

MAINE STATE LEGISLATURE

The following document is provided by the
LAW AND LEGISLATIVE DIGITAL LIBRARY
at the Maine State Law and Legislative Reference Library
<http://legislature.maine.gov/lawlib>



Reproduced from scanned originals with text recognition applied
(searchable text may contain some errors and/or omissions)



JOHN ELIAS BALDACCI
GOVERNOR

STATE OF MAINE
EXECUTIVE DEPARTMENT
PUBLIC ADVOCATE OFFICE
112 STATE HOUSE STATION
AUGUSTA, MAINE
04333-0112

RECEIVED
STEPHEN G. WARD
PUBLIC ADVOCATE
MAR 22 2005

March 21, 2005

Governor John Elias Baldacci
Office of the Governor
1 State House Station
Augusta, ME 04333-0001

Dear Governor Baldacci,

As you are aware from recent conversations with some of its members, the Electric Price Mitigation Task Force has met over the past six weeks in an effort to address the increasing cost of electricity supply. The Task Force is composed of all the participants in Public Utilities Commission proceedings that recently readjusted (and lowered) the rates for stranded cost recovery by Central Maine Power and Bangor Hydro Electric companies.

I enclose for your review a summary of the Task Force's conclusions and recommendations, entitled "Action Items for Policy Making and Implementation."

Very truly,

Stephen G. Ward
Public Advocate

Attachment

cc: Task Force Members
Kurt Adams, OOG
Dick Davies, OOG

Senator Philip Bartlett, II
Representative Lawrence Bliss
Jon Clark, OPLA



PRINTED ON RECYCLED PAPER

**Electric Price Mitigation Task Force
Action Items for Policymaking and Implementation
March 2005**

A. INTRODUCTION

Composed of a number of parties to recent PUC Stranded Cost cases,¹ the Electric Price Mitigation Task Force has met over the past month in an effort to find opportunities to lower electric rates in response to increases in electricity supply prices due to rising world oil and natural gas prices. Until the recent change in Standard Offer prices for residential and small commercial customers, the combined cost of supply and delivery for residential and small business customers had declined in recent years through a combination of stable supply prices and decreasing delivery prices. In fact, the price that CMP residential customers pay for electricity right now is approximately the same price paid by customers in 1999; over the same time period, regular gasoline prices rose 70% and heating oil prices rose 150%.

Maine's approach to electric industry restructuring has worked and is working very well. Significant numbers of commercial and industrial customers purchase their electricity supply from competitive providers. Residential and small commercial customers purchase their supply from standard offer, which is procured through an effective competitive bidding approach. Below is a review of progress that has come in both components - the regulated delivery rate and the unregulated supply price:

1. **Regulated Delivery Rates**

- Stranded costs (past contract obligations for non-utility generators and decommissioning of closed nuclear units) have come down dramatically - from a \$1 billion level in 1999 to \$500 million today (net present value).
- CMP and Bangor Hydro have each agreed to alternative rate plans that result in a pattern of annual delivery rate adjustments over the 2001 to 2008 period that is likely to drive prices down further from 2000 levels. CMP delivery prices already have declined by over 30% since the beginning

¹ The Mitigation Task Force met on February 2, February 18, February 25, March 2 and March 10. Its members included representatives of the PUC (Tom Welch), CMP (Paul Dumais, John Carroll, Scott Mahoney), Bangor Hydro (Greg Hines), IECG (Tony Buxton, Linda Lockhart), IEPM (Dave Wilby, Pat Scully), Office of Energy Independency and Security (OEIS) (Beth Nagusky) and OPA (Steve Ward, Eric Bryant). While the OEIS does not endorse all statements contained in the introduction section, it generally supports the recommendations of the summary report.

of 2000. Bangor Hydro has locked in a pattern of delivery rate reductions totaling 12% over the seven years ending 2008.

- Efficiency Maine is effectively running energy efficiency programs targeted at all customers, consistent with its legislative mandate. Efficiency Maine's funding comes from a charge included in customers' delivery rates. In 2004, Efficiency Maine spent \$6.8 million on efficiency programs that are expected to result in \$12.9 million of benefits and significant reductions to air emissions. Efficiency Maine's funding will increase to \$12.6 million in 2006 as CMP's power partner program expenditures decrease.

2. **Electric Supply**

- Maine has a vibrant retail supply market that is benefiting its medium and large commercial and industrial customers. More than 90% of large customer load and 35% of medium customer load is served today with customers picking their own power suppliers in the competitive retail market. For these customers, choice, predictability and control are the key benefits of electric restructuring. The percentages are high relative to other states that have restructured their electric industry. Residential and small commercial customers benefit from the bidding process used by the Maine Public Utilities Commission to procure standard offer service. In fact, the standard offer price effective March 2005 for these customers is still less than that paid by customers in Massachusetts.
- The PUC locked in standard offer prices for a portion of the load for 2006/2007 and 2007/2008 that are lower than the prices taking effect in March 2005. As a result, Maine has increased the likelihood of a pattern of declining costs for residential and small commercial customers for the near future. The new standard offer contract with Constellation Energy that took effect on March 1 is in place for three years but in March 2006, 33% of the CMP and Bangor Hydro residential/small commercial load will go out for new bids, and in March 2007, another 33% will be put out to bid. If oil and natural gas prices subside from current levels, these new bids would capture lower prices for these customers.

- CMP and BHE customers benefited by as much as \$250 million over the last three-year standard offer period (2002 to 2005). Supply prices for these customers were locked in during the time period when wholesale natural gas prices increased by 100%.
- Today a 100% renewable power supply option is available and serving more than 2,800 Interfaith Power and Light customers, representing a clean power alternative that did not exist prior to electric restructuring.
- Maine has in place a 30% renewable requirement that suppliers must meet in order to supply electricity in Maine. Maine's renewable requirement is the highest in the nation.

In short, Maine has paid down more than 50% of the stranded costs that accumulated in the 1980's and 1990's and has created an effective device for aggregating residential customers into a single standard offer buying block to ensure competitive supply prices. Despite these successes and the structural advantages of Maine's policy of unregulated supply markets, there are additional opportunities that may offer more benefits for Maine's small businesses and residential customers.

B. RECOMMENDATIONS

The Electric Price Mitigation Task Force recommends pursuing the following opportunities, in no particular order of importance:

1. **Contract Restructuring:** Continue to explore the buy-out or restructuring of contracts with private power generators and marketers that account for over 70% of stranded costs for CMP and Bangor Hydro. Through negotiation, explore opportunities for lowering the level of these contract payments by means of alternative methods of financing, including public financing.
2. **Efficiency Bond:** Support LD 891, a proposal now pending before the Appropriations Committee for funding fuel neutral energy efficiency programs to benefit low-income households (175% of federal poverty or less), moderate-income households (80% of county medium income or less) and manufacturers. These programs are to be managed by MSHA or by Efficiency Maine and should be funded at no less than \$20 million over a five-year period. At this time, the funding will supplement customer-funded Efficiency Maine programs that are already in place.

3. **Energy Star Appliances:** In conjunction with retail appliance marketers, such as Home Depot, Sears or Lowes, promote Energy Star appliance purchases when it can be demonstrated that the monthly energy cost savings exceed monthly financing costs and that the payback period is reasonable.
4. **Efficiency Maine Refrigerator Replacements:** Ramp up the existing refrigerator replacement program for HEAP-eligible, low-income households from 2,400 in 2005 to a 3,000 per year in 2006 and 2007. Each replacement generates annual savings of as much as 1,250 kWh annually, or more than \$160, for participating customers each year.
5. **Seek Improvements in Maine's Retail Marketplace:** Encourage the PUC to investigate rulemaking changes that may reduce barriers to entry for competitive providers serving residential and small commercial customers. Convene one or more meetings of competitive providers to solicit suggestions, proposals or innovations that could facilitate more activity in these markets.

The Electric Price Mitigation Task Force also considered a number of other possible options for addressing the price impacts associated with the March 2005 Standard Offer increase but does not recommend pursuing them, for the following reasons:

1. **Levelizing a Three-Year Standard Offer:** The group discussed the option of seeking to negotiate with the CMP and BHE Standard Offer providers a levelized three-year price for power purchased for 2005/06 (100% of load), 2006/07 (67% of load) and 2007/08 (33% of load). If successful, this effort would generate only a very modest reduction -- one tenth of a cent -- in the 2¢ increase, and would do so with some jeopardy for the successful conduct of future Standard Offer bid processes. The success of Maine's Standard Offer bid program has everything to do with bidders' confidence that the rules will not be changed mid-stream; this option could represent exactly that.
2. **Providing a Lower T&D Rate for Residential Customers:** For residential customers to receive a lower T&D rate (and thereby be sheltered from a portion of the Standard Offer increase), T&D rates for other customer groups would necessarily go up. This is the wrong time to raise rates for commercial and industrial customers, as they have been and are experiencing the same high supply prices that residential and small commercial customers are now experiencing.

3. **Deferring Stranded Cost Recoveries Over a 5-Year Period:** Any deferral of stranded cost recovery now by lowering the current delivery prices pushes recovery into an uncertain future and takes Maine off a steadily declining pattern of stranded cost recovery that will enable lower prices for Maine's customers in the future. The cost for such deferral is substantial: a .5-cent reduction which only offsets 25% of the supply price increase, results in \$45 million of additional financing costs for CMP and Bangor Hydro. This option is too risky and too costly because it presents the risk of needing to recover costs in the future and adding substantial financing costs at a time when wholesale electric prices might continue to increase.