

MAINE STATE LEGISLATURE

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Annual Report on Natural Gas Efficiency

Annual Report to the Utilities and Energy Committee on Actions Taken by the Commission Pursuant to 35-A M.R.S.A. § 4706

Background

Title 35-A, Section 4706(1) of the Maine Revised Statutes Annotated (M.R.S.A.) 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. Section 4706(9) requires the Commission to submit a report annually to the Utilities and Energy Committee detailing any action taken under this section.

During 2000, Maine's gas distribution utilities carried out expansion under alternative ratemaking plans that the Commission approved during 1998 and 1999. This report describes those activities.

Gas Distribution Utility Activities

Maine Natural Gas, L.L.C. (formerly 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. (now renamed Maine Natural Gas) that incorporate various alternative rate-making provisions.

First, rather than using a traditional cost-of-gas adjustment, Maine 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) under which 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. Second, Maine Natural Gas will operate under a rate freeze for its distribution rates until 2004. Third, Maine 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 from other customers any revenue discounts allowed under such

contracts. Finally, because of the degree of entrepreneurial discretion afforded to it under its rate plan, all start-up system expansions are undertaken at shareholders' risk. Maine Natural Gas offers transportation-only, as well as bundled rates, to commercial and industrial customers.

In 1999, Maine Natural Gas began providing service under this rate plan to approximately 20 customers in Windham. In addition, it was authorized to provide general service in Gorham, bringing to 36 the number of municipalities in which it is authorized to serve.

During 1999 and 2000, using its authority to enter into contracts that rely on entrepreneurial resources rather than regulatory oversight, Maine Natural Gas succeeded in contracting with several large customers that will serve to "anchor" expansion into new areas. These new customers include the Westbrook Energy Center, Brunswick Naval Air Station, and the University of Maine's Gorham campus. The company has completed installation of its pipeline to Westbrook Energy Center and is in the process of installing facilities in Gorham and the Brunswick region. It also continues to expand service in Windham. The company files its revised IPO and FPO rate offerings with the Commission on a monthly basis for informational purposes.

Northern Utilities, Inc.

The Commission approved a comprehensive rate redesign and customer reclassifications for Northern Utilities in 1999 that were necessary to prepare Northern for gas supply competition that is developing in the natural gas industry. This 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.

Due to the rapid increase in gas prices nationwide in 1999 and 2000, Northern's cost of gas factor has required frequent mid-term adjustments under the traditional regulatory process. The Commission is considering various alternative rate regulatory mechanisms that could be implemented by Northern to provide incentives that streamline regulatory processes for gas price adjustments, buffer customers from large market changes, and allow greater competitive flexibility. Possibilities include performance-based or hedging mechanisms for gas supply procurement that could alleviate the need for repeated filings as market forces move prices up and down and could dampen the effect of market spikes on consumers.

As oil prices rose higher than natural gas and as unbundled commodity service gained a greater foothold in Maine, Northern successfully contracted with additional large customers in new areas of the state, including Vishay Intertechnologies in Sanford and the Portsmouth Naval Shipyard. However, Northern has not won competition among Maine's LDCs for other significant new customers located proximate to areas where it currently serves. The Commission continues to consider whether traditional regulation in the present climate may limit Northern's competitiveness and whether it is time to implement a performance-based rate plan. The Commission has informally invited Northern to submit such a rate plan.

Bangor Gas Company, L.L.C.

On October 1, 1999, Bangor Gas Company's schedules of rates and terms and conditions of service became effective. 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.

On October 30, 2000, the Commission approved Bangor Gas's first cost of gas adjustment for the winter 2000-2001 period in preparation to begin providing service. Bangor Gas has also filed its first rate cap adjustment, as allowed under its rate plan, for implementation on January 1, 2001.

While Bangor Gas was serving no customers as of the time of its cost of gas filing, it has installed many miles of pipeline and facilities and is poised to begin providing all classes of service very soon. Bangor Gas has contracted to serve the Bucksport Energy gas-fired electric generation facility and completed installation of gas service to that entity this summer. It also has contracted to serve the Fort James Corporation and the University of Maine at its Orono campus.

Natural Gas Restructuring

In 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. 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.

Initially the Commission expected this inquiry to continue into 2000 and to develop into rulemakings and other proceedings necessary to establish statewide natural gas restructuring policies. The Commission has deferred activity in this docket pending the development of market forces in Maine that warrant devoting resources to these issues. The Commission continues to monitor gas competition in Maine, including gas supplier activities and distribution utility system expansion. Maine's three authorized distribution utilities are required to file confidential expansion reports twice a year and to inform the Commission of any problems resulting from current policies that may arise.

Commission Web Page

The Commission developed a natural gas restructuring page on its website to provide ready access to policy decisions and information concerning the provision of natural gas service in Maine (janus.state.me.us/mpuc and click on "Natural Gas Industry Restructuring"). The page includes an electronic registration form for natural gas suppliers who intend to serve in Maine. Currently, 16 natural gas suppliers have registered with the Commission through its website.