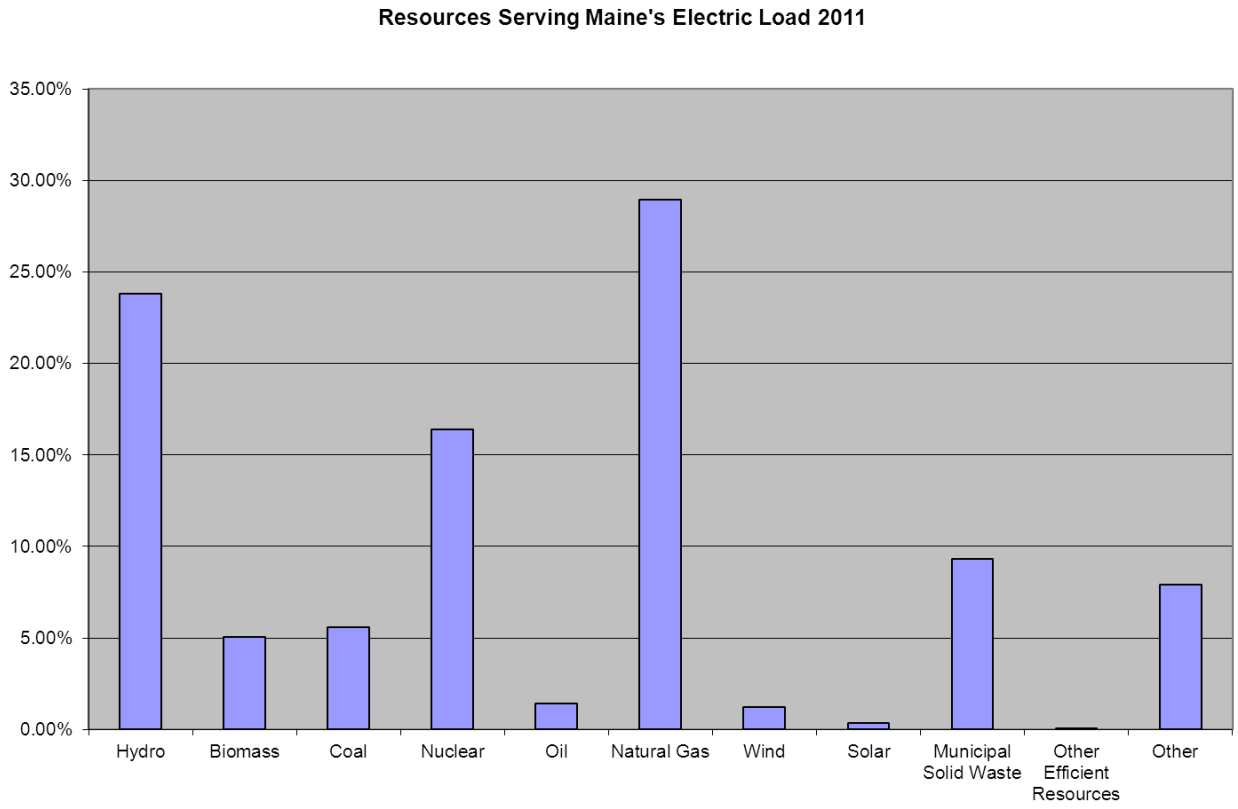
11. Eastern Interconnection States' Planning Council During 2012, the Commission continued to participate in a federally funded electricity system planning process called the Eastern Interconnection States' Planning Council (EISPC). The Eastern Interconnect is the portion of the national transmission grid that spans 38 states from Maine, south to Florida, and west to North Dakota. Currently, this system operates as a single system, but is planned by 26 different entities. In 2012, participants examined various transmission expansion scenarios, none of which would have much of an effect on New England. In 2013, EISPC will consider

various topics including GIS based location and identification of renewable energy zones, co-optimization of transmission and resource planning, and probabilistic transmission planning.

12. Constellation Disgorgement The FERC's Office of Enforcement (OE) and Constellation Energy Commodities Group (CCG) entered into a Stipulation and Consent Agreement (Consent Agreement) to resolve an enforcement investigation of CCG's trading behavior in the New England and New York electricity markets. The Consent Agreement created a disgorgement fund to be allocated among electric energy consumers in various states. Maine's allocation of approximately $1.8 million will flow back to consumers in 2013.

Supply Resources Serving Maine Figure 3 below shows the mix of resources used by suppliers to serve Maine customers in 2011, which is the most recent data available. These data show the mix of generation purchased on behalf of Maine customers, either through CEPs or by the standard offer suppliers.

Figure 3

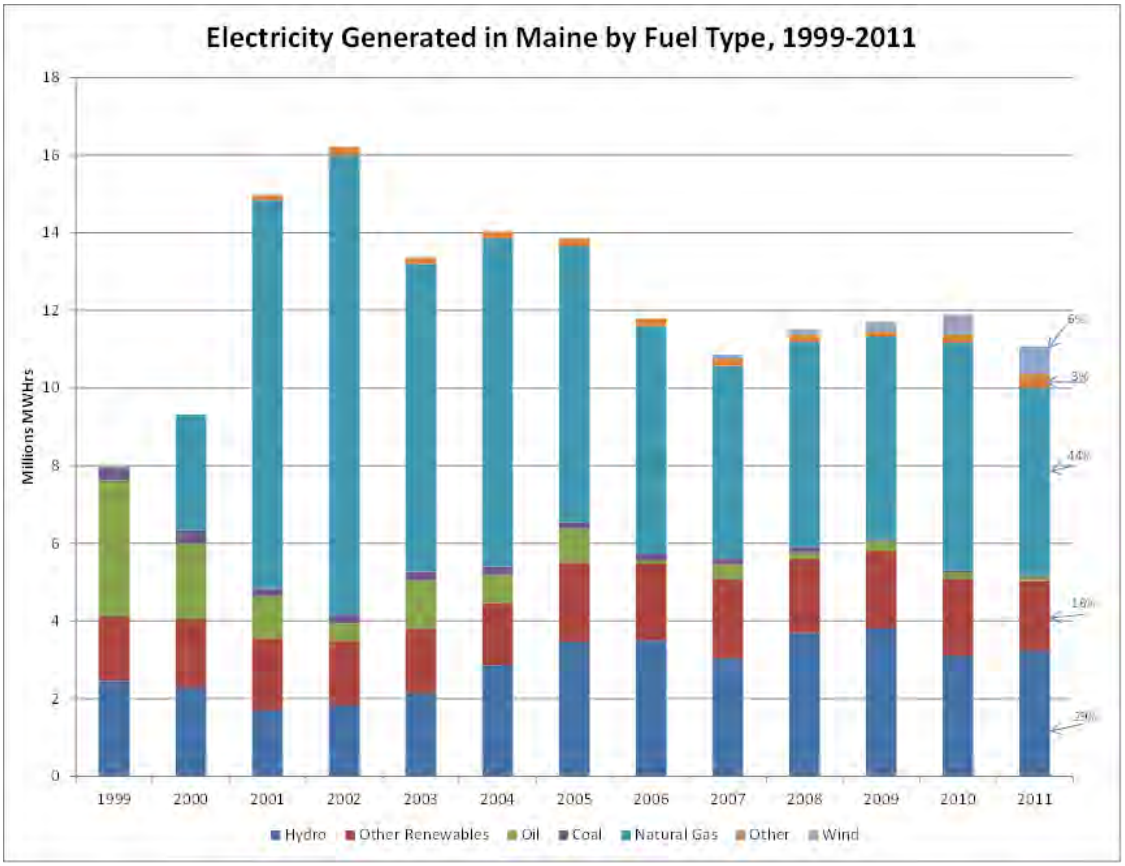


Generation in Maine There are about 3500 MW of generating capacity located in Maine. Much of the energy produced by these plants is in excess of Maine's demand and, thus, serves load in other states in the region. A complete list of generating plants

in Maine is available through the ISO-NE at http://www.iso-ne.com/main.html and the (NMISA) at http://www.nmisa.com/.

Most of the electricity produced in Maine is fueled by natural gas, with hydro-electricity being the next largest source. Figure 4 below shows Maine's generation levels and fuel mix over time, including the recent increases in wind generated energy.

Figure 4



Renewable Generation Maine's Electricity Restructuring Act originally established a 30% resource portfolio standard (RPS), requiring electricity suppliers (including standard offer suppliers) to supply 30% of their Maine load from "eligible resources." The Act defined eligible resources to be generating units whose capacity do not exceed 100 MW and that produce electricity from tidal, fuel cells, solar, wind, geothermal, hydroelectric, biomass, or municipal solid waste in conjunction with recycling; that qualify as small power producers under federal regulations; or that are efficient cogeneration units.

In 2007, the Legislature expanded the RPS to also require that an additional amount of electricity come from "new" renewable resources, which are generally renewable facilities that have an in-service date after September 1st, 2005. New

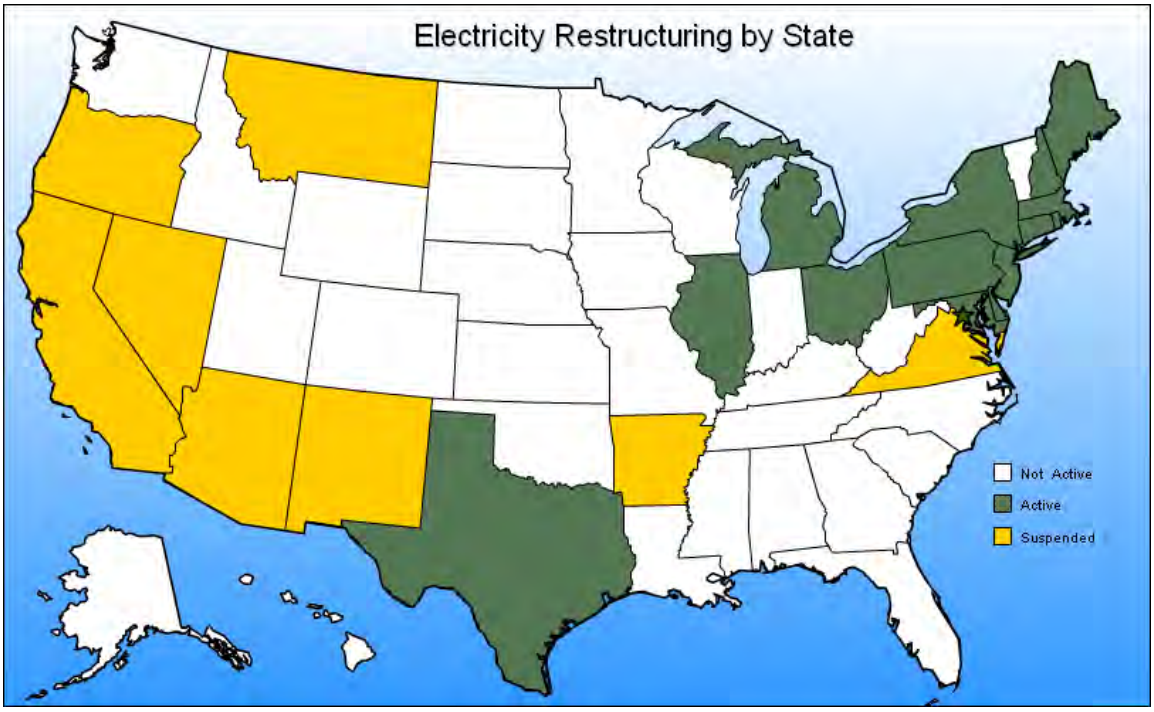
renewable resources include fuel cells, tidal power, solar arrays and installations, geothermal installations, wind generators, hydroelectric generators that meet all state and federal fish passage requirements, and biomass generators including generators fueled by landfill gas. The "new" requirement (also referred to as "Class 1") began at one percent of load in 2008 and increases by one percent per year to ten percent in 2017, unless the Commission suspends the requirement pursuant to the provisions of the Act.

Any generation facility used toward a supplier's Class I RPS must be certified by the Commission. During 2012, the Commission certified 14 generators as Class I compliant, bringing the total certified generators to 66, many of which are also certified for the RPS in other New England states. A list of all certified Class I facilities can be obtained from the Commission's website: http://www.maine.gov/mpuc/electricity/rps-class-I-list.shtml

ELECTRIC RESTRUCTURING

Summary of Activity in Other States The Restructuring Act directs the Commission to report on activities in other states associated with changes in the regulation of electric utilities. Since, the restructuring activity in the mid- to late-1990s that led to development of competitive electricity markets in more than twenty states, a number of states have reversed, suspended or modified restructuring actions and several restructured states have taken steps to delay implementation of a fully competitive retail market. No additional states initiated consideration of electricity market restructuring during 2012, leaving the fully implemented restructured markets primarily concentrated in the northeast and mid-Atlantic states. Figure 5 below shows the status of restructured electricity markets by state.

Figure 5



Source: Energy Information Administration
Data as of September 2010 (This is the latest information available)

NATURAL GAS

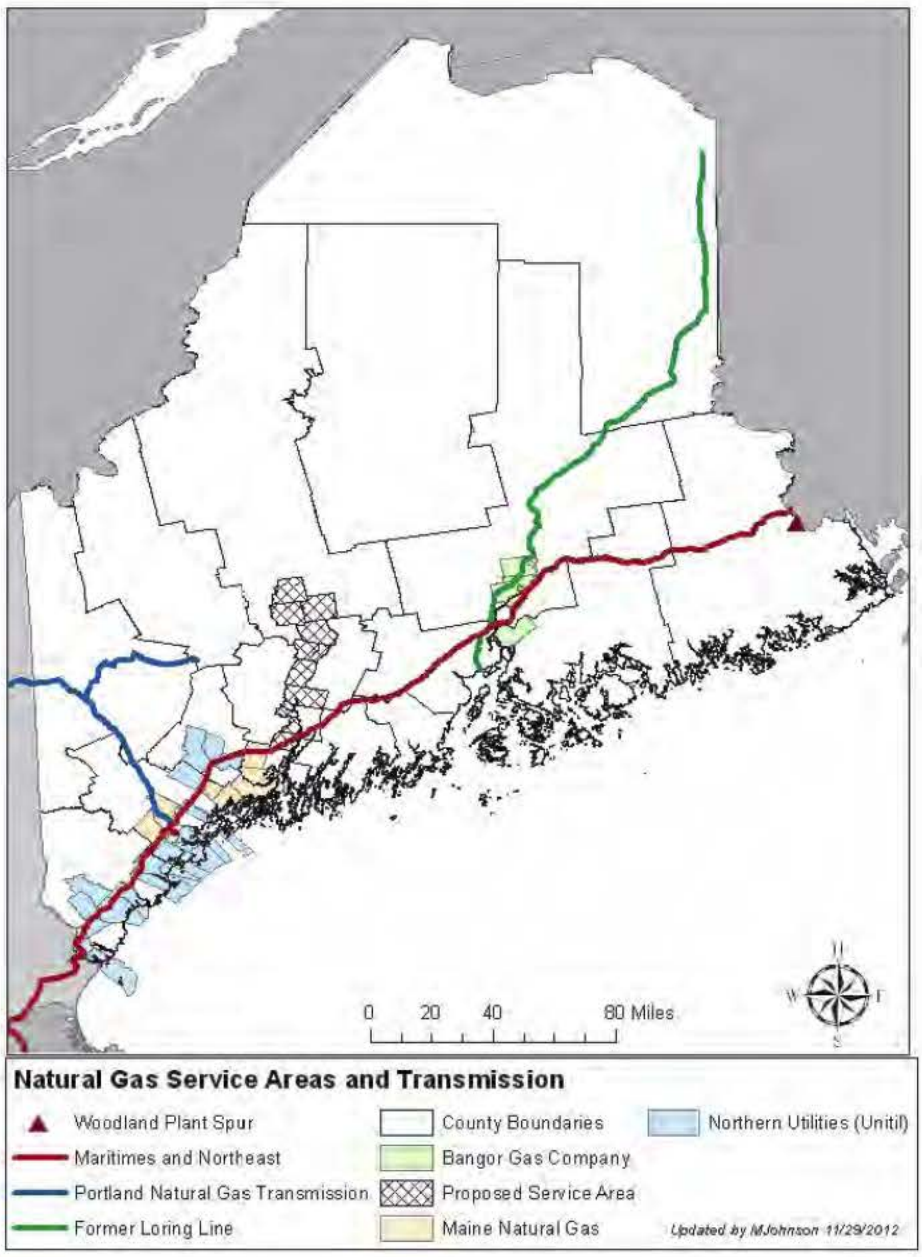
GAS REGULATION IN MAINE

The Commission approves the rates and terms of service for Maine's natural gas local distribution utility companies (LDCs) to ensure that they are just and reasonable. The Commission investigates and approves proposed sales, acquisitions or mergers among corporations owning LDCs doing business in the State. The Commission also reviews and analyzes gas purchasing strategies and pricing options that can stabilize retail prices. In addition, the Commission oversees the safety aspects of LDC operations and facilities, as well as of certain propane facilities. Finally, in areas of the natural gas industry where federal agencies have jurisdiction over issues that affect Maine consumers, the Commission actively monitors federal proceedings and participates as warranted.

There are three natural gas LDCs serving Maine. Northern Utilities, Inc. d/b/a Unitil (Northern) serves approximately 27,000 customers in the south-central Maine area, primarily in greater Portland/South Portland/Westbrook, greater Lewiston/Auburn, Biddeford/Saco and Kittery. Northern, a subsidiary of Unitil Corporation, has served Maine through its predecessor companies for over 150 years. Two other LDCs began providing service in Maine in 1999. Maine Natural Gas Corporation (Maine Natural Gas), a subsidiary of Iberdrola USA, serves approximately 2,500 customers primarily in the Windham, Gorham, Brunswick, Freeport, Bath and Topsham areas. Bangor Gas Company, LLC (Bangor Gas), owned by Energy West, Inc., serves approximately 2000 customers in the greater Bangor area, including Orono, Old Town, Brewer and Bucksport. In 2011, a new company, Kennebec Valley Gas Company (KVGC), was granted preliminary, conditional authority to provide service in central Maine. At the end of 2012 a petition for unconditional authority to serve from Summit Natural Gas (which plans to purchase KVGC) was pending before the Commission; the Commission granted the approval in January of 2013.

Three interstate pipelines have facilities in Maine: Maritimes & Northeast Pipeline, Portland Natural Gas Transmission System (PNGTS), and Granite State Gas Transmission, an affiliate of Northern. These entities are regulated by federal authorities, but the Commission works with state and federal agencies involved in the construction and regulation of these entities to ensure appropriate and adequate review of issues that affect Maine gas consumers and the public.

Figure 1 - Natural Gas Pipelines and LDC Service Areas[3]



[3] Former Loring Line: Proposed for natural gas service.

INDUSTRY TRENDS

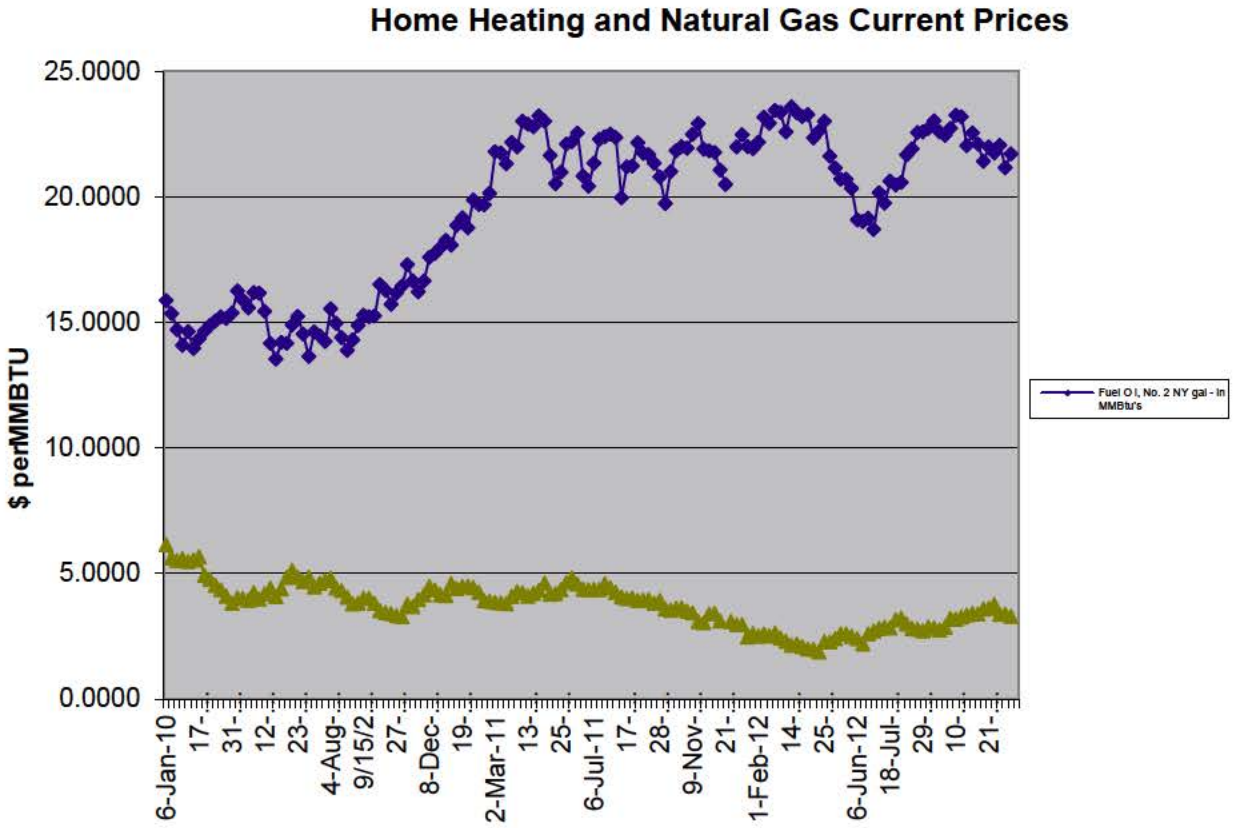
Wholesale natural gas commodity prices in U.S. markets remained stable at low levels in 2012, averaging $2.68 per million British thermal units (MMBtu) at Henry Hub, due to continuing weak demand and strong shale gas production. According to the U.S. Department of Energy (DOE), Energy Information Administration (EIA), natural gas futures prices for February 2013 delivery averaged $3.86 per MMBtu. See http://www.eia.gov/forecasts/steo/report/natgas.cfm.

Due to recent technological advances, domestic natural gas extraction from geologic formations such as the Fayetteville, Marcellus and Barnett shale beds has resulted in plentiful U.S. natural gas supply and low prices. National storage levels are at high levels and demand remains low due to slow economic recovery, though, especially in New England, demand for gas for electric generation is strong and increasing. These factors have resulted in favorable natural gas prices in the United States. There is currently no shale gas production in Maine.

During 2012, natural gas continued to be substantially less expensive than oil. For example, retail prices for home heating oil in Maine were approximately $26 per MMBtu compared to delivered residential natural gas prices for Maine's largest gas utility, which was in the range of $14 to $15 per MMBtu. The difference in the delivered fuel price of natural gas and oil have spurred a strong interest in natural gas conversion among Maine residential, commercial and industrial customers, much like the rest of New England. As a result, Maine's gas utilities have been adding customers at a robust rate and have been working to expand natural gas service to more areas of Maine. The Commission has been asked to authorize new proposed gas utilities that also aspire to serve various areas within the State. In addition, industries such as paper mills are increasingly converting from oil to natural gas, installing facilities for on-site (trucked) liquefied natural gas (LNG) or pipeline gas supply, to reduce fuel costs and help maintain a competitive cost structure. Around the nation, compressed natural gas (CNG) is also becoming a fuel choice for business conversions and vehicle fueling; the Commission approved the construction of a CNG facility in late 2012.

Figure 2 below illustrates the relationship between heating oil and natural gas over the last three years**.**

Figure 2



KEY EVENTS

Competition to Serve Central Maine The State of Maine Bureau of General Services sought proposals to build and operate a natural gas distribution system to serve State facilities in Augusta to which both Summit Natural Gas of Maine (Summit) and Maine Natural Gas responded.

Summit Natural Gas of Maine, a subsidiary of utility holding company, Summit Utilities, Inc., which currently operates natural gas utilities in Colorado and Missouri, has proposed to acquire KVGC utility assets and serve the central Maine area beginning in 2013. In 2011, KVGC was granted preliminary, conditional authorization to form a gas utility to build a transmission line from Richmond to Madison and distribution systems in municipalities along the route where economical to do so. KVGC obtained commitments of property tax reductions from the municipalities along the route, including Augusta, Farmingdale, Gardiner, Waterville, and Skowhegan, and identified large "anchor" load customers. In 2012, Summit received preliminary, conditional authority from the Commission to furnish utility service. The Commission must approve the transfer of KVGC's assets and Summit's final plan before it will be authorized to construct a pipeline system and render service. Summit recently announced that it has executed a contract to serve certain business locations in Augusta.

Exercising authority under 35-A MRSA § 2104(2) to expand into municipalities with no gas utility service without further Commission approval, Maine Natural Gas announced plans to construct a gas main from Windsor into Augusta to serve the new MaineGeneral Medical Center and other businesses and residences, then possibly also north to Madison. Maine Natural Gas's most recent expansions were into Bath in 2011 and Freeport in 2010.

Pipeline from Searsport to Former Loring Air Force Base Montana-based Gas Natural Inc., which owns Penobscot Natural Gas Co., closed on a $4.5 million lease for the 189-mile Loring jet fuel pipeline, extending from Searsport to Limestone. The Company plans to repurpose the liquid pipeline to accommodate natural gas, providing distribution to residential and commercial areas in northern Maine where natural gas is not currently available. The Commission will review any proposals for the former jet fuel pipeline to ensure it can safely transport natural gas.

Low-Income Program During 2012, Northern continued to provide a discount of 30% of total service charges for all customers that are eligible for all LIHEAP. This discount program has been in effect for three years, pursuant to 35-A MRSA § 4706-A. Approximately 600 people participated in Unitil's Low Income Assistance Program during 2012. In its order approving the settlement in the Northern rate case, the Commission directed Northern to reach out to low income customers to ensure that eligible customers are aware of the program. Section 4706-A requires the Commission to report on low-income assistance programs offered by gas utilities serving 5,000 or more residential customers as part of its annual report.

REGIONAL ISSUES

Gas produced in the Gulf of Mexico, the Marcellus shale, and Canada, together with gas imported in the form of LNG to facilities located in Massachusetts or New Brunswick, is transported to Maine through high pressure pipelines whose rates are regulated by FERC. Deliveries from such "upstream" pipelines are distributed by Maine's gas utilities to consumers under state rate and safety authority. Charges to Maine gas consumers include, in addition to the cost of the gas itself, charges for upstream transportation that are authorized by federal authorities as well as charges for intra-state service that are approved by the Commission. To give voice to Maine consumers in federal matters, the Commission participates at federal or state forums on issues such as the rates interstate natural gas pipeline companies charge Maine shippers and consumers, service terms, regional energy policy directives, and safety issues.

As noted above in the section on electricity, the issue of gas supply as it relates to the production of electricity in New England has become a focus of study and analysis by FERC, NESCOE, and ISO-NE. The Commission is fully involved in these efforts, because, in addition to the value that natural gas brings to the electricity market, additional gas available in New England and Maine could provide significant benefits to Maine's energy cost structure in general. There are some indications of interest by

pipeline developers (Algonquin and Tennessee Gas Pipeline in particular) to increase the supply of gas brought to New England from the new Marcellus shale fields at their expense. It is not clear what, if any, action the Commission can or should take to bring these or similar efforts to fruition, but at this early stage it appears that, should such additional capacity be built, Maine could benefit both through lower electricity prices and more opportunities for the use of gas in Maine. There will be improved supplies from New Brunswick, either or both from the Deep Panuke field adjacent to the declining Sable Island field, or from the shale formation in New Brunswick currently under preliminary study.

NATURAL GAS ALTERNATIVE RATEMAKING

The Commission is authorized by statute (35-A MRSA § 4706) to adopt alternative ratemaking mechanisms for gas utilities “to promote efficiency in operations, create appropriate financial incentives, promote rate stability and promote equitable cost recovery." In particular, the Commission may do the following: adopt multi-year ratemaking plans with mechanisms for future rate changes, reconcile costs and revenue, index revenues or rate changes, establish financial incentives, streamline regulation or deregulate services where not required to protect the public interest, approve rate flexibility programs and modify cost-of-gas adjustment requirements. Section 4706 requires the Commission to report on any significant developments with respect to action taken or proposed to be taken by the Commission in this area as part of its annual report.

Under this authority, the Commission has implemented alterative rate plans for two natural gas utility start-up ventures: Bangor Gas and Maine Natural Gas. Bangor Gas’ alternative rate plan included a 10-year distribution rate freeze, a rate cap set initially on a 3-year average of oil prices, indexed rate cap increases, pricing flexibility, and authority to enter into special contracts without prior Commission approval. This flexible regulation encourages expansion of natural gas service into areas that previously had no natural gas utility.

Bangor Gas’ rate plan expires in December 2012. The Commission is reviewing Bangor Gas’s December 1, 2012 request to renew its rate plan and expects to issue an order by summer 2013.

Two additional rate mechanisms have been approved by the Commission under the authority of Section 4706. In 2005, the Commission approved monthly cost of gas adjustment mechanisms for Maine's two start-ups to ensure more realistic price signals to consumers and to help moderate gas revenue imbalances that accrue between rate adjustment intervals. The Commission has also approved fixed and indexed price options. Second, the Commission approved Northern’s use of a detailed hedging plan which helps stabilize its winter gas commodity rates for its customers. The Commission is currently exploring whether Northern’s hedging plan should be terminated or modified given that natural gas market prices have remained, and are projected to remain, stable and low for the foreseeable future.

GAS SAFETY

GAS SAFETY REGULATION AND ENFORCEMENT IN MAINE

The Commission regulates natural gas service reliability and ensures compliance with safety standards for 654 miles of natural gas distribution and intra-state pipeline facilities throughout Maine. In addition, the Commission enforces safety standards for over 800 propane gas distribution facilities that deliver propane service to multi-unit housing complexes, commercial buildings and other facilities where propane system failures would likely impact large numbers of people.

The Commission derives its authority for safety oversight from both state and federal law. Chapters 420 and 421 of the Commission's Rules adopt federal safety regulations for pipelines that transport hazardous gases to protect the public and govern the safe operation of distribution facilities within the State.

The Commission is also a certified agent for the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration (PHMSA). In this role, the Commission ensures that intrastate natural gas transmission and distribution systems are in compliance with federal pipeline safety standards and corresponding state regulations through operator inspections. PHMSA conducts annual evaluations of the pipeline safety programs for all states which have agency certification. PHMSA's score for the Commission's pipeline safety program was 97.65, out of 100 for its most recent review for 2011. In accordance with PHMSA's recommendation, staff is making improvements to its database for the tracking of inspections and compliance matters. Additionally, the Commission performs investigations of natural gas safety incidents and pursues enforcement actions.

During 2012, the gas safety staff conducted field and process inspections and compliance audits. These were performed to determine whether operators conformed to the design, construction, operating and maintenance requirements of the safety regulations. In 2012, the gas safety staff conducted approximately 225 liquid propane gas (LPG) field inspections and audits as well as approximately 80 natural gas field inspections and audits.

The majority of the LPG inspections resulted in the operators having to take some corrective actions to bring their systems into compliance. LPG operators have had difficulty completing the Distribution Integrity Management Program (DIMP) written plans in accordance with the federal regulations. Staff conducted two DIMP training sessions in 2012, has two more scheduled for 2013, and is working closely with those operators to bring their plans into compliance. Inspections of natural gas operators resulted in a minimal number of corrective actions. Like those with the LPG operators, all corrective actions were resolved through informal proceedings. No inspection findings in 2012 resulted in the imposition of penalties.

KEY EVENTS

Cast Iron and Bare Steel Replacement Program In 2010, the Commission approved a 14-year replacement program for Northern Utilities' cast iron and bare steel facilities. The program is intended to improve the safety of the system, as well as increase its capacity to serve customers in the Portland area. In 2012, Northern retired 3.51 miles of cast iron main, 2.19 miles of bare/unprotected steel or wrought iron main, and 1.15 miles of plastic pipe, on its low pressure system, which could not be uprated to intermediate pressure. The cumulative project totals are now: 6.48 miles (out of approximately 65 miles) of cast iron retired, 3.14 miles (out of approximately 10 miles) of bare/unprotected steel retired, and 2.22 miles of plastic pipe retired. Northern also completed 0.36 miles of system improvements in 2012. In 2013, Northern expects to retire 5.8 miles more of cast iron and bare/unprotected steel or wrought iron mains. The Commission monitors Northern' s program performance and plans each year from reports submitted on February 1 and March 31.

Private Natural Gas Pipelines and Affiliated Facilities In 2011, the Maine Legislature enacted An Act to Authorize the Public Utilities Commission to Exercise Jurisdiction Over Private Natural Gas Pipelines to Ensure Safe Operation. Public Law 2011, Chapter 110 (now codified at 35-A M.R.S.A § 4517). Section 4517 grants the Commission authority to authorize the construction of private natural gas pipelines and any facility used to liquefy or compress natural gas that is owned or operated by an affiliate of the owner of a private natural gas pipeline. The statute defines "private natural gas pipeline" as "a pipeline that is used solely for the transport of natural gas to a single customer and is owned by the customer and whose owner or operator is not otherwise regulated by the commission as a natural gas pipeline utility or gas utility." Section 4517 also grants the Commission jurisdiction to regulate the safety of affiliated compression or liquefaction facilities and private natural gas pipelines located on public land or land owned by a third-party.

To date, the Commission has approved construction of two private natural gas pipelines, one in Madison and the other in Baileyville. The Commission conditionally approved a compressed natural gas facility affiliated with the Baileyville private natural gas pipeline; that facility will be owned and operated by XNG Maine, LLC which is a joint venture of Xpress Natural Gas, LLC and the owner of the pipeline, Woodland Pulp, LLC.

WATER

THE WATER INDUSTRY IN MAINE

There are more than 150 water utilities in Maine, falling into three categories: water districts, water departments and investor or privately owned companies. Water districts are quasi-municipal entities formed through Private and Special Laws enacted by the Legislature. Water districts may serve more than one municipality. Water departments are a part of a local municipality. The water districts and water departments are considered "consumer-owned" and are not-for-profit entities. Privately owned water companies are owned by shareholders and are "for-profit" entities.

The Commission regulates the rates and services of water utilities. The Department of Health and Human Service's Drinking Water Program regulates water quality through the enforcement of the Federal Safe Drinking Water Act. Finally, the Department of Environmental Protection is also involved in water utility issues, for example with regulations on water sources.

INDUSTRY TRENDS

Increasing Costs Water utilities have been facing increasing costs for a number of years. These costs include common operating expenses such as electrical power, fuel and health insurance costs. Other costs, such as chemical treatment, have also been rising due to manufacturing processes, cost of raw materials and shipping costs. One of the largest costs for a water utility, however, is the cost to repair or replace infrastructure. Many water utilities have been serving customers for many years, some for more than a century, and the infrastructure that was built long ago is now reaching the end of its useful life. New infrastructure costs are allowed in rates over the life of the plant through depreciation. In addition, consumer-owned water utilities may also include in rates the full debt repayment for these projects. As a result, new infrastructure needs can drive substantial rate increases to water utility customers. The Commission is concerned that, in some case, water utilities will defer important and necessary infrastructure improvements to delay the rate increases that would result.

Loss of Major Customers The major portion of the customer base for most water utilities is residential. However, water utilities with an industrial base have seen a decrease in water sales due to either the shut-down or slow-down of these operations. As a result, some utilities have to shift costs to the remaining customers, causing additional upward pressure on rates.

Water Conservation A large part of operating a water utility focuses on water conservation. Some conservation happens inside the utility. This type of conservation is gained primarily through leak detection on water mains, then the repair of any leaks, and monitoring of system water usage. The other way a water utility promotes water conservation is through education of its customers. This might include posters,

newsletter and bill stuffers telling customers how they can reduce their water consumption. Some water utilities offer, at cost, low-flow shower heads and other kits that can help customers reduce their usage.

KEY EVENTS

Adoption of Chapter 675: Infrastructure Surcharge and Capital Reserve Accounts for Water Utilities Legislation enacted during the 2012 session (PL 2011, Chapter 602) authorized the use of infrastructure replacement surcharges and capital reserve accounts for water utilities. It also directed the Commission to adopt major substantive rules to address a number of issues including the maximum amount of funds that may be recovered through rates or surcharges, authorized uses of the funds and reporting requirements and procedures to ensure these mechanisms are being implemented in a manner which is consistent with just and reasonable ratemaking principles. The Commission provisionally adopted the new rules on November 28, 2012, and they have been submitted for legislative approval during the 2013 session. During the rulemaking process, the Commission received both oral and written comments from some Maine water utilities as well as the two primary industry associations. The comments submitted by the utilities were generally favorable and the suggestions were largely incorporated into the rule.

Biddeford & Saco Water Company Acquired by Maine Water Company The Biddeford & Saco Water Company is the second largest investor-owned water utility in the State, serving over 15,000 customers. On July 24, 2012, Biddeford & Saco filed a petition for Commission approval of its acquisition by Connecticut Water Services, Inc., which also acquired Aqua Maine (now the Maine Water Company) in late 2011. The Commission commenced an adjudicatory proceeding to consider the petition. On October 23, 2012, parties filed an uncontested stipulation and the Commission approved the reorganization on November 7, 2012. The transaction was concluded in December 2012. As a result of the merger, the Biddeford & Saco Water Company will retain its name and be maintained as a separate ratemaking entity.

Rate Cases and Report Examining Financial Issues Related to the Loss of Customers by Water Utilities At the direction of the Legislature through the enactment of An Act to Amend the Charter of the Bingham Water District and to Direct That Certain Issues Be Studied (Private and Special Law 2011, Chapter 26), the Commission convened a work group that included representatives of both small and large consumer-owned water utilities, investor owned water utilities, and the Public Advocate. The Work Group was tasked with examining financial issues related to the loss of customers by water utilities and their effects on utilities' ability to pay for infrastructure and on remaining customers. The stakeholder group met four times between August and October of 2012 and discussed issues related to the subsidization of water district costs, universal service charges, privatization, regionalization, consolidation and deregulation. The Commission will present a report of the Stakeholder group to the Joint Standing Committee of Energy, Utilities, and Technology by February 15, 2013.

DIG SAFE

UNDERGROUND FACILITY DAMAGE PREVENTION AND ENFORCEMENT IN MAINE

The Commission is charged with enforcement of Maine's underground facilities damage prevention law, called "the Dig Safe Law" (23 MRSA § 3360-A). This law is intended to prevent damage to underground utility facilities such as gas lines, water lines, or underground telecommunications and electric cables from damage resulting from excavation.

Under the Dig Safe Law and the Commission's Rule implementing the law, Chapter 895, any person or company planning to excavate near underground facilities must follow certain safety procedures, and must notify facility owners of the planned excavation. Most facility operators, such as large utilities, can be notified using the inter-state Dig Safe System. Excavators can access the Dig Safe System online at www.digsafe.com or by calling 1-800-DIGSAFE, or 811. Excavators must also notify facility operators who are not members of the Dig Safe System such as municipalities and smaller utilities. To help excavators identify the non-member operators that own underground facilities near their intended excavation site, the Commission maintains the OKTODIG program, a database of non-member operators. Excavators can access this program by calling 1-800 OKTODIG or online at www.oktodig.com. Once informed of a pending excavation, utilities have an obligation to locate and mark their underground facilities in accordance with the Dig Safe Law so that excavators will be sufficiently aware of their location when they dig. Violations of the Dig Safe Law and Chapter 895 must be reported to the Commission, which then investigates the incident and determines the appropriate enforcement action, if any. To increase awareness of the provisions of the Dig Safe law and Chapter 895, the Commission performs regular training programs at its offices and also performs on-site training at the request of excavators or facility operator. The Commission also provides public education materials to improve awareness among private property owners of the importance of preventing damage to underground facilities. These materials are available on the Commission's website.

INDUSTRY TRENDS

Telecommunications facilities have continued to experience the most damage related to excavating. This can be attributed, at least in part, to the fact that there are more telecommunications facilities underground than other types. Natural gas and electric facilities have stayed well below the telecommunications industry rate of incident on average over a five-year period.

The Commission endeavors to respond to an incident as soon as possible, in many cases on the same day, and assess penalties, if necessary, that are commensurate with the risk to people and underground services.

Figure 1

	2010	2011	2012
Reported Total Incidents	412	421	419
Reported Electric Incidents	87	85	79
Reported Gas Incidents	34	39	41
Reported Telecom Incidents	162	138	144
Reported Water Incidents	52	51	44
Reported Sewer Incidents	19	15	22
Reported CATV Incidents	45	54	57
Excavator Violations	198	156	245
Operator Violations	139	114	135
Penalties Assessed	$309,250	$256,350	$242,600
Penalties Waived with Training*	$78,600	$78,500	$62,000
Penalties Not Waived	$230,650	$180,850	$180,600

*The Commission may waive penalties but require training; this is the usual practice with first time violators.

Public Awareness, Training and Education The Commission continues to work with utilities, excavators, the regional Dig Safe organization, and private property owners to promote education and training about how to reduce and prevent damage incidents involving underground facilities and to ensure the safety of residents and property located near those facilities.

In 2012, the Commission supported training offered by the Managing Underground Safety Team (MUST), which includes Maine Dig Safe members, excavating contractors and underground facility location workers. Training seminars were held in Presque Isle, Bar Harbor, Augusta, Auburn, and Portland. Discussions focused on safe work practices around underground facilities, compliant excavation site and underground facility markings, the design of various underground facilities and the risks involved when proper damage prevention steps are not taken.

The Commission also sponsored 24 certification and/or informational sessions at various businesses, organizations, trade shows and the Commission with over 1150 participants. The Commission remains committed to providing training and education for any individual or organization seeking assistance in understanding the roles and responsibilities of excavators, facility operators, the regional Dig Safe organization and the Commission.

KEY EVENTS

Rulemaking On October 5, 2011, based on the proposed amendments of the Dig Safe Stakeholder Group, the Commission issued a Notice of Rulemaking (Docket No. 2011-335) to propose amendments to Chapter 895. The Commission issued an Order provisionally adopting the new rule on December 14, 2011. Because changes to Chapter 895 are deemed major substantive, these provisionally adopted amendments were submitted to the Legislature's Utilities and Energy Committee in January of 2012 for their consideration. The Legislature approved the amendments, with modifications, through its enactment of PL 2011, Chapter 588 and the modified amendments were adopted by the Commission on April 24, 2012, becoming effective on June 29, 2012.

Dig Safe Stakeholder Group On April 4, 2012, the Legislature, through its enactment of An Act to Implement the Recommendations of the Dig Safe Work Group (PL 2011, Chapter 588) directed the Commission to participate in a stakeholder group comprised of representatives of utilities, excavators, industry groups, and municipalities to develop a series of proposed revisions to Chapter 895. The Dig Safe Stakeholder Group, chaired by the Public Advocate, met repeatedly through August and September and, through two-thirds majority vote, proposed a series of changes to the requirements for excavators and operators. These proposed changes became the basis of a report submitted to the Legislature.

EMERGENCY SERVICES COMMUNICATION BUREAU

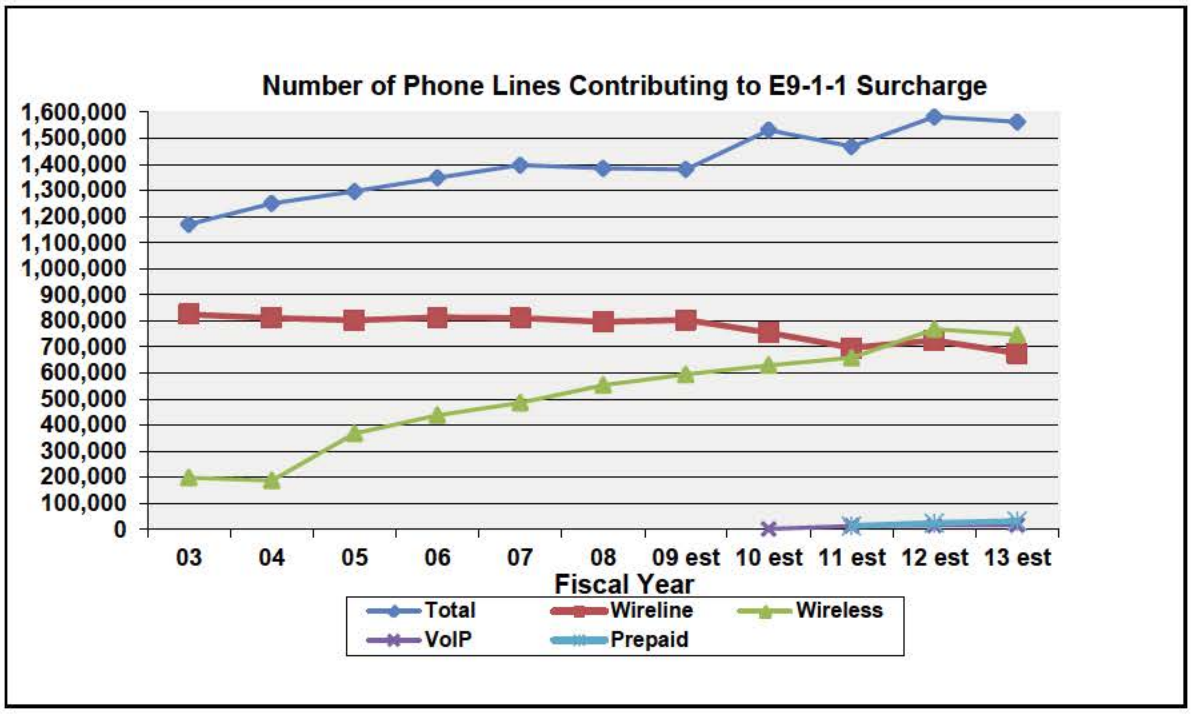
E9-1-1 SERVICES IN MAINE

The Emergency Services Communications Bureau (ESCB) manages the state-wide Enhanced 9-1-1 (E9-1-1) system, which is the component of the emergency response system that delivers 9-1-1 calls and displays the telephone number and physical location of the caller at a predetermined Public Safety Answering Point (PSAP).

INDUSTRY TRENDS

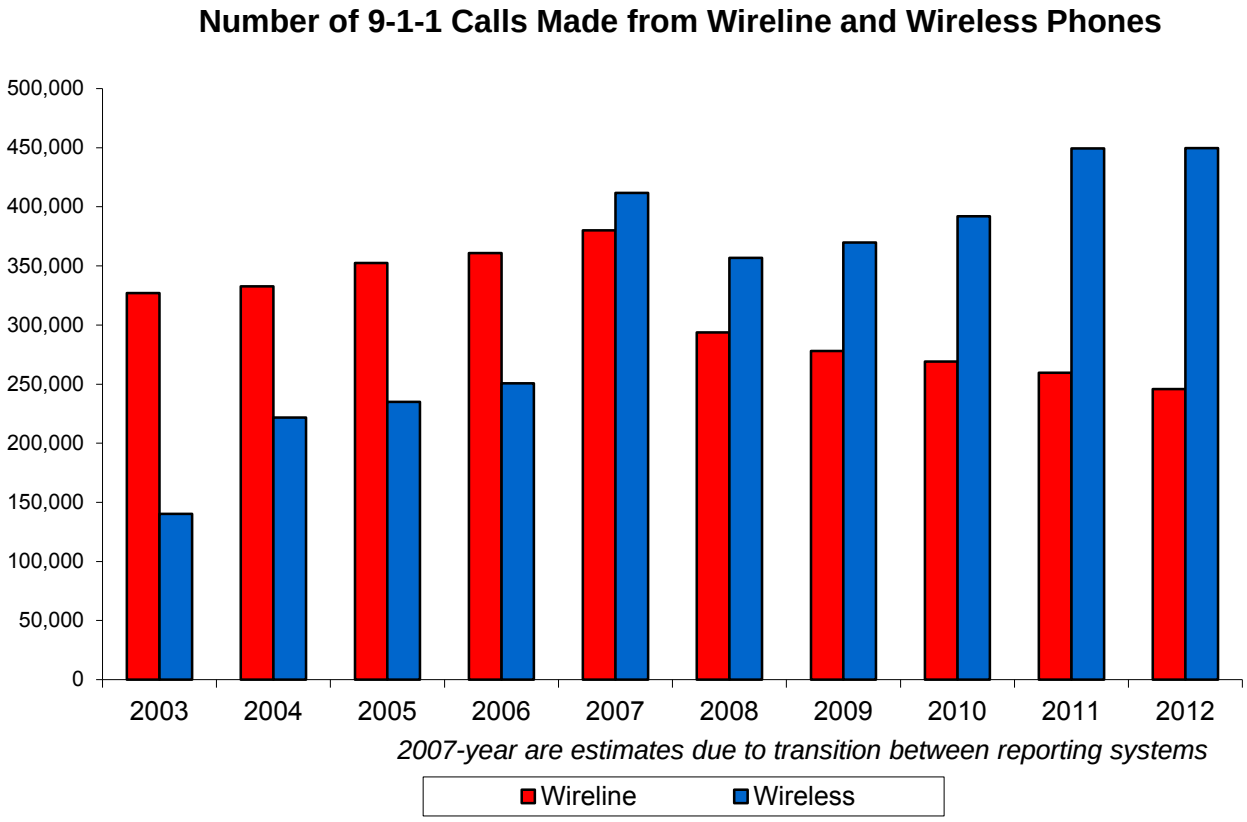
Nationally and in Maine, wireless phones have accounted for the largest portion of E9-1-1 calls and payments of the E9-1-1 surcharge. See Figure 1.

Figure 1



For the sixth year in a row, there were more 9-1-1 calls made from wireless phones (65%) than wireline phones (35%) in Maine. See Figure 2.

Figure 2



KEY EVENTS

Next Generation 9-1-1 Planning New communications media enables people to send and receive text messages, photographs and streaming video with handheld devices using Internet Protocol (IP) technologies for transmission. Automatic crash notification systems such as OnStar™ can automatically report motor vehicle accidents, and even provide information on the accident such as potential injuries. Yet none of these technologies has access to the current E9-1-1 system. Next Generation 9-1-1 (NG9-1-1) service is a dramatic change in 9-1-1 that will allow call-takers to receive and recognize the location of 9-1-1 calls from any of these devices. NG9-1-1 service will move 9-1-1 from decades-old analog technologies to modern, digital IP technology.

NG9-1-1 RFP With its current telephony-based contract for Enhanced 9-1-1 services due to expire October 2013 and the equipment at PSAPs at the end of their lifecycle, the ESCB issued a Request for Proposal (RFP) for an NG 9-1-1 system in August 2011; proposals were received in November 2011. An initial award issued in January 2012 was invalidated by an appeals panel. A second award was issued in June 2012. This award was appealed and invalidated in November 2012 A third award was issued in November to FairPoint Communications; there was no appeal. The ESCB expects to conclude contract negotiations in the first quarter of 2013.

Text Messaging Enabling wireless consumers to send a text message to 9-1-1 will substantially improve accessibility to emergency services, particularly for people with hearing or speech disabilities. Although a complete solution in conjunction with NG9-1-1 implementation is still several years away, the FCC issued a Notice of Proposed Rule Making in December 2012 for an interim solution that would enable consumers to send text messages to 9-1-1 as well as educate and inform them regarding the future availability and its appropriate use. Specifically, under the proposed rules wireless carriers would need to provide a bounce back message by the end of June 2013 if the service is not available in an area. It would also require carriers to begin deployment if requested by a PSAP by May 2014.

Maine is Verizon Wireless's test site for its SMS (text messaging) to TTY interim 9-1-1solution. The project will commence in early 2013. Once fully deployed and tested, a public education effort will announce its availability and guide consumers on its appropriate use. Only Verizon Wireless customers will have the ability to send text messages to 9-1-1. However, the ESCB hopes to work with other carriers to implement interim solutions ahead of the mandatory FCC requirements.

GIS Preparation Geographic Information Systems (GIS) are a critical component in NG9-1-1. Although much of the data needed for NG9-1-1 is used today for the mapping display of 9-1-1 calls, in the NG9-1-1 environment it will be used for the actual routing of emergency calls. Therefore, GIS staff is working with every town to improve the accuracy of road centerline and address data to the desired 99 percentile. Strategies to maintain the data at this level are also being developed.

Proposed Statutory Changes The Commission will present a bill to the Legislature, during the 2013 session, to take initial steps to update the 9-1-1 laws as the State and the nation prepare to migrate to NG9-1-1. The bill will also propose changing the E9-1-1 surcharge remittance from monthly to quarterly for local exchange telephone utilities, cellular or wireless providers and interconnected voice over internet protocol providers whose average monthly surcharge remittance payment for the prior calendar year is less than $5,000.

In addition, as part of the biennial budget bill, the Commission has proposed moving the four GIS positions that currently support E9-1-1 through a Memorandum of Understanding from under the Office of Information Technology to the ESCB. This is expected to result in cost savings and makes programmatic sense as the ESCB moves towards NG9-1-1.

Call Taker and Dispatch Training The ESCB offers a complete complement of courses to ensure that 9-1-1 call takers and dispatchers have the necessary skills to handle emergency calls.

- **Emergency Medical Dispatch** Maine is one of only three states to require that all 9-1-1 call-takers be trained and licensed in Emergency Medical Dispatch (EMD)**,** an advanced training requirement that prepares the 9-1-1 call taker to

assist callers/victims by providing life-saving instructions to follow while waiting for ambulance personnel to arrive on-scene. ESCB sponsors a 3-day EMD training including the training of new hires plus an additional 2-day training for supervisors on quality assurance review of the EMD calls.

- **Mandatory Basic Emergency Telecommunicator Course (ETC)** The ESCB offers a basic emergency telecommunicator 40-hour curriculum that covers topics including roles and responsibilities, technology, interpersonal communications call management, police/fire/emergency medical call classifications, radio dispatch procedures, quality improvement, catastrophic events, legal aspects and stress management. This training provides for a uniform base of knowledge for all newly hired emergency dispatchers statewide. All full-time dispatchers are required to take this class within one year of hire.

- **9-1-1 Equipment & Bureau Policy Training** Initial training for newly-hired PSAP call takers consists of a 2-day equipment and certification course, which must be completed within 90 days of assignment. PSAP system administrators complete an additional 2-day advanced course in system administration.

- **Continuing Education Courses** The ESCB recognizes the need for continual skills development as well as refresher opportunities for all communications personnel, and sponsors a variety of opportunities throughout the year.

Figure 3

Course Name	Students Trained in 2012
PSAP New Hire Training	71
PSAP Administrator Training	7
Emergency Telecommunicator Course	59
Emergency Medical Dispatch Certification	84
Emergency Medical Dispatch Quality Assurance (ED-Q)	17
Emergency Medical Dispatch AQUA Training	10
Emergency Medical Dispatch ProQA	23

Quality Assurance Program Development

- **Expansion of Call Handling Protocols to Include Fire and Police** The ESCB continued its evaluation of expanding the existing EMD protocol system to include fire and police protocols. The Commission contracted with Mission Critical Partners to further define implementation strategies, costs and alternatives to implementing police and fire protocols and alternatives to providing the quality assurance (QA) review component. The resulting report published in February 2012 (Recommendations for Implementation of Fire and

Police Protocol Systems for Maine's PSAPs) can be found at http://www.maine911.com/forms_publications.htm.

The ESCB then reached out to PSAPs and the Enhanced 9-1-1 Advisory Council, which includes representation from various law enforcement and fire associations, to gauge support for implementing the protocols. Although the vast majority agree that EMD has provided significant benefits to the level of care, a common concern is the lack of resources required for QA review of calls at the PSAP. Additionally, inexperience with either police or fire protocols in Maine leaves many with questions about their effectiveness. The Commission will be asking for legislative guidance as to whether a pilot program with certain PSAPs would be a viable next step.

PSAP Audit The ESCB conducted on-site PSAP audits to ensure compliance with laws, rules, policies and procedures. Overall, most PSAPs demonstrated substantial compliance, though areas requiring improvement for some PSAPs include regular review of police and fire calls and use of a standardized TTY testing log to monitor compliance with the Americans with Disability Act requirements. ESCB rules require PSAPs to answer all calls in ten seconds or less 90% of the time. All PSAPs met this requirement. See Figure 4.

Figure 4

Annual Call Center Efficiency
1/1/12 to 12/31/12

PSAP	Incoming 911 Calls	Calls Answered ≤ 10 seconds	Avg Ring Duration
Androscoggin Cty SO	9,345	98.6	5
Bangor PD	22,166	98.3	5
Biddeford PD	11,343	98.7	5
Brunswick PD	10,328	99.6	3
CMRCC	60,077	90.2	6
Cumberland Cty RCC	24,155	94.3	6
DPS Gray	146,896	97.5	4
DPS Houlton	12,275	98.2	5
DPS Orono	57,051	96.6	5
Franklin Cty RCC	10,578	98.5	4
Hancock Cty RCC	10,115	98.6	5
Knox Cty RCC	24,014	99.3	4
Lewiston Auburn 911	41,414	98.3	4
Lincoln Cty RCC	14,117	99.8	4
Oxford Cty RCC	20,556	99.6	4
Penobscot Cty RCC	40,015	92.6	6
Piscataquis Cty SO	5,156	97.2	5
Portland PD	61,145	93.1	5
Sagadahoc Cty RCC	12,718	99.7	3
Sanford PD	23,963	99.5	4
Scarborough PD	7,567	98.3	5
Somerset Cty RCC	32,950	99.8	4
Waldo Cty RCC	10,732	97.4	6
Washington Cty RCC	10,452	98.6	5
Westbrook PD	10,297	97.2	5
York PD	6,858	98.7	4

Total Calls	696,283

9-1-1 Cell Call Re-routing Legislative Directive In March 2012, the Joint Standing Committee on Energy, Utilities and Technology sent a letter encouraging the Commission to move as quickly as possible in redirecting wireless call from Department of Public Safety (DPS) PSAPs to the PSAP most likely to dispatch the needed

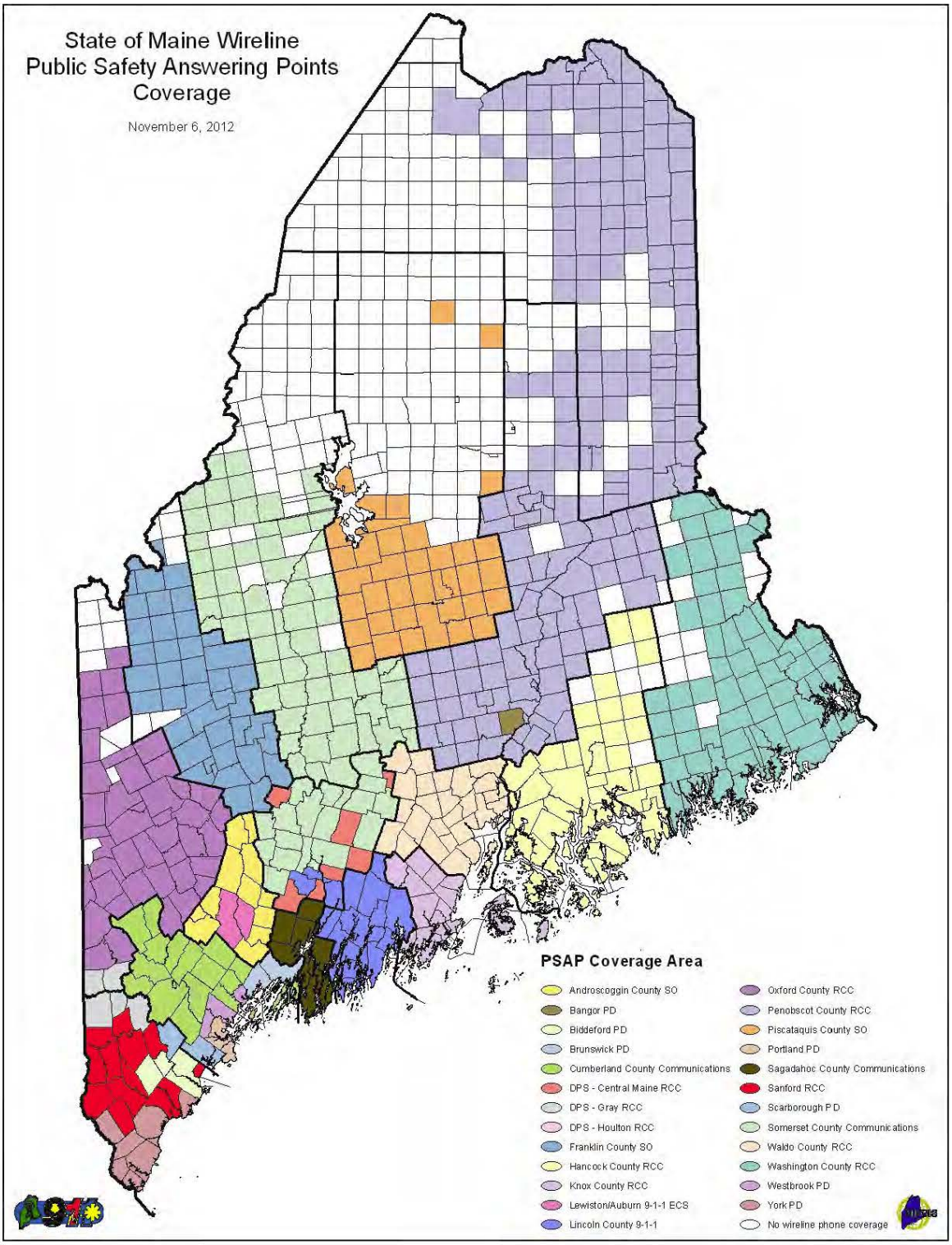
emergency service. In 2012, approximately 50,000 9-1-1 calls were redirected from DPS PSAPs to the county or municipal PSAPs. Currently, 25 of 26 PSAPs now receive some wireless calls directly.

The ESCB's goal is to complete the re-route of all cell towers to the appropriate PSAP, to the extent that a PSAP is willing to accept the additional call volume, by January of 2014.

Program Funding/Surcharge Recommendation Surcharge revenue is held in a dedicated, interest-bearing account and is tracked through the State computerized accounting system.

Absent unknown contract costs associated with the timing of the transition to NG 9-1-1, the Commission believes the current surcharge level of $.45 a month will produce sufficient revenues, when combined with an existing E9-1-1 fund balance, to finance the program through FY14.

Figure 5 – PSAP Coverage



CONSUMER ASSISTANCE

MISSION STATEMENT/PURPOSE

The Consumer Assistance Division (CAD) is the Commission's primary link with utility customers. The CAD is charged with ensuring that consumers, utilities, and the public receive fair and equitable treatment through education, complaint resolution, and evaluation of utility compliance with consumer protection rules. As part of its mission, the CAD is responsible for educating the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, for investigating and resolving disputes between consumers and utilities, and for evaluating utility compliance with State statutes, Commission rules and the utility's Terms & Conditions for service. The Commission also uses information about consumer contacts with the CAD and other CAD data as a basis for enforcement actions, Commission investigations and in other Commission proceedings.

KEY EVENTS

Serious Medical Condition Workshop The CAD sponsored a workshop to discuss the increased number of serious medical condition variances being submitted to the CAD by utilities. Customers that have a person residing in their home with a serious medical condition often cannot afford to pay their electricity bills and sometimes use the serious medical condition provision of the Commission's rules as a means of managing their account. Participants in the workshop discussed options for protecting the health and welfare of these customers, while ensuring that utilities receive payment. The workgroup recommended that the Oxygen Pump and Ventilator programs administered pursuant to Chapter 314 of the Commission's rules be expanded to include customers in subsidized housing and that other issues be addressed through modifications to Chapter 815 of the Commission's rules. To implement these recommendations, the Commission will initiate rulemakings in 2013 to make necessary changes to Chapters 314 and 815 of the Commission's rules.

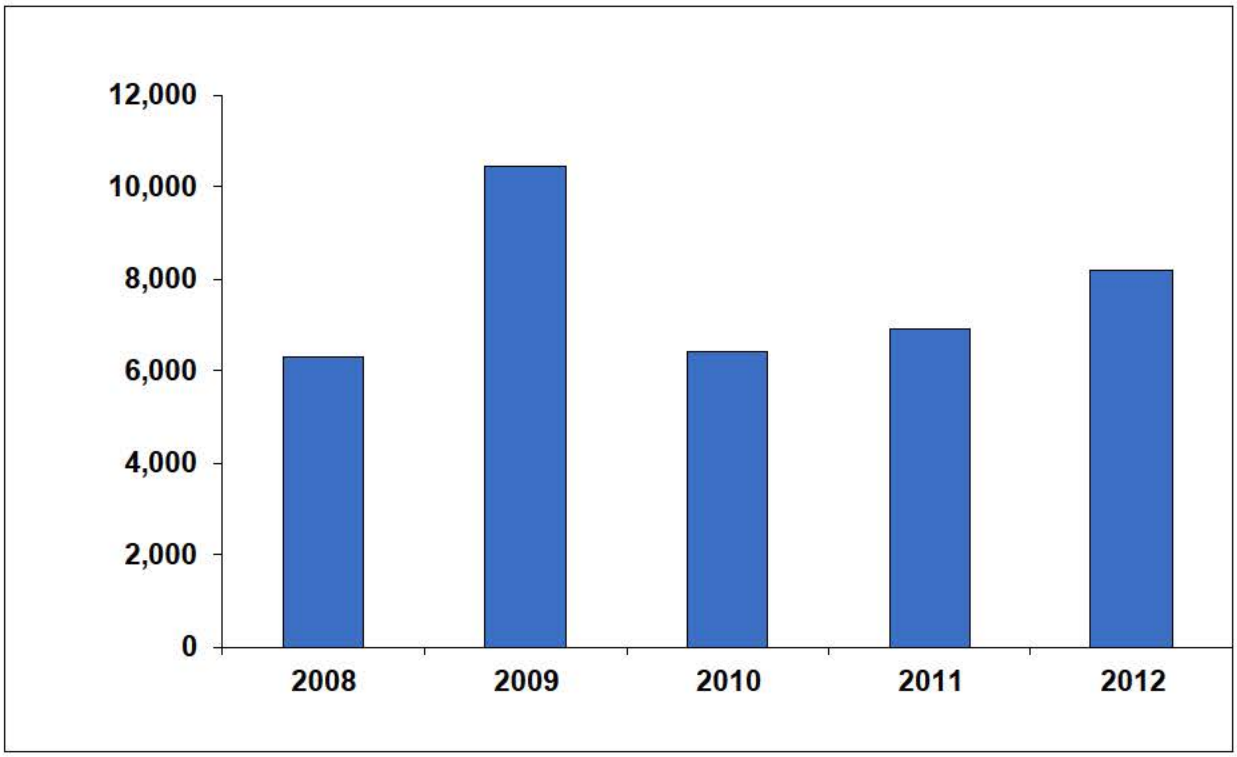
Complaint Management System The CAD replaced its 15-year old complaint management database with a new complaint management system**.** The new system is a web-based case management system designed to meet the needs of all users including Commission staff, utility companies and customers. The new system provides an automated environment where the public can file complaints, utilities can file variance and winter waiver requests, and CAD staff can manage their work. This system has simplified the process for customers filing complaints electronically, has significantly reduced the amount of time it takes for CAD staff to enter complaints received over the phone into the system, and has significantly reduced the amount of paper records maintained by the CAD.

INDUSTRY TRENDS

CAD Contacts The CAD tracks its contacts with both consumers and utilities. Contacts take several forms, such as the general provision of information and assistance, investigation of a complaint involving a customer dispute with a utility that the parties have been unable to resolve, or processing requests for waiver of Commission rules by utilities. In 2012, the CAD began tracking all customer calls through its phone system. In the past, CAD relied on staff to manually enter all customer calls into its customer contact/complaint tracking system. Using the phone system to automatically track calls eliminates the potential for human error and results in more accurate call data. The CAD recorded 8,193 consumer contacts in 2012. This was an 18% increase over the 6,922 consumer contacts in 2011, and a 28% increase over the 6,417 contacts received in 2010. The increase is most likely attributable to the improved method of tracking calls, as opposed to an increase in the number of calls received by the CAD.

Figure 1

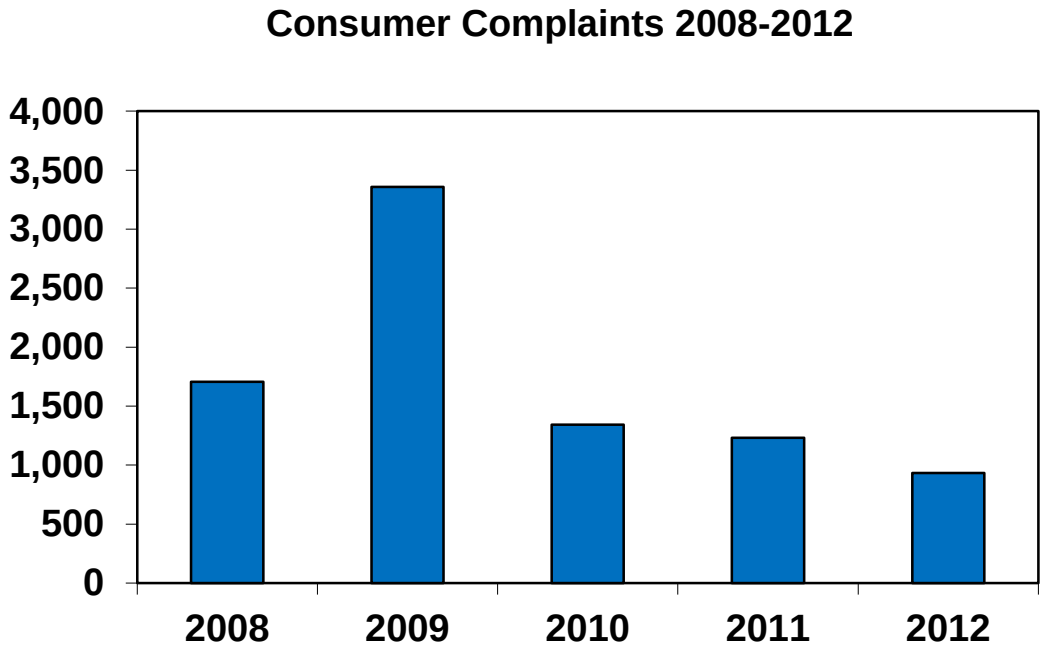
CAD Contacts 2008-2012



The CAD also tracks the speed in which it answers calls to its consumer hotline and in 2011 established a goal of answering 80% of calls within one minute. In 2012, the CAD answered 95% of calls within one minute with a call abandonment rate of 4%. This a slight improvement over the 93% of calls answered in one minute in 2011 with a call abandonment rate of 4%.

Consumer Complaints As shown in the chart below, the CAD received 934 complaints in 2012. This was a 24% decrease from the 1,232 complaints in 2011 and a 30% decrease from the 1,344 complaints received in 2010.

Figure 2



This decrease in complaints is primarily attributable to a decrease in the number of complaints being filed against telephone utilities. In 2012, a total of 140 complaints were filed against telephone utilities. This is a 51% decrease from the 284 complaints received against telephone utilities in 2011 and a 70% decrease from the 473 complaints received against telephone utilities in 2010. There are two primary reasons for this trend: a decreasing number of wireline telephone utility customers and significantly less regulation of telephone utilities due to the high level of competition in Maine's telecommunications market. As discussed earlier in this report, the mobile cellular market continues to grow in Maine and there are now more cell phone subscribers in the state than there are wireline service accounts. An increasing number of customers are substituting mobile wireless service for traditional wireline service. Also, due to recent changes in law enacted by the 125th Maine Legislature, the only retail telephone service offering that falls within the Commission's regulatory authority is Provider of Last Resort (POLR) service.

Figure 3

Complaint Type in 2012

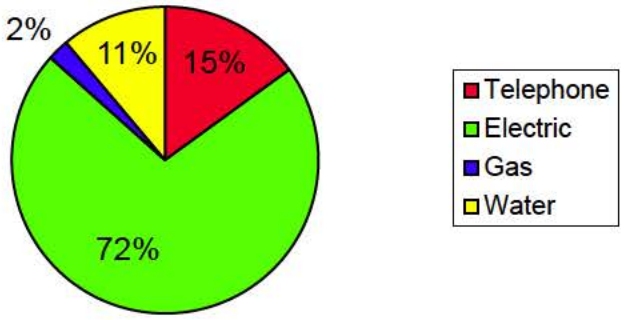


Figure 3 above breaks down complaints received by utility industry. In 2012, 72% of complaints received were against electric utilities. This compares to 63% in 2011 and 54% in 2010. This increasing trend is attributable to the decreasing number of complaints being filed against telephone utilities as described above, as opposed to an increasing number of complaints being filed against electric utilities. Complaints against electric, gas, and water utilities have remained relatively constant over the past three years.

In 2012, it took the CAD an average of 37.6 days to resolve each complaint received. This compares to 62% of complaints resolved within 30 days and 89% resolved within 60 days in 2011. Though the methodology for tracking the average age of complaints changed from 2011 to 2012, the data nonetheless shows a significant improvement in the amount of time it took the CAD to resolve customer complaints.

Utility Variances and Winter Requests to Disconnect

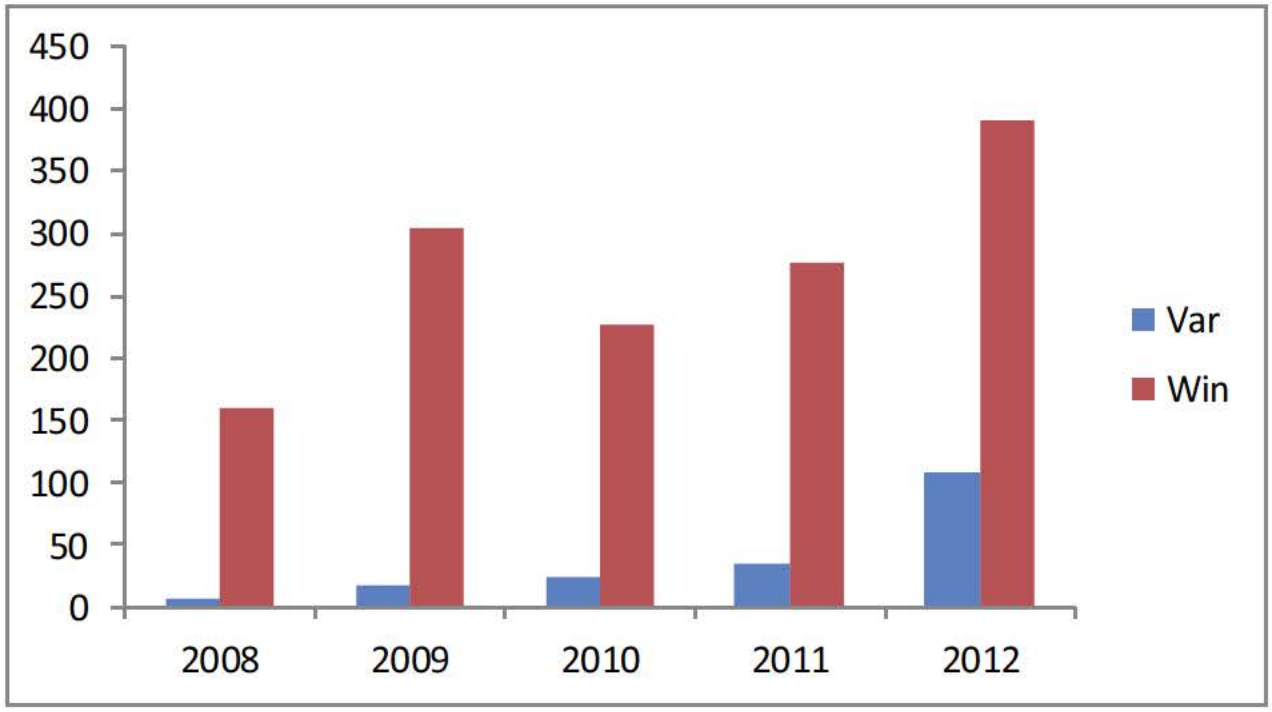
Utilities have the right to request a variance (or waiver) from Commission rules for individual applicants or customers whose conduct and known financial condition pose a clear danger of substantial losses to the utility. Decisions issued by the CAD in response to a variance request can be appealed to the Commission by either the utility or the customer. The CAD received 109 variance requests from utilities in 2012, a 220% increase over the 34 variance requests received in 2011 and a 336% increase over the 25 variance requests received in 2010. The CAD ultimately granted 54 of the 109 variance requests submitted.

Between November 15 and April 15, electric and gas utilities are prohibited from disconnecting customers without first receiving permission from the CAD. During this time period, utilities must make significant attempts to personally contact customers that

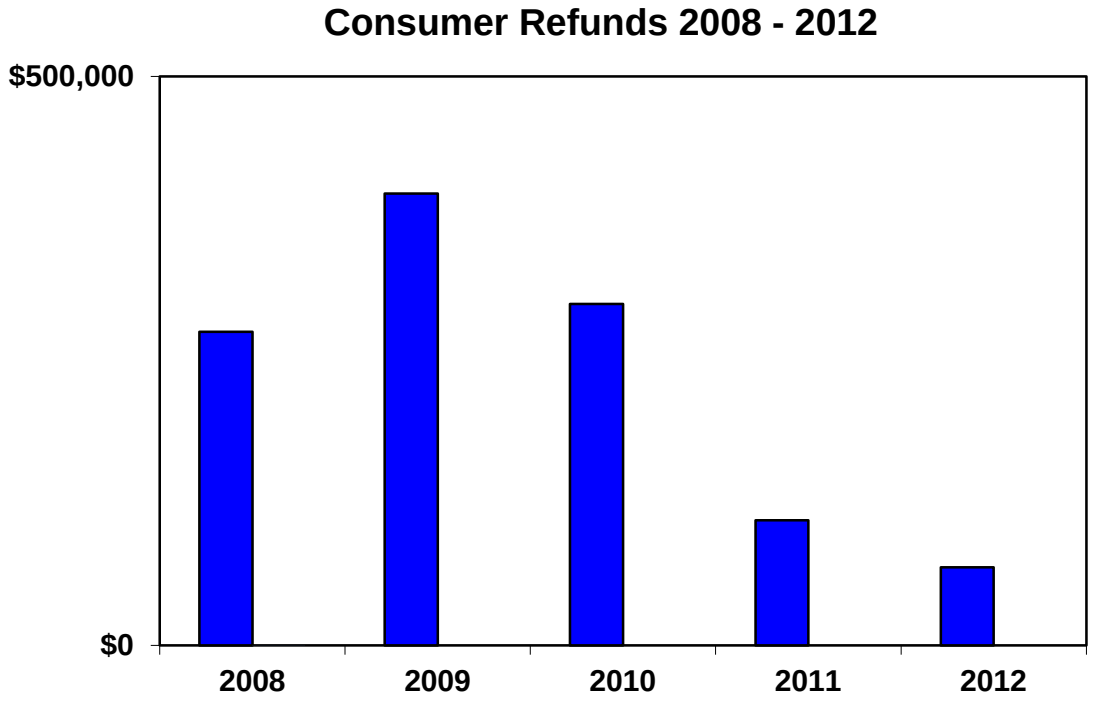
are behind on their bills to negotiate a payment arrangement prior to seeking permission to disconnect. In situations where the utility cannot make contact or is not able to negotiate a reasonable payment arrangement with a customer after making contact, the utility may submit a request to disconnect the customer's service to the CAD. In these situations, the CAD also attempts contact with the customer for the purpose of establishing a reasonable payment arrangement. Whether or not the CAD is able to contact the customer, it will ensure that the customer is on a reasonable payment arrangement. In 2012, the CAD received 390 requests to disconnect from electric and gas utilities. This was a 41% increase over the 277 requests received in 2011 and a 72% increase over the 227 requests received in 2010. The CAD granted 149 of the 390 requests submitted.

As shown in Figure 4 below, variance and winter disconnect requests have been increasing in the past five years, with the most dramatic increase occurring from 2011 to 2012. The cause of this trend is most likely the ongoing problems with the economy. A number of customers have struggled to pay their utility bills over the past few years, even though they are on reasonable payment arrangements established by either the CAD or the utility. In these situations, utilities often file variance requests during the summer and winter requests to disconnect during the winter to address the problem. These are difficult situations for the CAD and utilities because most customers are already on a reasonable payment arrangement. Nonetheless, in these situations, the CAD works with both customers and utilities to ensure that customers' retain their utility service and that utilities receive proper payment.

Figure 4



Refunds to Consumers The CAD frequently obtains credits or refunds for customers as part of its resolution of customer complaints filed against utilities. In 2012, $68,570 was abated by utilities to customers. This is a 38% decrease from the $110,000 abated by utilities in 2011 and a 77% decrease from the $300,000 that was abated by utilities in 2010. The primary reason for the decrease in abatements in 2012 and 2011 is the decrease in telephone utility complaints. Most telephone utility complaints involve billing disputes and the CAD often orders rebates to customers as a resolution of these complaints. As previously discussed, complaints against telephone utilities decreased 51% from 2011 to 2012. Consequently, a 51% reduction in the number of customer complaints likely resulted in a similar reduction in the amount of abatements ordered by the CAD.



LOW INCOME PROGRAMS

Electric Low-Income Assistance and Oxygen Pump/Ventilator Programs Pursuant 35-A MRSA § 3214(6)

The Commission is required by 35-A MRSA § 3214(6) to annually report the results of the Low Income Assistance Program (LIAP) and Oxygen Pump/Ventilator benefits to the Joint Standing Committee on Utilities, Energy and Technology. The report must, at a minimum, include:

1. For each month of the program year, the number of participants enrolled in low-income assistance programs, the number receiving oxygen pump benefits and the number receiving ventilator benefits;

2. For each month of the program year, the dollar amount of low income assistance program benefits, the dollar amount of oxygen pump benefits and the number receiving ventilator benefits; and

3. An assessment of the effectiveness of the oxygen pump benefit and ventilator benefit with regard to covering only those electric charges directly related to use of an oxygen pump or ventilator by the program participant.

Figure 5 summarizes the information relating to the LIAP and Oxygen Pump/Ventilator benefits on a state-wide basis. The statistics are derived from the quarterly reports submitted by T&D utilities.

Figure 5

	LIAP Program		**Oxygen Program**		**Ventilator Program**	
Month	Number of Participants	Amount of Benefit	Number of Participants	Amount of Benefit	Number of Participants	Amount of Benefit
October 2011	10,015	$ 287,301	188	$7,670	1	$25
November 2011	13,285	$837,144	214	$15,876	1	$19
December 2011	17,050	$1,225,111	314	$13,905	2	$293
January 2012	19,954	$1,672,069	543	$25,351	9	$397
February 2012	19,624	$1,131,152	512	$19,887	13	$354
March 2012	18,583	$803,311	506	$17,801	11	$444
April 2012	16,796	$505,013	465	$14,343	9	$232
May 2012	16,114	$365,328	440	$13,663	9	$224
June 2012	15,306	$302,352	412	$14,134	6	$107
July 2012	14,912	$194,081	383	$10,357	5	$26
August 2012	14,896	$309,148	355	$9,678	4	$22
September 2012	13,789	$313,056	302	$7,586	0	$0
Total		$7,945,065		$170,251		$2,144

SUMMARY OF COMMISSION RULEMAKINGS

Chapter 110: Commission Rules of Practice and Procedure

This rule was amended to bring it up-to-date with current statutory requirements, including the Maine Administrative Procedure Act and Commission practice.

Chapter 201: Provider of Last Resort (POLR) Service Quality Indicators and Standards

This new rule provisionally adopts service quality indicators and standards for POLR providers pursuant to P.L. 2011, Chapter 623.

Chapter 214: Exemption of Telephone Utilities from Certain Filing and Approval Requirements

This rule was repealed because it was no longer necessary. P.L. 2011, Chapter 623 repealed 35-A MRSA § 3071-A and exempts all telecommunications carriers, except Providers of Last Resort, from the requirements of 35-A MRSA §§ 301-314, therefore eliminating the statutory basis for Chapter 214.

Chapter 284: Prepaid Wireless Fee

This new rule establishes the fee to be collected and remitted on prepaid wireless communication services for E9-1-1, Maine Universal Service Fund, and Maine Telecommunications Education Access Fund pursuant to P.L. 2011, Chapter 600.

Chapter 302: Consumer Education Program Electric Restructuring

This rule was repealed because it dealt with an education program that ended in 2001.

Chapter 303: Employee Transition

This rule was repealed because it dealt with an employee program that was complete by the end of 2003.

Chapter 313: Customer Net Energy Billing

This rule was amended to provide specified term lengths for net energy billing contracts consistent with P.L. 2011, Chapter 262.

Chapter 316: Long Term Contracting and Resource Adequacy

This rule was amended consistent with P.L. 2011, Chapter 413 to include requirements concerning T&D utilities entering into long term contracts for RECs, financial security, lower cost capacity and energy reserves.

Chapter 330: Filing Requirements for Petition for Certificates of Public Convenience and Necessity for Electric Transmission Facilities

This rule was amended consistent with recent statutory changes to 35-A MRSA §§ 3131 and 3132 including the new requirement that a CPCN is required for transmission lines generating at 69 kV or higher.

Chapter 395: Construction Standards, Ownership Cost Allocation, and Customer Charges for Electric Distribution Line Extension

This rule was amended consistent with P.L. 2011, Chapter 484 to add provisions related to the amounts charged customers requesting line extensions from T&D utilities serving more than 500,000 retail customers.

Chapter 421: Safety and Operation Standards for Liquefied Petroleum Gas (LPG) Distribution System

This rule was amended consistent with Resolves 2011, Chapter 143 including removing the definition of customer, amending recordkeeping requirements and allowing 30 days for corrective action before a formal notice of probable violation is issued.

Chapter 675: Water Infrastructure and Capital Reserve Accounts

This new rule provisionally adopts procedures to allow water utilities to institute temporary surcharges for infrastructure repair and replacement and fund capital reserve accounts.

Chapter 815: Consumer Protection Standards for Electric and Gas Transmission and Distribution Utilities

This rule was amended consistent with recent statutory changes concerning deposits and Commission practice concerning disconnections pending resolution of disputes.

Chapter 895: Underground Facility Damage Prevention Requirements

This rule was amended consistent with Resolves 2011, Chapter 588 including notification requirements, tolerance zones and enforcement procedures.

2012 REPORTS TO THE LEGISLATURE

The Commission submitted the following reports to the Legislature in 2012:

- Report on Cyber-Security and Privacy Issues Relating to Smart Meters, 1/15/12
- Report Regarding Additional Flexibility for Funding Infrastructure Improvements by Consumer-owned Water Utilities, 1/15/12
- Report Regarding Information on Disconnection of Water Service For Non-Payment of Sewer Service, 1/15/12
- Joint Report on Dig Safe Work Group Recommendations, 1/15/12
- Report Regarding Long-Term Contracts Implemented, due 1/15/12 but submitted 11/4/11
- 2012 Annual Report, 2/1/12
- Maine Portfolio Requirement Report, 1/31/12
- Regional Greenhouse Gas Initiative Price Impacts Report 3/14/12
- Annual Report on Alternative Forms of Regulation for Telephone Utilities, 8/24/12
- Emera Case Report, 12/14/12

FISCAL INFORMATION

The Commission is required by 35-A MRSA § 120 to report annually to the Joint Standing Committee on Energy, Utilities and Technology on its planned expenditures for the year and on its use of funds in the previous year. This section of the report fulfills this statutory requirement and provides additional information regarding the Commission's budget. All references in this section are to fiscal years -- July 1 to June 30.

In FY2012, the Commission regulated utilities, enforced Maine's underground facilities damage prevention law, and managed the state-wide Enhanced 9-1-1 (E9-1-1) system.

The Emergency Services Communications Fund (E9-1-1)

This fund had an unencumbered balance of $756,022 and an encumbered balance of $1,540,899 brought forward from FY2011. $8,180,314 was expended in FY2012. An unencumbered balance of $1,611,828 and an encumbered balance of $796,976 were brought forward to FY2013. The surcharge collected in FY2012 was $8,400,352.

PUC Regulatory Related Accounts

Regulatory Fund The authorized Regulatory Fund assessment for FY2012 was $4,549,291. An unencumbered balance of $4,731,262 and encumbrances of $750,570 were brought forward from FY2011. The Commission spent $6,685,399 in FY2012.

An encumbered balance of $230,164 and an unencumbered balance of $3,351,634 were brought forward to FY2013. The encumbered balances generally represent ongoing contracts.

Reimbursement Fund In FY2012, the Commission collected $2,900 in filing fees, $1,495 in copying fees and $236,700 in fines/settlements. An unencumbered balance of $378,055 and an encumbered balance of $21,895 were brought forward from FY2011. During FY2012, $171,222 was expended. An encumbered balance of $0 and an unencumbered balance of $555,782 were brought forward to FY2013.

Education Fund An unencumbered balance of $748 was brought forward from FY2011. $0 was expended in FY2012, and $748 was the unencumbered balance brought forward to FY2013.

Damage Prevention Grant 2012 During FY2012, the Commission received a Damage Prevention Grant from PHMSA in the amount of $45,000. In FY2012, $0 was expended, leaving an unencumbered balance of $45,000 brought forward to FY2013.

PUC Regulatory Related Accounts – ARRA

Smart Grid Resiliency In FY2010, the Commission was awarded a Recovery Act – Energy Assurance Planning State of Maine grant from the Federal Department of Energy. The total amount of the grant is $320,789 with a period of August 12, 2009 to August 14, 2012. In FY2012, $17,386 was expended. The Commission's role regarding this grant concluded during FY12 and the remaining funds were returned to the Governor's Energy Office.

State Electricity Regulators In FY 2010, the Commission was awarded a State Electricity Regulators assistance grant from the Federal Department of Energy. The total amount of the grant is $783,554 with a grant period of November 1, 2009 to December 31, 2013. In FY2012, $165,749 was expended.

The Budget in Perspective

Figure 1 details the Commission's FY13 Expenditure plan.

The Regulatory Fund Assessment in Perspective

Figure 2 details the most recent ten years of Regulatory Fund assessments from Annual Reports filed by the utilities with the Commission. They include revenues for the previous year ending December 31.

Calculations are made to determine what percentage of the revenues reported by regulated utilities will produce the amount authorized by statute. The derived factors that will raise the authorized amount are applied against the reported revenues of each utility.

Under 35-A MRSA § 116, on May 1 of each year the Commission mails an assessment notice to each utility. The assessments are due on July 1. Funds derived from this assessment are for use during the fiscal year beginning on the same date.

The total assessment for FY2012 was $4,549,291. The assessment breakdown by utility sector was: Electric – $2,389,215; Telecommunications - $1,510,637; Natural Gas - $409,947; Water - $232,560; and Water Common Carrier -$6,932.

Figure 1

FY2013 Work Program

Regulatory Fund	
Position Count	(56.25)
Personal Services	5,336,763
All Other	1,962,485
Capital	0
Total	7,299,248
Commission Reimbursement Fund	
Position Count	*(1)Limited Period
Personal Services	50,218
All Other	53,905
Capital	0
Total	104,123
Commission Consumer Education Fund	
All Other	0
Commission Damage Prevention	
All Other	50,000
Oversight and Evaluation Fund	
All Other	138,500
Prepaid Wireless	
All Other	500,000
Emergency Svcs. Comm. (E-911)	
Position Count	(5)
Personal Services	442,215
All Other(OSR)	7,911,401
All Other (GF)	3,647,984
Capital	0
Total	12,001,600
State Electricity Regulators (ARRA)	
Position Count	(2) Limited Period
Personal Services	167,872
All Other	0
Capital	0
Total	**167,872

*Financial Orders 000872 F3
**Financial Order SS#0816 F3

Figure 2

Commission Regulatory Fund Assessments for the Past Ten Years Table 2								
						Total		
Year	Electric	Telecom	Water	Gas	Water Carriers	Utilities	Amount	Amount
	Revenues	Revenues	Revenues	Revenues	Revenues	Revenues	Billed	Authorized
2002	547,912,962	500,763,978	98,835,956	55,824,836	3,521,316	1,206,859,048	5,236,000	5,236,000
2003	535,509,552	538,050,538	101,802,792	53,466,479	3,713,543	1,232,542,904	5,505,000	5,505,000
2004	524,156,143	508,708,861	105,043,583	64,913,705	3,823,145	1,206,645,437	5,505,000	5,505,000
2005	511,898,621	479,535,534	66,382,651	107,317,453	2,809,273	1,167,943,532	5,505,000	5,505,000
2006	531,365,202	492,780,390	110,130,702	71,921,808	2,949,997	1,209,148,099	5,505,000	5,505,000
2007	493,598,549	436,922,435	111,089,598	66,028,479	3,655,720	1,111,294,781	7,647,403	7,647,403
2008	475,656,450	425,737,517	115,900,129	73,573,876	-0- *	1,090,867,872	7,172,489	7,172,489
2009	411,688,463	385,333,830	119,538,309	75,026,949	-0-*	991,587,551	7,419,695	7,419,695
2010	374,604,109	317,191,824	121,107,181	76,880,341	3,591,115	893,374,570	8,069,573	8,069,573
2011	378,489,543	289,239,378	127,294,136	75,151,597	3,566,079	873,740,733	4,549,291	4,549,291

*Revenues not included in assessment calculation

CURRENT COMMISSIONERS' BIOGRAPHIES

Thomas L. Welch was appointed Chairman of the Maine Public Utilities Commission in April 2011. He had previously served as Chair of the Commission from 1993-2005. Between his Commission appointments, Commissioner Welch worked for PJM Interconnection, a Pennsylvania-based Regional Transmission Organization, and for five years was an attorney at Pierce Atwood, LLP, in Portland, Maine. Before moving to Maine in 1993, he served as Chief Deputy Attorney General for Antitrust in the Pennsylvania Attorney General's Office, in-house counsel for Bell Atlantic, and Assistant Professor at Villanova University School of Law. Commissioner Welch graduated from Stanford University in 1972 and received his law degree from Harvard Law School in 1975. His term expires in March 2017.

David P. Littell was appointed to the Maine Public Utilities Commission in September 2010. Until this appointment, he served as the Commissioner of the Maine Department of Environmental Protection for five years starting in 2005, and served two earlier years as Deputy Commissioner. Commissioner Littell was an attorney and partner at Pierce, Atwood from 1992-2003. From 1994-2004, he was an intelligence officer in the United States Navy Reserves and resigned as a lieutenant commander in 2004. Commissioner Littell received his Juris Doctor from Harvard Law School in 1992 and his A.B. from Princeton University's Woodrow Wilson School of Public and International Affairs in 1989. In 2010, he was named a Distinguished Policy Fellow by the University of Maine's Margaret Chase Smith Center. His term expires in March 2015.

Mark A. Vannoy was appointed to the Maine Public Utilities Commission in June of 2012. Prior to coming to the Commission he worked as an Associate Vice President in the infrastructure and civil practice group at Wright Pierce in Topsham, Maine. Before moving to Maine in 2000, he served as an Officer in the United States Navy, completing tours as a NROTC instructor at Cornell University, and a nuclear tour, as the Damage Control Assistant aboard CGN36 USS California. He continues to serve in the Navy Reserve. Commissioner Vannoy graduated from the United States Naval Academy in 1993 with a Bachelor of Science in Ocean Engineering. He completed his Masters of Engineering at Cornell University in 2000. His term expires in March 2013.

PAST COMMISSIONERS
1915 – 2012

*	Benjamin F. Cleaves	1915-1919
	William B. Skelton	1915-1919
	Charles W. Mullen	1915-1916
	John E. Bunker	1917-1917
	Herbert W. Trafton	1918-1936
*	Charles E. Gurney	1921-1927
	Albert Greenlaw	1924-1933
*	Albert J. Stearns	1928-1934
	Edward Chase	1934-1940
*	Frank E. Southard	1935-1953
	C. Carroll Blaisdell	1937-1941
	James L. Boyle	1941-1947
	George E. Hill	1942-1953
	Edgar F. Corliss	1948-1954
*	Sumner T. Pike	1954-1955
	Frederick N. Allen	1954-1967
	Richard J. McMahon	1955-1961
*	Thomas E. Delahanty	1955-1958
*	David M. Marshall	1958-1969
*	Earle M. Hillman	1962-1968
*	John G. Feehan	1968-1977
	Leslie H. Stanley	1970-1976
*	Peter Bradford	1971-1977
		1982-1987
	Lincoln Smith	1975-1982
*	Ralph H. Gelder	1977-1983
	Diantha A. Carrigan	1977-1982
	Cheryl Harrington	1982-1991
*	David Moskovitz	1984-1989
*	Kenneth Gordon	1988-1993
	Elizabeth Paine	1989-1995
	Heather F. Hunt	1995-1998
	William M. Nugent	1991- 2003
*	Thomas L. Welch	1993-2005
	Stephen L. Diamond	1998-2006
*	Sharon M. Reishus	2003-2010
*	Kurt Adams	2005-2008
	Vendean Vafiades	2007-2012
*	Jack Cashman	2008-2011

*Chairman