

# MAINE STATE LEGISLATURE

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# MAINE PUBLIC UTILITIES COMMISSION

## Report to the Utilities and Energy Committee on the Lack of Competition in the Northern Maine Electricity Market

September 10, 2007

### I. INTRODUCTION

The extent of competition in the electricity market in northern Maine has been far less robust than in the rest of the State since the restructuring of the industry in 2000. During this time, the Commission has conducted several proceedings relating to the northern Maine market and has continually monitored the situation. In November of 2006, the Commission announced that the standard offer bids for Maine Public Service Company (MPS) customers were inadequate because there was only one bidder and concluded that “the competitive situation in northern Maine had gone from worrisome to one of obvious failure.”<sup>1</sup>

Upon determining that the competitive situation in northern Maine market was a failure, the Commission initiated an Inquiry<sup>2</sup> to investigate possible solutions to the lack of competition in the area. This Inquiry, which is ongoing, has involved a number of meetings with stakeholders and the filing of several rounds of written comments.

On May 3, 2007, the Commission provided a Report on Northern Maine Electricity Market to the Utilities and Energy Committee (Committee). The May 3<sup>rd</sup> Report provided a description of the northern Maine market, a discussion of the 2006 standard offer solicitation, and a status report on the northern Maine market Inquiry. The Report concluded that the status quo in northern Maine is unacceptable and that the northern Maine market, as currently configured, is too small and isolated to support a competitive market. The Commission indicated that it would continue to review alternatives including the feasibility of a transmission interconnection between northern Maine and the rest of New England, options for payments for any new transmission construction, and the potential for long-term contracts as a stimulus for competition. A copy of the May 3<sup>rd</sup> Report is attached to this Report (Attachment A). A copy of the Commission’s

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<sup>1</sup> *Order Rejecting Standard Offer Bids and Directing MPS To Provide Standard Offer Service*, Docket No. 2006-513 (Nov. 16, 2006).

<sup>2</sup> The Inquiry was assigned Docket No. 2006-513. All documents filed in the Inquiry, as well as relevant Commission orders, can be viewed on the Commission’s web site at [www.maine.gov/mpuc](http://www.maine.gov/mpuc) through the virtual docket.

November 16, 2006 Order that rejected standard offer bids and initiated the northern Maine Inquiry is also attached (Attachment B).

On June 14, 2007, the Chairs of the Committee sent a letter to the Commission requesting the Commission to (1) continue its Inquiry, (2) investigate possible solutions to the lack of competition in northern Maine and (3) provide the Committee with a report<sup>3</sup> that includes the Commission's findings and recommendations regarding the northern Maine market, along with any suggested legislation.<sup>4</sup>

## **II. STATUS OF INQUIRY**

As discussed in the May 3<sup>rd</sup> Report, the Commission's northern Maine Inquiry has been conducted as a stakeholder process (rather than the more typical adjudicatory process).<sup>5</sup> At the request of the stakeholders, the Commission has provided an opportunity for interested persons to develop solutions to issues regarding the northern Maine market through consensus. The stakeholder work proceeded through two sub-groups: a transmission sub-group and a long-term contract sub-group.

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<sup>3</sup> The Committee's letter requested that Commission provide the Report by August 31, 2007. Upon request, the Chairs indicated that the Report may be provided in early September.

<sup>4</sup> The Committee's letter also requested that the Commission work with affected utilities in northern Maine and appropriate entities to obtain standard offer service and address the current challenges in the northern Maine electricity market. It has been the Commission's practice to provide assistance, when requested, to consumer-owned utilities (COU) with respect to standard offer matters and the Commission will continue to do so in the future.

<sup>5</sup> The entities that have participated in the stakeholder process include: Maine Public Service Company (MPS), Eastern Maine Electric Cooperative (EMEC), Houlton Water Company (HWC), Van Buren Light and Power (VBLP), Central Maine Power Company (CMP), Northern Maine Independent System Administrator (NMISA), Public Advocate, Integrys Energy Services (IES) (formerly WPS Energy Services), Boralex, Aroostook Wind Energy, Loring BioEnergy, Evergreen Wind, New Brunswick System Operator, and New Brunswick Power.

**A. Sub-Groups****Transmission Sub-Group**

The transmission sub-group provided preliminary analyses of several alternative transmission routes that would directly connect northern Maine to the New England market. A more in-depth study of the feasibility of interconnection options has since been undertaken by MPS and CMP.

**Long-Term Contract Sub-Group**

The long-term contract sub-group presented a process whereby the Commission would solicit standard offer bids for segments of the load for long terms (e.g. 10 years). The stated purpose would be to facilitate the financing of new generation and preserve existing generation in the region. The desired outcomes in terms of competition were to: (1) induce new generation to be developed in the area, possibly resulting in one or more new competitors; and (2) provide financial support for a transmission connection to the ISO-NE grid.

**Presentation of Sub-Group Reports**

Both sub-groups presented their reports to the Commission and stakeholders during a meeting held on March 13, 2007. There appeared to be consensus in support of further study of the feasibility of a transmission interconnection, but no current agreement that a connection should be constructed. The standard offer long-term contract proposal was supported to varying degrees by some stakeholders, but there was no consensus that the approach, as outlined in the long-term contract sub-group report, would serve to resolve or improve the competitive situation in northern Maine.

**B. Commission Designated Options**

After the presentation of reports by the sub-groups and written submissions, the Commission met again with the stakeholders on June 6, 2007 to provide an opportunity to discuss the written submissions and to consider further steps to be taken to address the lack of competition in northern Maine. At the conclusion of the June 6<sup>th</sup> meeting, stakeholders were asked to respond in writing to a Commission outline of options to address the competitive issues in the region.

The Commission presented its outline of options in the form of a Request for Comment issued on June 18, 2007. The Commission divided its outline of options into (1) longer-term solutions and (2) interim solutions.

### Longer-Term Solutions

The Commission indicated that a transmission line that links northern Maine with the New England market appears to be the most straight-forward means to create a liquid electricity market in northern Maine. However, the Commission questioned whether the cost of such a line would be worth the benefits and inquired to what extent in-region generators would pay for these costs. The Commission also expressed concerns that a transmission connection could result in price convergence between the regions that would increase prices to northern Maine customers (at least in the short-term) and, if the costs of line were to be rolled into the ISO-NE regional transmission tariff, customers of CMP and Bangor Hydro-Electric (BHE) would pay for a portion of the line without necessarily sharing in its benefits. The Commission indicated that these concerns may be addressed through some combination of the following:

- Complete or partial funding of a transmission line by generators in the northern Maine region that will benefit from access to ISO-NE market.
- Long-term contract(s) in which existing or new generators provide a benefit to customers to offset price convergence in northern Maine and/or the cost of rolled-in transmission to CMP and BHE customers.
- The formation of one or more new load zones within Maine.

### Interim Solutions

The Commission recognized that, assuming that a transmission line is the most promising longer-term solution, such a line could not feasibly be constructed in the near term and, therefore, there will be a gap between the end of the current standard offer arrangements (early 2009 for MPS and VBLP and early 2008 for HWC and EMEC) and the in-service date of any new transmission line. Thus, the Commission stated that some interim action might be necessary that could include the following:

- A transmission reservation (in the range of five years) through the New Brunswick system acquired through the open season process.
- A standard offer or other contractual arrangement with a term in the range of 5 years that provides a price benefit to consumers.
- Cost-based regulation in the northern Maine region for the interim period.

### Comments on Commission Designated Options

The Commission received a variety of comments in response to its outline of options. There was some indication that generators who would benefit

from a transmission connection between northern Maine and New England could help offset a negative price impact on Maine consumers, perhaps through favorable long-term energy or capacity contracts. There were also comments that, in the interim, cost-based rates and a transmission reservation through New Brunswick should be explored as possible means to bridge the gap until a transmission line could be constructed.

### **III. COMMISSION FINDINGS AND RECOMMENDATIONS**

For the reasons stated in the May 3<sup>rd</sup> Report, the Commission continues to find that the status quo in the northern Maine market is unacceptable. The Commission is continuing to work towards solutions to the lack of competition in northern Maine. The northern Maine market is simply too small and isolated to support a competitive market. There must be a structural change to introduce competition to northern Maine, and that change should not come with unfair costs to Maine's ratepayers. In the event that a structural change cannot occur in a manner that is cost-effective and without undue burden on ratepayers, the Commission would recommend that consideration be given to reintroducing some level of cost-based regulation into the area.

The following is a discussion of alternatives to addressing the northern Maine competition issue, the Commission's current findings and recommendations with respect to the alternatives, and the Commission's anticipated actions to address the competitive issues in northern Maine.

#### **A. Longer-Term Action**

##### **Transmission Connection**

The most straightforward and promising means to bring competitive electricity markets to northern Maine is to construct a transmission line that directly connects northern Maine to the New England market. Such a transmission connection would allow competitors in northern Maine access a liquid electricity market. Without such a direct connection, the Commission has serious doubt that competition can be brought to the region in the foreseeable future. However, the Commission is concerned that a transmission connection may increase rates in northern Maine over the short term by removing a transmission constraint that tends to result in slightly lower rates in the northern Maine region (relative to ISO-NE prices). Moreover, if the costs of the line are included in the ISO-NE regional transmission tariff, CMP and BHE ratepayers may pay somewhat increased rates without an offsetting benefit.

The construction of a direct transmission link between northern Maine and the ISO-NE would provide a clear benefit to existing generators and generation developers in northern Maine by providing direct access to the New England market. The Commission has indicated during the stakeholder process

that, to facilitate the siting of the line, those who would benefit from the new transmission line should provide a benefit of some kind to Maine's ratepayers to offset ratepayer cost. One way to provide a benefit to ratepayers is through generators entering into a long-term contract for capacity or energy at favorable prices. Another means is for generators to fund some portion of the costs of the transmission line.<sup>6</sup>

As described in the May 3<sup>rd</sup> Report, MPS and CMP have decided to cooperate in the study of the feasibility of interconnecting northern Maine with the New England region. The project is referred to as the Maine Power Connection. MPS and CMP having been working with the ISO-NE on system impact studies. It is also anticipated that the ISO-NE will conduct an analysis of the economic benefits that may result from construction of a line. The economic benefits would involve lower regional electricity costs that could result from an increased transfer capability between the New England and Maritime regions. The results of the system impact study on reliability and the study on economic benefits will drive the decision by the ISO-NE as whether to include some or all of the costs of the line in the regional tariff so that all ratepayers in New England will share in the costs.

The Commission will continue to encourage the timely study of the feasibility and economics of a transmission connection and the participation of generators and generation developers in discussions to assure that ratepayers benefit from infrastructure development in the region.

#### Long-Term Standard Offer Contract

The Commission has carefully considered the proposal for a long-term standard offer bid process submitted by members of the contracting subgroup, as well as comments from others expressing disagreement or concerns with the proposal. The Commission has concluded that a long-term standard offer solicitation, without a transmission line development component, is not sufficiently likely to address the lack of competition in the area and may be counterproductive. The primary purpose of a long-term standard offer contract in this context would be to provide a revenue stream that would allow for the financing of new generation in the area. However, the development of a new generation unit alone, without a corresponding transmission connection to New England, is likely to do little to improve the overall competitive picture in the region. Such a result might add a wholesale competitor to the region, but the addition of a single wholesale competitor is unlikely to result in competition in northern Maine. Moreover, the construction of new generation without new

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<sup>6</sup> The preferable way for generators to provide a ratepayer benefit (favorable long-term contract or funding of the line) would depend to a large degree on the ISO-NE determination of whether some or all of the costs of the line will be included in the regional transmission tariff.

transmission could simply displace existing generation with a result of no net increase in the region. Finally, the existence of a long-term standard offer contract by itself may be anti-competitive by establishing prices that could vary for long periods of time from market prices and even result in new stranded costs depending on the allocation of migration risks and market price trends.

#### *New Load Zone Within Maine*

Maine is currently a single load zone for the purposes of the ISO-NE electricity market. The division of Maine into two load zones should result in relatively lower wholesale rates in the northern zone. These lower zonal prices would influence prices in New Brunswick and northern Maine because they represent the regional suppliers' market alternative or "opportunity cost." The creation of multiple load zones in Maine may have merit and the Commission will continue to explore the concept.

#### *Utility Regulation*

In the event that ongoing studies show that a new transmission connection is not feasible or cost-effective, the Commission recommends that a return to some form of cost-based regulation in the northern Maine area be seriously considered by the Legislature. A return to cost-based regulation would involve an agent for consumers, such as MPS, that would own and control generation assets and the possible repeal of retail choice in the area. The return to regulation would necessarily be a gradual process as MPS acquires a generation supply portfolio. The transition would have to be carefully managed. If the Legislature decides to pursue this course of action, the Commission would submit a plan to the Utilities and Energy Committee for the transition back to a regulatory environment in the event it determines that there is no feasible way to bring competition to northern Maine.

#### B. *Interim Action*

As stated above, a new transmission connection (assuming that studies show a connection to be feasible and economic, and that ratepayer costs are addressed) would not be expected to be in service until the end of 2010 or the beginning of 2011 at the earliest. The timing of a new transmission connection therefore necessitates consideration of interim action to address the competitive concerns. The Commission has considered the following alternatives and plans to proceed as outlined below.

#### *Interim Standard Offer Arrangement*

To bridge the gap between the end of the current standard offer arrangements (early 2009 for MPS and VBPL, and early 2008 for HWC and EMEC) and the potential in-service date of a new transmission line, the



Commission plans to seek standard offer arrangements (and may also solicit contracts for the provision of wholesale energy and capacity). The Commission will consult with the northern Maine COUs to determine the desirability of their participation in the solicitation.

As part of any bridge solution, the Commission would seek benefits for ratepayers relative to current market conditions given the cost of service of the underlying supply (e.g. biomass and hydro) and the potential value to in-region generators from the construction of a new transmission line that would greatly expand their market access.

If the above-described approach does not yield sufficient value, the Commission will consider including the northern Maine load with its standard offer solicitations for service to CMP and BHE customers. Solicitations for CMP and BHE typically attract several suppliers, and competition is robust. The purpose of combining the solicitations would be to encourage greater supplier participation in bidding to provide service in northern Maine.

#### Cost-Based Rates

In light of the failed market in northern Maine, the Commission has also sought relief from the FERC, which has jurisdiction over wholesale power markets and rates. The Commission is participating in a proceeding at FERC that is examining the market-based rate authority of Boralex, the entity that owns most of the generation in the northern Maine area.<sup>7</sup> The Commission submitted a filing in that proceeding questioning whether market-based rate authority should be granted given the lack of market conditions in the area. A technical conference was held at FERC on August 29, 2007 in which the Commission participated. Other participants in the conference included Boralex, Integrys (formerly WPS) and the NMISA. FERC staff has taken the written and oral comments under consideration and will provide direction on next steps with the next few weeks.

#### Transmission Reservation

In its June 18<sup>th</sup> Request for Comment in the northern Maine Inquiry, the Commission identified a transmission reservation through the New Brunswick system as a possible interim approach. A New Brunswick reservation would provide a firm path for electricity supply from New England into northern Maine. The reservation would be in the range of 5 years and serve as a bridge until the construction of a transmission connection could be completed. The cost of the reservation would either be paid for directly by consumers (through utility rates) or by the suppliers who use the reserved transmission path. In its responsive

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<sup>7</sup> FERC Docket Nos. ER01-2569-005, ER01-4652-005, ER02-1175-004, ER01-2568-003.

comments, the NMISA indicated that it was in the process of evaluating a possible reservation that might be obtained by the NMISA or some other northern Maine entity (e.g. MPS).

The NMISA has reported that it completed its evaluation and that the NMISA Board has determined that such an approach would be risky in that the reservation may not be used, thus potentially “stranding” the reservation costs. The Board concluded that it should be the competitive suppliers, rather than the NMISA or other entity on behalf of ratepayers that should obtain transmission reservations. At this time, the Commission concurs with the NMISA Board.

#### **IV. LEGISLATION**

The Committee’s June 14<sup>th</sup> letter requested that this Report contain any recommended legislation to address the competitive concerns in the northern Maine region. At this time, the Commission does not recommend that any specific legislation be pursued. During the upcoming session, the Commission will provide the Committee with the current status of the various initiatives discussed in this Report, along with its current views and recommendations on possible legislation.

In the event that substantial progress is not made to address the competitive situation, it may be appropriate for the Committee to consider some combination of legislation that would:

- Allow or require MPS (subject to Commission approval) to acquire generation assets and provide retail service directly to customers.
- Reintroduce cost-based regulation to the region.
- Repeal retail access in the region.
- Combine the entire load in the region for purposes of contracting for supply.

#### **V. CONCLUSION**

As outlined in this Report, the Commission is pursuing several paths, both in the short and longer term, to address the lack of competition in the northern Maine region. The Commission will continue to provide the Committee with reports of developments as they occur, along with any recommended legislation designed to either foster workable competition in the area or create an effective regulatory paradigm to protect ratepayers from potential market abuses.

**Maine Public Utilities Commission  
Report on Northern Maine Electricity Market**

May 3, 2007

I. Description of Northern Maine Market

The northern Maine electricity market is comprised of four utility service areas: Maine Public Service Company (MPS), Eastern Maine Electric Cooperative (EMEC), Houlton Water Company and Van Buren Light and Power. The northern Maine area is not directly connected to New England grid and is not part of the ISO-NE. The area is connected to New Brunswick and is part of the Maritimes control area. Power can flow between northern Maine and New England through the New Brunswick system. However, such transactions include significant transmission charges.

Northern Maine is characterized by low population density and low electricity demand relative to other electricity markets. The maximum peak demand in the area is approximately 140 MW. The market is administered by the Northern Maine Independent System Administrator (NMISA), which administers transmission access and monitors and operates the markets for energy and ancillary services. NMISA is governed by a seven member stakeholder Board of Directors.

The major in-region generation units are as follows:

- Boralex-Fort Fairfield: 33MW-biomass
- Boralex-Ashland: 37 MW-biomass
- Boralex-Sherman: 19 MW-biomass (may be retired)
- Tinker Station: 35 MW-hydro
- Caribou Steam: 23 MW-oil
- Mars Hill: 42 MW-wind (13 MW credited capacity)

In addition, there is about 200 MW of transfer capability with the New Brunswick system.

Although the northern Maine area has been open to wholesale and retail competition for several years, except for a period immediately after the markets opened in 2000, there has been only a single retail supplier in the market. For the last several years, Integrys Energy Services, Inc. (IES) (formerly WPS-Energy Services, Inc. (WPS)) has been the sole retail service and standard offer provider to all customers in the area. IES or an affiliate of IES either owns or controls most of the generation in the northern Maine area. Efforts over the

years to interest other suppliers in the market have failed, primarily because the market is too small and too isolated (physically and institutionally) from other functioning and liquid markets (such as the ISO-NE).

## II. Standard Offer Solicitation

The Restructuring Act directs the Commission to periodically select standard offer service providers for the customers of investor-owned utilities<sup>1</sup> through a competitive bid process. Standard offer is the electricity supply service that customers receive if they do not otherwise contract for their service.

The Commission has conducted four bid solicitations for standard offer service customers in the MPS service territory. In the first solicitation, the Commission selected one-year bids for service beginning on March 1, 2000. WPS was the winning bidder for the most of the load, with Energy Atlantic selected to serve 20% of the medium class. In the second solicitation, the Commission selected a three year bid for service beginning March 1, 2001 and in the third solicitation, the Commission selected a 34 month bid for service beginning on March 1, 2004. WPS was the winning bidder in both second and third solicitations. However, there was more than one bidder in each case.<sup>2</sup>

Most recently, the Commission initiated a bid solicitation in September, 2006 for service beginning January 1, 2007. On November 16, 2006, the Commission issued an Order rejecting the bids for the provision of standard offer service. The Commission found that the bids were inadequate because there was only one bidder. In the November 16<sup>th</sup> Order, the Commission stated:

Participation by a single bidder is contradictory to the basic premise of the standard offer solicitation process. The process is intended to provide the benefits of competition for those customers who do not or can not obtain electricity supply directly from the competitive market. A solicitation process that yields only one bidder cannot be considered competitive and frustrates the purposes of the standard offer process.

The Commission concluded that that “the competitive situation in northern Maine had gone from worrisome to one of obvious failure.” *Order Rejecting Standard*

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<sup>1</sup> By statute, consumer-owned utilities may procure standard offer service for customers within the service territories.

<sup>2</sup> The Commission considers the precise number of bidders to be confidential information.

*Offer Bids And Directing MPS To Provide Standard Offer Service, Docket No. 2006-513 (Nov. 16, 2006)(copy of order attached).*

Upon rejection of the bids, the Commission directed MPS to seek wholesale supply bids of varying types that would allow it to provide standard offer service. WPS was also allowed to re-submit a retail standard offer bid to be compared with the price that would result from MPS becoming the supplier. The WPS re-submitted bid was somewhat less than its original bid and significantly lower than the cost of service that would have resulted if MPS supplied the service. Accordingly, in an Order issued on December 18, 2006, the Commission accepted the re-submitted bid of WPS for a 26 month term beginning January 1, 2007. *Order Granting Reconsideration and Designating Standard Offer Provider, Docket No. 2006-513 (Dec. 18, 2006).* The Commission noted that the acceptance of the 26 month bid serves the purpose of providing a transition or a bridge to a longer term solution at the lowest possible cost to consumers.<sup>3</sup>

### III. Northern Maine Market Inquiry

After concluding, in its November 16<sup>th</sup> Order, that the competitive situation in the northern Maine market was a failure, the Commission initiated an Inquiry to investigate possible solutions to the lack of competition in the area. The first step in the Inquiry was a meeting of stakeholders convened by the Chairman of the Commission held in Presque Isle. The purpose of the meeting was to discuss possible approaches to addressing the lack of competition in northern Maine, including utility ownership of generation assets, the cost-based regulation of generation facilities, the viability of a direct transmission connection and the creation of a regulated entity to manage electricity supply.

During the Presque Isle meeting, several parties suggested that the Commission provide an opportunity for interested parties to reach consensus on actions that should be taken to address the competitive situation in northern Maine. The Commission agreed to this request and held meetings in Augusta over a three-day period in December 2006. At the conclusion of the meetings, the group decided to continue work on northern Maine issues through the creation of a long-term contract sub-group and transmission sub-group. The sub-groups presented written reports to the Commission during a meeting held on March 13, 2007.

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<sup>3</sup> The standard offer prices in the accepted bid did represent a substantial increase over the previous prices. However, this result was not unexpected, because electricity market prices (as well as other energy prices, such as oil and natural gas) had rose significantly since 2003, when the Commission last procured supply for the northern Maine area.

### Transmission Sub-Group

The report of the transmission sub-group provides several alternative routes that would directly connect the northern Maine area with the rest of New England. The report includes preliminary cost estimates associated with each route. The report also lists the alternatives to a transmission connection as a) maintaining the status quo; b) securing a transmission path through New Brunswick; and c) using long-term contracting as a means to expand in-region generation. Finally, the report contains an outline for a process in which MPS and Central Maine Power Company will cooperate in studying the feasibility of interconnection options of a four to six month timeframe.

### Long-Term Contract Sub-Group

The long-term contract sub-group report recommends that the Commission proceed to conduct a standard offer bid process that offers a ten-year contract. The report states that such a contract will enable the financing of new generation that offers energy, capacity and reliability benefits, and would provide an incentive for the construction of at least a 115 kV interconnection with to ISO-NE grid. To promote competition, the report suggests that the standard offer load in the region be divided into three parts that are put out to bid in each of two periods.

## IV. Conclusion

The Commission's view is that the status quo in northern Maine is unacceptable and that, without structural change, this status quo is unlikely to change. The northern Maine market, as currently configured, is too small and isolated to support a competitive market. At this time, however, the Commission remains uncertain as to the best approach for consumers.

Thus, the Commission will gather more information about the alternatives including:

- encouraging and facilitating to the extent appropriate the feasibility studies of transmission interconnection alternatives between northern Maine and the rest of New England;
- options for the payment for any new transmission construction; and,
- long-term contracts.

The current standard offer pricing will be in place through 2009. Thus, there is time for a careful consideration of ways to bring workable competition to northern Maine. The Commission believes that such consideration should occur before any determination is made that competition can not be made to work in northern Maine.

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2006-513

November 16, 2006

MAINE PUBLIC UTILITIES COMMISSION  
Standard Offer Bidding Procedure For Customers  
of Maine Public Service Company

ORDER REJECTING  
STANDARD OFFER BIDS  
AND DIRECTING MPS  
TO PROVIDE STANDARD  
OFFER SERVICE AND  
NOTICE OF INQUIRY

ADAMS, Chairman; REISHUS, Commissioner

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## **I. SUMMARY**

We reject all bids and terminate the bid process to select a retail standard offer service provider for the Maine Public Service Company's (MPS) service territory. Because bids were received from only one bidder, we find that the bids are inadequate and direct MPS to arrange and provide standard offer service to its customers for a 14 month term beginning January 1, 2007. Finally, we initiate an Inquiry to seek solutions to the problems caused by the lack of a competitive market in northern Maine.

## **II. BACKGROUND**

Maine's Restructuring Act directs the Commission to administer periodic bid processes to select providers of standard offer service. 35-A M.R.S.A. § 3212(2). The arrangement with the current provider of standard offer service in the MPS service territory, WPS Energy Services, Inc., terminates on December 31, 2006.

Accordingly, on September 15, 2006, the Commission issued a request for proposals (RFP) to provide standard offer service to all customer classes in MPS's territory.<sup>1</sup> The Commission requested bids of 26 months and 50 months for the residential and small commercial class and bids of 14 months for the medium and large classes.<sup>2</sup> As required by the RFP, indicative bids were provided on October 5, 2006.

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<sup>1</sup> Consistent with prior practice in northern Maine, the Commission asked MPS to solicit wholesale bids on similar terms as the Commission's retail solicitation.

<sup>2</sup> The requested term lengths of 14 months, 26 months and 50 months were intended to change the beginning of future standard offer terms for MPS customers from January 1 to March 1 so as to be consistent with service in the territories of Central Maine Power Company and Bangor Hydro-Electric Company.

After a review of bids and discussions on non-price terms, the Commission asked that final, binding bids be submitted on November 14, 2006.

### III. DECISION

Our solicitation produced two bids from a single supplier (a 26 month bid and a 10 year bid). Participation by a single bidder is contradictory to the basic premise of the standard offer solicitation process. The process is intended to provide the benefits of competition for those customers who do not or can not obtain electricity supply directly from the competitive market. A solicitation process that yields only one bidder cannot be considered competitive and frustrates the purposes of the standard offer process. In addition, the lack of competing bids makes it extremely difficult to determine whether the prices are reasonable and in the public interest. It is for these reasons that we reject the bids and terminate our solicitation process.

Moreover, we note that the longer term bid was not in acceptable form even if submitted in a competitive context. The bid would place significant risks (i.e. fuel price and plant efficiency) on the consumers and did not sufficiently address financial security issues. The Commission's general practice is not to accept such risks in standard offer service. In addition, because we did not ask for long-term bids in this solicitation, there were no competing proposals, thus making it more difficult to accept or even analyze such a bid.<sup>3</sup>

Our standard offer rule specifies that, in the event we reject standard offer bids, we may direct the utility to provide standard offer service through contracts with wholesale providers or other appropriate arrangements. Ch. 301, § 7(D)(2). We hereby direct MPS to be the standard offer supplier for the 14 month period beginning January 1, 2007. We expect MPS to seek wholesale supply offers of varying types and provide a recommendation to the Commission as to how to proceed to minimize the ultimate cost of standard offer service to consumers.<sup>4</sup> The Commission will review and approve any proposed wholesale contract for standard offer service. Given that this action will not, by itself, change market dynamics, we anticipate that a significant increase in standard offer prices will occur.

The current standard offer arrangement has been in place since March 1, 2004. In our *Order Designating Standard Office Provider in Maine Public Service Territory*, Docket No. 2003-670 (Nov. 3, 2003), we accepted a 34-month bid for all customer

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<sup>3</sup> The Commission may seek long-term bids in a future solicitation, at which point this proposal could be resubmitted.

<sup>4</sup> As mentioned above, MPS solicited wholesale bids on similar terms as required in the Commission's retail solicitation. Our view is that the potential to minimize costs to consumers will be increased if MPS has the flexibility to seek a variety of wholesale offers now that the retail solicitation has been terminated.



