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PUBLIC UTILITIES COMMISSION

January 8, 1996

Senator David L. Carpenter, Chair
Representative Carol A. Kontos, Chair
Joint Standing Committee on Utilities
State House Station No. 115
Augusta, ME 04333-0115

Re: P.L. 1991, c. 413, AN ACT to Encourage Electric Utility Efficiency and
Economical Electric Rates

Dear Sen. Carpenter and Rep. Kontos:

In 1991, the Legislature enacted P.L. 1991, c. 413, AN ACT to Encourage Electric Utility Efficiency and Economical Electric Rates. The Act creates subchapter VII of Title 35-A entitled "Incentive Ratemaking." This legislation, codified at 35-A M.R.S.A. § 3195, clarifies the Public Utilities Commission's (PUC's) authority regarding incentive ratemaking and the promotion of electric utility efficiency.¹

Subsection 3195(1) makes explicit the Commission's authority to establish or authorize "any reasonable rate-adjustment mechanisms to promote efficiency in electric utility operations and least-cost planning" and lists four types of permissible mechanisms. These mechanisms include: (1) "decoupling of utility profits from utility sales;" (2) "reconciliation of actual revenues or costs with projected revenues or costs;" (3) "adjustment of revenues based on reconciled, indexed or forecasted costs;" and (4) "positive or negative financial incentives for efficient operations."

Subsection 3195(2) requires that rates resulting from the implementation of such rate adjustment mechanisms must be "just and reasonable." Subsection 3195(5) of the Act requires the Commission to submit to the joint standing committee having jurisdiction over utility matters an annual report:

¹Section 3195 is entitled "Commission authority to promote electric utility efficiency."

detailing any actions taken or proposed to be taken by the Commission under this section, including actions on mechanisms for protecting ratepayers from the risks associated with rate-adjustment mechanisms.

the proposed rate transfer

In 1994, the Legislature added a subsection to section 3101. Subsection 3195(6) clarifies that the Commission may authorize a pricing flexibility program that includes changing rate schedules on contracts with limited notice and approval. Subsection 3195(6) provides that "[a]s part of a program adopted under this subsection, the commission may waive section 3101 [the fuel adjustment clause]."

entitled "Rate flexibility."³ The electric utility to implement a program of entering into special rate contracts provides that "[a]s part of the requirements of

The purpose of this letter is to provide the Commission's committee having jurisdiction over utility matters pursuant to subsection 3195(5) for the year 1995.⁴

to the joint standing committee on 3195(5) for the year

I. CENTRAL MAINE POWER COMPANY (CMP)

A. Alternative Rate Plan

In our last report under this statute, we provided information on a then recently completed Order in Docket No. 92-345, Phase II, dated January 10, 1995. In that Order, the Commission adopted an Alternative Rate Plan (ARP) for CMP.⁵

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Since approving the CMP ARP stipulation in the January 10, 1995 Order, there have been several filings and proceedings that relate to the implementation of that Order. The Commission's activities during 1995 regarding CMP can be divided into three categories:

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²Under section 3195(5), the Commission is required to consider the transfer of risks associated with the effects of the economy and the weather on the utility's sales.

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³P.L. 1993, c. 614 developed out of L.D. 1666 entitled A Bill to Permit Electric Utilities Greater Flexibility in Adjusting Electric Utility Prices to Changing Market Conditions.

"Bill to Permit Electric Utilities Greater Flexibility in Adjusting Electric Utility Prices to Changing Market Conditions."

⁴This report was due on January 3, 1996.

⁵This January 10 Order adopted the stipulated ARP that was submitted by several parties in that case on October 14, 1994. The October 14 Stipulation ("Stipulation") sets forth the terms and conditions relating to the form of rate regulation that will be used to regulate CMP for the next 5 years.

submitted by several parties in that case on October 14, 1994. The October 14 Stipulation ("Stipulation") sets forth the terms and conditions relating to the form of rate regulation that will be used to regulate CMP for the next 5 years.

- Pricing flexibility requests. The CMP ARP grants CMP considerable flexibility regarding the pricing of its services. A set of criteria and an expedited process have been established under the CMP ARP to review and evaluate filings; the rates go into effect automatically if they meet the established criteria.⁶ The Commission has allowed a number of CMP filings under the CMP ARP to go into effect during 1995. Special rate contracts or tariff proposals filed under the CMP ARP's pricing flexibility provisions included discounts for many of CMP's large industrial customers, a Diesel Deferral rate, an Economic Development rate, an Electric Residential Space Heat Sale rate, and a Commercial Space Heat Retention rate.
- ARP Annual Review Proceeding. On June 22, 1995, the Commission issued an Order approving the first annual price change under the CMP ARP.⁷ That Order authorized a 2.43% increase in the price caps for all customer classes, and authorized CMP to file corresponding tariff revisions.
- DSM Performance Target Proceeding. The Commission's Order in this proceeding (Docket No. 95-598, dated November 22, 1995) adopted a demand-side management (DSM) performance target for CMP of 36 million kilowatt-hours (kWh) for 1996. The CMP ARP stipulation, which was incorporated into the Commission Order dated January 10, 1995, requires that CMP file on April 1st of each year a proposed DSM performance target for the next year, to ensure that the Company engages in least-cost planning and demand-side management that is consistent with State energy policy during the term of the ARP. The DSM performance target that the Commission adopted for CMP is consistent with State energy policy and is appropriate in the more competitive environment that

⁶A "generic" docket (Docket No. 95-600) was established to process these activities (PUBLIC UTILITIES COMMISSION Re: Central Maine Power Company's Alternative Rate Plan Pricing Flexibility - Attachment F (I-F) of Stipulation in Docket No. 92-315 (Phase II). Specific filings have been processed using dockets nos. 95-601 to 95-623.

⁷Each July 1, beginning on July 1, 1995, the cap on each of CMP's rates for retail electric service will change by a percentage equal to the total of the following four items: (1) inflation index; (2) less productivity offset and QF factor; (3) plus or minus sharing mechanism; and (4) plus or minus flowthrough items and mandated costs. Paragraph 20 of the CMP ARP Stipulation (approved by the Commission in the CMP ARP Order dated January 10, 1995) requires CMP to file information on a number of matters relating to this rate change on each March 15 during the term of the ARP.

CMP faces under the ARP. The Commission Order allows CMP considerable discretion and flexibility to develop its plan to achieve the established DSM performance target.

II. BANGOR HYDRO-ELECTRIC COMPANY (BHE)

A. Alternative Marketing Plan

In last year's report under this statute, the Commission reported on its Decision and Order, dated February 14, 1995, in which the Commission allowed BHE substantial pricing flexibility, eliminated the fuel adjustment clause for BHE and made certain other decisions. During 1995, the following activity took place pursuant to BHE's Alternative Marketing Plan:

- Pricing Flexibility Requests. Similar to CMP's ARP, the BHE AMP grants BHE considerable flexibility regarding the pricing of its services.⁸ The Commission has processed a number of BHE filings under the BHE AMP during 1995.⁹ Special rates or tariffs currently in effect under the BHE AMP include load retention rates for residential and commercial electric space heat load and individual contracts with certain commercial and industrial customers.
- Rate Cap Proceeding. The Commission's February 14, 1995 BHE AMP Order sought the development of a comprehensive rate cap plan for BHE. BHE has made a "good faith" offer to "freeze" its rates for 5 years given the absence of a comprehensive rate cap plan. Because negotiations among the parties during 1995 did not produce an agreement, the Commission's Advocacy Staff filed testimony regarding the appropriate design of a comprehensive rate cap plan on December 5 and December 27, 1995. The Commission held a Prehearing Conference on January 3, 1995 and will determine a schedule for further hearings, if any, on this issue in the near future.

⁸The terms of the BHE AMP are different in some technical respects from the CMP ARP but generally operate in a similar way.

⁹A "generic" docket (Docket No. 95-700) was established to process these activities (PUBLIC UTILITIES COMMISSION Re: Bangor Hydro-Electric Company Investigation of Flexible Pricing (Pursuant to 94-125 AMP). Specific filings have been processed using dockets nos. 95-701 to 95-711.

II. MAINE PUBLIC SERVICE COMPANY (MPS)

A. Pricing Flexibility Program

On August 7, 1995, the Commission approved a Stipulation in Docket No. 95-052 that adopted a pricing flexibility program for MPS.¹⁰ The terms of the Stipulation were essentially the same as the pricing flexibility provisions approved for CMP in its ARP. The pricing flexibility program provides mechanisms that allow proposals that meet specified criteria to become effective 30 days after filing. The Commission has processed several MPS pricing flexibility filings during 1995.¹¹ Special rates or tariffs currently in effect under the MPS pricing flexibility plan include load retention rates for residential and commercial electric space heat load, an economic development rate, and an agricultural storage rate.

B. Rate Stability Plan

On November 13, the Commission approved a stipulation which set forth the major components of a rate stability plan for MPS. On November 6, 1995, MPS, the Commission's Advocacy Staff and the Public Advocate filed a stipulation with the Commission.¹²

The Rate Stability Plan became effective on January 1, 1996 and will remain in effect through January 31, 2000. Subject to the provisions of the Stipulation, beginning on January 1, 1996 and on each February 1 thereafter for the years set forth below, MPS will be permitted to increase retail rates by the following percentages:

<u>1/1/96</u>	<u>2/1/97</u>	<u>2/1/98</u>	<u>2/1/99</u>
4.4%	2.9%	2.75%	2.75%

Other than the first year, the parties expect that the rate increases agreed to will be lower than the rate of inflation. Once the currently pending rate design case for MPS has been concluded,

¹⁰MAINE PUBLIC SERVICE COMPANY, Re: Proposed Increase in Rates, Order Approving Partial Stipulation (Flexible Pricing), August 7, 1995.

¹¹A "generic" docket (Docket No. 95-800) was established to process these activities (PUBLIC UTILITIES COMMISSION Re: Maine Public Service Company, Investigation of Flexible Pricing (Generic). Specific filings have been processed using dockets nos. 95-801 to 95-803.

¹²McCain Foods, Inc. opposed approval of the Stipulation and Hannaford Brothers filed no comments. On January 2, 1996 McCain Foods, Inc. filed a Notice of Appeal regarding the Commission's Order approving this Stipulation.

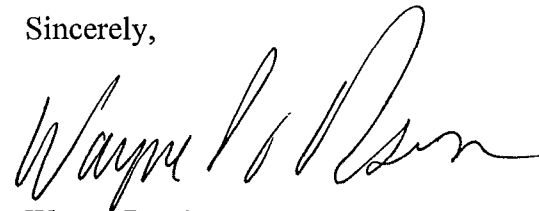
increases in customers' rates will be capped at these agreed to levels through the year 2000 unless: (1) MPS's earnings are exceptionally low; (2) MPS incurs currently unanticipated governmentally-mandated costs that are eligible for ratepayer recovery under the Rate Stability Plan; or (3) the Maine Yankee plant is shut down again for more than 6 months.

Other provisions of the MPS Rate Stability Plan include the following:

- The operation of the Company's fuel clause is suspended. Therefore, the Company will not be able to flow through to its retail ratepayers changes in fuel costs during the 49 months of the plan.
- The Company agreed to write-off and forego any rate recovery of \$11.7 million in assets. These write-offs include \$6.2 million of Seabrook investments, \$2 million in other operating plant, and \$3.5 million in deferred fuel balances.
- The Company is required to maintain service quality at traditional levels and specific service quality standards are established. Should the Company fail to meet such standards it would be subject to annual penalties of up to \$200,000.

The approval of the Stipulation does not resolve certain rate design issues for MPS. The Company has proposed to change how its total revenue is allocated among the Company's customer classes. Under the Company's rate design proposal, rates for the Company's residential and commercial customers would increase further, while rates for certain large industrial customers would decrease.

Sincerely,



Wayne P. Olson
Director of Finance

WPO/jf