Annual Report on Natural Gas Efficiency

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 M.R.S.A. § 4706(1) authorizes the Public Utilities Commission (Commission) 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: 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.

This report describes Commission actions taken during 2001 to promote natural gas efficiency through ratemaking mechanisms, contracts, and unbundling of transportation and commodity services.

Gas Utility Company Activity

A. Maine Natural Gas, L.L.C. (formerly CMP Natural Gas, L.L.C.)

During 1999 and 2000, using its authority to enter into contracts that rely on entrepreneurial resources rather than regulatory oversight, Maine Natural Gas contracted with several large customers that serve to "anchor" expansion into new areas. These customers include the Westbrook Energy Center (WEC) gas-fired electric generation facility, Brunswick Naval Air Station (BNAS), and the University of Southern Maine at its Gorham campus. Maine Natural Gas first built facilities to WEC, then to the Gorham campus. In the fall of 2001, the company completed installation of its pipeline system to BNAS to begin service on November 1. The Company continues to work toward expanding service in Windham, Gorham, Brunswick, and new municipalities within the state. One of its next candidates for expansion is the Augusta-Waterville area. There were no rate structure or regulatory changes made to Maine Natural Gas's operations in 2001.

B. Northern Utilities, Inc.

Unlike the ratemaking procedures of its competitors Maine Natural Gas and Bangor Gas Company, traditional regulatory processes govern Northern

Utility's (Northern's) rates and operations. The rapid increases in gas prices nationwide in 1999 and 2000 required frequent mid-term adjustment of Northern's cost-of-gas factor. The Commission is considering various alternative rate mechanisms that could be implemented by Northern to provide incentives that streamline regulatory processes for gas price adjustments, moderate the effect on customers of large market changes, and allow greater competitive flexibility. During 2001, Northern proposed a hedging program for gas supply procurement designed to dampen the effect of market price spikes on consumers. Other options that the Commission may consider include performance-based gas procurement plans.

In November 2000, Northern's ultimate parent corporation, NiSource, Inc., closed its merger with Columbia Energy Group. The integration of these two large corporate families has resulted in management and policy changes and staff cuts at the Northern/Bay State Gas level. The Commission continues to monitor Northern's post-merger operations and revenues to ensure that service to Maine's customers remains safe, adequate and reasonably priced. The Commission declined to initiate a rate case for Northern in 2001 and is monitoring Northern's New Hampshire Division rate case to gather information to assist it in determining whether it should do so in 2002. The Commission will also consider implementing alternative regulatory plans, such as benchmark and performance-based mechanisms, to ensure that Northern meets adequate service standards.

C. Bangor Gas Company, L.L.C.

Bangor Gas Company operates under the alternative rate plan approved by the Commission in 1998, which includes 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. The rate plan also includes a seasonal cost-of-gas adjustment. To date, Bangor Gas has set its gas commodity price for each winter or summer period based on an average of gas market futures and has purchased gas from its affiliate, Sempra Energy, at market prices. Bangor Gas has made two annual rate cap adjustments, as allowed under its rate plan.

Bangor Gas completed installation of its main pipeline to the Bangor-Brewer area and, with the many miles of pipeline and facilities it had already installed in those municipalities, is poised to greatly expand service. Bangor Gas also serves the Bucksport Energy gas-fired electric generation facility, Georgia Pacific (formerly Fort James Corporation), and the University of Maine at its Orono campus.

Natural Gas Restructuring

The Commission has moved slowly toward gas restructuring in Maine, monitoring developments in neighboring New England states and taking actions that suit Maine's market and regulatory environment. While the Commission's regulatory actions to restructure gas service have been moderate compared to actions taken in neighboring New Hampshire and Massachusetts, an informal survey of selected registered Maine gas marketers revealed no pressing matters related to gas competition in Maine that warrant immediate regulatory attention.

In 1999, the Commission approved a comprehensive rate redesign and customer reclassification for Northern Utilities that were necessary to prepare Northern for gas supply competition that is developing in the natural gas industry. In addition, all three gas utilities operating in Maine offer transportation-only ("unbundled") service to all commercial and industrial customers. Customers taking this service must purchase and install telemetering equipment.

At this time, 12 natural gas suppliers have registered to provide service in Maine. Numerous medium and large commercial and industrial customers are taking transportation-only service from their local distribution company, while purchasing gas from competitive suppliers. However, because of the upfront costs of equipment required to provide this service, small commercial customers have not found it economic to participate in the competitive gas supply market. The Commission expects to review this issue during 2002 to determine whether there are ways to reduce market barriers and encourage additional market activity for gas supply.