

# MAINE STATE LEGISLATURE

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**Report to the Joint Standing Committee of the Legislature  
On Actions Taken by the Commission Pursuant to 35-A M.R.S.A. § 3195<sup>1</sup>**

35-A M.R.S.A. § 3195 authorizes the Public Utilities Commission (Commission) to adopt rate mechanisms that promote electric utility efficiency. Subsection 5 states:

**Annual Report.** The commission shall submit to the joint standing committee of the Legislature having jurisdiction over utilities matters an annual report detailing any actions taken or proposed to be taken by the commission under this section, including actions or proposed actions on mechanisms for protecting ratepayers from the transfer of risks associated with rate-adjustment mechanisms. The report must be submitted by December 31<sup>st</sup> of each year.

This report describes the Commission's actions taken during 1999 regarding rate mechanisms that promote electric utility efficiency.

**I. INTRODUCTION**

Each investor-owned utility has in place an alternative rate plan that was approved approximately five years ago. The plans afford each utility significant flexibility in reducing core rates, offering contracts for reduced prices to individual customers, and offering special rate programs for groups of customers.

Each of these plans ends in 1999 or 2000. In general, the plans do not determine the treatment of contracts, special rates, and their revenues upon termination of the plan. The fact that electric industry restructuring takes effect on March 1, 2000, pursuant to 35-A M.R.S.A. § 3201 – 3217, provided further impetus to consider in 1999 the future of these plans and their treatment upon termination.

**II. ANNUAL UTILITY CORE RATE CHANGE FILINGS**

During 1999, each investor-owned utility filed its annual core rate adjustments under the terms of its alternative rate plan.

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

### **Central Maine Power Company**

Central Maine Power (CMP) operates under the Alternative Rate Plan (ARP) approved by the Commission in January 1995. The ARP governs CMP's annual rate changes and pricing flexibility rules. In its annual core rate filing, CMP proposed that, instead of increasing customer rates by a de minimus amount, the increase resulting from the ARP calculation be applied to the balance in the reconcilable Demand Side Management (DSM) account. This balance will eventually be recovered from CMP's ratepayers. The Commission approved an agreement filed by the parties to the case that: 1) resulted in no rate increases; 2) added a larger amount than was filed to the DSM balance;<sup>2</sup> 3) altered the ARP's pricing flexibility guidelines to make them consistent with the service to be provided by CMP as a transmission and distribution (T&D) utility after February 2000; and 4) adjusted the pricing floors for contracts and special rates for service before and after the date of restructuring.

### **Bangor Hydro-Electric Company**

Bangor Hydro-Electric Company (BHE) implements its pricing flexibility under the Alternative Marketing Plan (AMP) approved by the Commission in February 1995 and its annual rate changes under a rate cap plan approved in February 1998 (Docket No. 97-116). In BHE's 1999 annual core rate review, the Commission approved a rate increase for BHE's core customers of approximately \$2 million, or 1.36%. The net increase consisted of a decrease under the price cap adjustment mechanism and an increase to reflect the effect of three exogenous factors: 1) increased NEPOOL expenses; 2) amortization of reasonable and incremental deferred ice storm costs; and 3) the amortization of deferred Maine Yankee costs, primarily regarding decommissioning. The Commission also ordered BHE to defer the profits from the sale of its generating assets and consider their treatment in BHE's T&D rate case.

### **Maine Public Service Company**

Maine Public Service Company operates under a Rate Stability Plan (RSP) approved by the Commission in November 1995. Like CMP, MPS's RSP governs its annual rate changes and its pricing flexibility rules. In its annual core rate filing, MPS requested an increase in rates of 6.39%, consisting of 3.1% authorized in the 1998 RSP proceeding and 3.29% to recover the net replacement cost of MPS's Maine Yankee entitlement. MPS requested that the increase be delayed until the Commission completed its consideration of MPS's asset divestiture. If the asset sale was approved, MPS wished to defer the forgone revenue increase and offset it with a portion of the available value from the net gain from the generation asset sale. The Commission approved a stipulation that: 1) allowed MPS to defer its allowed gain from the RSP; 2) reached a

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<sup>2</sup> This resulted from corrections made to CMP's estimates, discovered subsequent to the filing.

compromise regarding the level of Maine Yankee replacement costs; and 3) deferred decision on the disposition of the available value to MPS's T&D rate case.

### III. CONTRACTS EXECUTED DURING 1999

Each of the pricing flexibility plans allows the utility significant flexibility in offering reduced or special rates to individual customers or to groups of customers. The plans establish criteria and an expedited process for Commission review of these contracts and special rates, allowing the contracts or special rates to go into place in 30 days if the criteria are met. During 1999, the Commission reviewed 37 contracts executed by CMP,<sup>3</sup> and two executed by BHE.<sup>4</sup> Unlike contracts filed in previous years, however, contracts filed in 1999 observed conditions made necessary by the implementation of restructuring on March 1, 2000. Those conditions are described in the next section.

### IV. CONTRACTS EXTENDING BEYOND MARCH 1, 2000

Some of the existing contracts have terms that extend beyond March 1, 2000. These contracts were for bundled electric service, potentially leaving utilities with contractual obligations for the sale of generation that, after retail access, the utilities cannot provide. It was therefore necessary to find a method for unbundling the contracts so the customer can purchase generation service on the open market while contracting for delivery from the T&D utility. In CMP's territory, approximately 30 contracts extend beyond March 1, 2000; BHE and MPS each have less than ten. The Commission addressed this problem in CMP's T&D ratemaking proceeding (Docket No. 97-580). The solutions ordered in the CMP proceeding also apply to BHE and MPS contracts.

#### Existing Contracts

In its Orders dated March 9 and June 22, 1999, the Commission directed CMP to restructure existing contracts in a manner that preserves the benefits of the contract to the contracting party, i.e., the customer's total rate for electricity should remain unaffected. Subsequently, the Legislature adopted P.L. 1999, ch. 398, Part K, which requires CMP to restructure these contracts so that, if the customer has exercised due diligence to obtain the lowest price for generation, the contract's T&D price shall equal the difference between the bundled contract price and the customer's generation supply price. CMP will file all restructured contracts, and the Commission will review each contract to ensure that it conforms with the statute.

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<sup>3</sup> These totals do not include all contracts executed by CMP. If a utility offers a special rate to a group of customers, the utility is exempt from filing standard form contracts required by the terms of the special rate.

<sup>4</sup> One of BHE's contracts is still under review.

### **ARP-Comparable Renewals**

Some contracts will be renewed or extended before March 2000 in a manner that creates a T&D contract equivalent to one put in place under a pricing flexibility plan. The Commission will review each such contract to determine that it is equivalent to an arrangement put in place under the ARP. In any future rate proceedings, these contracts will be considered reasonable unless there is credible contrary evidence.

### **New or Changed Contracts**

In its Orders in CMP's case, the Commission determined that it would review new or significantly changed contracts in a manner similar to the current ARP process. The review will consider whether the contract complies with ARP pricing flexibility criteria, includes reliable documentation of the customer's alternative, and reflects a generation supply price that appears reasonable. The review will not result in a presumption of reasonableness or prudence. Rather, the Commission will conduct an in-depth review of these contracts at a later date. During 1999, CMP filed seven new or changed contracts that extend beyond March 1, 2000.

## **V. TREATMENT OF CONTRACTS AND SPECIAL RATES IN T&D RATEMAKING PROCEEDINGS**

The current proceedings to determine rates for CMP and MPS after restructuring begins are the first rate cases to occur since the implementation of the alternative rate plans.<sup>5</sup> These cases must therefore consider how the core ratemaking process should treat price reductions implemented pursuant to alternative rate plans. The Commission addressed the appropriate treatment in CMP's T&D ratemaking proceeding (Docket No. 97-580). The methods ordered in that proceeding also apply to treatment of BHE and MPS contracts.

In its Orders dated March 9 and June 22, 1999, the Commission generally adopted the approach of reflecting non-core sales and revenues in the rate year based on pre-March 2000 levels, adjusted for known changes. The Commission stated that these sales were made when CMP had the proper incentives to maximize its revenues and that an administrative review would be burdensome and inconclusive. The approach directed CMP to determine total T&D revenue requirements to be recovered through core rates by subtracting non-core revenues from CMP's full revenue requirement. This approach would fulfill the Commission's obligation to authorize rates that allow CMP a reasonable opportunity to recover its revenue requirements.

The Commission further stated that, despite this approach, CMP should continue to minimize discounts and to re-assess the need for and magnitude of any price reduction it considers in the future.

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<sup>5</sup> A core rate case was processed for BHE in 1998 (Docket No. 97-116).

## **VI. FUTURE ALTERNATIVE RATE PLANS**

In the future, the Commission will consider alternative rate plans for T&D service to replace those currently in effect for bundled service. The Commission has stated its general support for such plans, and intends to determine the most effective way to ensure the benefits of pricing flexibility and rate caps for T&D service.

## **VII. CONCLUSION**

During their approximately five years of operation, Maine's three alternative rate plans have met their goal of providing incentives to utilities to retain load and avoid transfer of associated fixed costs to remaining core ratepayers, while placing more risk of utility pricing decisions on shareholders. Pricing flexibility activity during 1999 mirrored activity in prior years. In addition, however, the Commission established the means for treating the terms, prices, and revenues from contracts and special rates when restructuring begins. Experience from current pricing flexibility plans will form the basis for designing plans that will operate in 2000 and beyond.