

MAINE STATE LEGISLATURE

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Annual Report on Natural Gas Efficiency**Report to the Joint Standing Committee of the Legislature on Actions
Taken by the Commission Pursuant to 35-A M.R.S.A. § 4706¹**

35-A M.R.S.A. § 4706(1) authorizes the Public Utilities Commission (Commission) to adopt alternative rate-making 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: adopt multi-year rate-making plans with mechanisms for future rate changes; reconcile costs and revenues; 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. 35-A M.R.S.A. § 4706(9) requires the Commission to submit a report annually to the Utilities and Energy Committee detailing any action taken under this section.

During 1999, the Commission approved rates that incorporate market-based prices, rate freezes, and pricing flexibility. This report describes these activities.

CMP Natural Gas, L.L.C.

In late 1998 and early 1999, the Commission approved rate schedules and terms and conditions of service for CMP Natural Gas, L.L.C. that incorporate various alternative rate-making provisions. Specifically, rather than using a traditional cost-of-gas adjustment, CMP Natural Gas will recover its revenues for gas costs using a price that is set based on a combination of gas and oil futures. This Index Price Option (IPO) will be reset monthly. Alternatively, customers will have the option of choosing a Fixed Price Option (FPO) where the price for their gas commodity will remain at a projected level for a set period of either 3, 6, 9, or 12 months, giving them the benefit of price stability.

In addition, CMP Natural Gas will operate under a rate freeze for its distribution rates until 2004. CMP Natural Gas is authorized to enter special contracts with customers at management's discretion without prior Commission approval and without assurance that it will be allowed to recover any revenue discounts allowed under such contracts from other customers. Moreover, because of the degree of entrepreneurial discretion afforded to it under its rate plan, all start-up system expansions are undertaken at shareholders' risk. CMP

¹ Copies of documents referred to in this report are available on request or from the Commission's web page (www.state.me.us/mpuc).

Natural Gas will offer transportation-only, as well as bundled, rates to commercial and industrial customers.

In 1999, CMP Natural Gas began providing service under this rate plan to approximately 20 customers in Windham and now has authority to provide general service in Gorham in addition to 35 previously authorized municipalities.

Northern Utilities, Inc.

During 1999, the Commission approved a comprehensive rate redesign and customer reclassification for Northern Utilities that were necessary to prepare Northern for gas supply competition. Competition is occurring as states deregulate the gas supply function that traditionally has been a regulated utility service, allowing gas consumers to select their gas provider. This trend is similar to the deregulation of generation that is occurring in the electric industry in Maine and across the nation.

In particular, Northern's rate redesign incorporates cost-of-gas rates for each class, rather than an average rate for all of its customers. The Commission also approved rate schedules allowing Northern to provide transportation-only service for all commercial and industrial customers.

Bangor Gas Company, L.L.P.

Bangor Gas Company's schedules of rates and terms and conditions of service became effective on October 1, 1999. These schedules incorporate the alternative rate plan approved by the Commission in 1998. Notable features of the rate plan include 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 special contracts without prior Commission approval.

Natural Gas Restructuring

On June 4, 1999, the Commission opened an inquiry into natural gas restructuring to explore and develop a plan for addressing policies and changes necessary to fully implement gas supply competition and consumer choice in Maine (Docket No. 99-342). In its Notice of Inquiry, the Commission proposed to work from models developed through extensive collaborative processes and litigation in other New England states and to examine potential variations that might be better suited to Maine's market and regulatory environment. This inquiry will continue into 2000 and will likely develop into rulemakings and other proceedings necessary to establish statewide natural gas restructuring policies.