MAINE STATE LEGISLATURE

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

2009 Annual Report

February 1, 2010

Maine Public Utilities Commission
Chairman Sharon M. Reishus
Commissioner Vendean V. Vafiades
Commissioner Jack Cashman
101 Second Street, Hallowell, Maine 04347
18 State House Station
Augusta, Maine 04333-0018
Tel: 207-287-3831
Fax: 207-287-1039
TTY: 1-800-457-1220

Website: http://www.maine.gov/mpuc/
Efficiency Maine: http://www.efficiencymaine.com/
Consumer Assistance Hot Line: 1-800-452-4699
E-Mail: maine.puc@maine.gov

Table of Contents

STATE OF MAINE
PUBLIC UTILITIES COMMISION

In 2009, the Maine Public Utilities Commission's (Commission) workload was dominated by several significant cases. In programs and docketed cases across all sectors—electric, telephone, gas, water--milestones were reached and progress made on many fronts. This Annual Report summarizes the breadth and depth of this work and the following letter highlights the status of the most notable cases.

FairPoint:

FairPoint was granted the authority by the Commission to buy Verizon's phone network and operations in January 2008. FairPoint transferred its backoffice operations from the legacy Verizon systems to new computer systems on February 1, 2009 (called "cutover"). There were significant problems almost immediately as the new systems were unable to process orders in the manner for which they were designed. The level of customer complaints lodged with the Commission increased dramatically. Since cutover, the Commission has closely monitored FairPoint's efforts to reach "business as usual" operations. The Commission's Consumer Assistance Division (CAD) established an "escalation" process to ensure that FairPoint resolves customer complaints in a timely manner.

In the wake of its poor operational performance at cutover, FairPoint experienced financial stress resulting in an inability to service its sizable debt load. On October 26th, FairPoint filed for voluntary Chapter 11 bankruptcy in federal bankruptcy court in New York. The Commission has retained special bankruptcy counsel to participate in the proceeding in order to ensure that the Commission retains authority over FairPoint rate-making and service quality regulation, and to make certain that the Company fulfills its obligations to improve and expand broadband in Maine.

Central Maine Power Transmission Line Expansion

Central Maine Power (CMP) filed for approval of an expansion of its transmission network—labeled the "Maine Power Reliability Project (MPRP)"—in July 2008. CMP seeks Commission approval for new construction and reconstruction of approximately 350 miles of 345 kilovolt (kV) and 115 kV transmission and several substations throughout Maine at an approximate cost of $1.5 billion. The Commission's responsibilities include a rigorous examination of the transmission system's reliability needs, the utility's preferred solution, and alternative proposals put forward in order to ensure that the final decision is in the public interest of Maine ratepayers.

Since the case was filed, more than 150 parties have filed for intervenor status. Commission staff and the parties to the case spent more than six months asking written and oral questions of CMP's experts. Because of concerns about the scope of the original

modeling, the Commission requested that CMP spend an additional six months doing additional analysis and computer modeling. In October, Commission staff issued its "Bench Analysis" which outlines the legal and technical staff analysis of the evidence submitted by CMP and all intervenors to date. The Analysis concluded that CMP overstated the need for the transmission needs in its service territory, and that only a half to two-thirds of the original proposal is necessary. The Commission held four public witness hearings on the case—in Waterville and Lewiston in November 2008 and Gorham and South China in December 2009. During the first two weeks of February 2010, expert witness hearings will be held at the Commission. The Commission is expected to decide the matter in May 2010. Simultaneous to the legal litigation proceeding on this case, settlement negotiations between the parties are ongoing.

Long-term Contracting

With new authority from the Legislature, at the end of 2008, the Commission issued a request for proposals (RFP) for long-term electric supply contracts and received a large number and wide range of proposals by April. The overarching goal of this RFP process was to obtain contracts that would be beneficial in terms of lower and/or more stable electricity rates and to promote new renewable energy development in Maine. Commission staff and consultants conducted economic analyses of the proposals and worked with several bidders and the utilities to develop commercial and contractual terms that would be beneficial to ratepayers. In October, the Commission approved the first contract: CMP and Bangor Hydro-Electric will acquire the output of the Rollins Wind Project, a 60 MW wind facility to be developed by First Wind in Penobscot County.

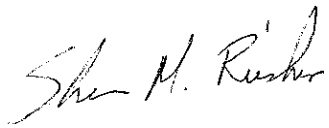
Efficiency Maine/State Energy Program

In 2009, Efficiency Maine received over $38 million in federal American Reinvestment and Recovery Act (ARRA) funding. While System Benefit Charge (SBC) funds were dedicated exclusively to electricity efficiency, this ARRA funding is "fuel-neutral," allowing Efficiency Maine for the first time to promote efficiency in the large home heating fuel sector. The funding allows major re-grant programs for the benefit of Maine municipalities and counties and supports energy planning, renewables and innovative community-based energy-efficiency strategies.

Efficiency Maine is in the process of an organizational transition directed by legislative action in 2009. In July 2010, Efficiency Maine will separate from the Commission to become the Efficiency Maine Trust (EMT), a new semi-autonomous State agency dedicated to delivering energy-efficiency programs for all sectors and all fuels in Maine. The EMT will take on the tasks of two other current energy efficiency-related entities, the Energy and Carbon Savings Trust and the Energy Conservation Board. The EMT Board of Trustees is already meeting to set up the administrative, financial and planning elements needed for the transition, including the drafting of the Triennial Plan. The Plan will be submitted to the Commission for approval in spring 2010 and to the Legislature's Joint Standing Committee on Utilities and Energy shortly thereafter.

In all aspects of its work, the Commission continues to exercise its regulatory, adjudicatory and public policy responsibilities to ensure that the rates paid by Maine citizens for utility services are just and reasonable. We look forward to working with the members of the Legislature in the coming year on these issues.

With regards,



Sharon M. Reishus
Chairman

Vendean V. Vafiades
Commissioner

Jack Cashman
Commissioner

Commissioners' Biographies

Sharon Reishus was appointed Chair of the Maine Public Utilities Commission in May of 2008. She began her term as a Commissioner on the Maine Public Utilities Commission in July 2003. From 1998 until that appointment, Chairman Reishus worked at the Cambridge Energy Research Associates (CERA) where she eventually became Director for North American Power. She worked as a staff analyst at the Maine Public Utilities Commission from 1991 to 1998. Prior to 1991, Commissioner Reishus worked at Central Maine Power Company and for the Central Intelligence Agency in Washington, D.C. Commissioner Reishus received an M.B.A. in Strategic Planning from the Wharton School in 1990 and a B.S. in Applied Earth Sciences from Stanford University in 1984. Her current term expired in March 2009.

Vendean Vafiades was first appointed to serve as a Commissioner on the Maine Public Utilities Commission in January 2007 and then reappointed in March of that year. She is a member of the National Association of Regulatory Utility Commissions and serves on the Telecommunications Committee and the Advanced Services Joint Board with fellow State and Federal Communications Commissioners. From 1997 until her appointment, Commissioner Vafiades served as a judge on the District Court, and was appointed as the Chief Judge in 2002. Commissioner Vafiades received her Juris Doctor from the University of Maine School of Law in 1985. Commissioner Vafiades also served as a Chief Deputy Attorney General and Counsel to the University of Maine System. Her term expires in March 2013.

Jack Cashman was appointed to serve as a Commissioner on the Maine Public Utilities Commission in August 2008. At the time of his nomination, Commissioner Cashman was the Senior Economic Adviser to Governor John Baldacci. He served as the Commissioner of the Department of Economic and Community Development from 2003 to 2007. Commissioner Cashman had previously been involved in commercial insurance and real estate sales and real estate development. He also served in the Maine House of Representatives from 1982 to 1992 and the Old Town City Council from 1977 to 1983. He received a Bachelor of Arts Degree, Public Administration from the University of Maine, Orono in 1973. His term expires in March 2011.

THE MAINE COMMISSION

The Maine Public Utilities Commission regulates electric, gas, telephone and water utilities to ensure that Maine citizens have access to safe and reliable utility services at rates that are just and reasonable for all ratepayers.

The Maine Legislature created the Commission in 1913; it began operation on December 1, 1914. Since the Commission was created, its roles and responsibilities have changed dramatically. The Commission has broad powers to regulate approximately 430 utility companies and districts that generate nearly a billion dollars a year in electric, telephone, water, and gas utility revenues.

The Commission also responds to customer questions and complaints, grants utility operating authority, regulates utility service standards and monitors utility operations for safety and reliability and has limited authority over rates and service of ferry transportation.

Like a court, the Commission adjudicates cases and it may take testimony, subpoena witnesses and records, issue decisions or orders, hold public and evidentiary hearings, and encourage participation by all affected parties, including utility customers. The Commission also initiates investigations and rulemakings, resolves procedural matters, investigates allegations of illegal utility activity, and responds to legislative directives.

The three full-time Commissioners are nominated by the Governor, reviewed by the Legislature's Joint Standing Committee on Utilities and Energy and confirmed by the full Senate, for staggered terms of 6 years. The Governor designates one Commissioner as Chairman. The Commissioners make all final Commission decisions by public vote or action of the majority.

The Commission's staff includes accountants, engineers, lawyers, financial analysts, economists, consumer specialists, and administrative and support staff. In order to respond to the changing, increasingly complex regulatory environment that exists today as well as to adequately perform other functions legislatively assigned to the Commission, the agency was reorganized internally this year. It is now organized by industry area or function (Electric and Gas, Telephone and Water, Safety and Security). The reorganization was designed to improve efficiencies, streamline the agency and provide critical services more effectively. The Commission is divided into seven operating divisions.

The Telephone and Water Division and the **Electric and Gas Division** are designated to work on the issues related to these industries. Division staff conduct financial investigations and analyses of utility operations, analyze applications by utilities to issue securities, advise the Commission on matters of rate base, revenues, expenses, depreciated and cost of capital, engineering, rate design, energy science, statistics and other technical elements of policy analysis for all utility areas.

The Safety and Security Division is a new consolidation of Commission staff and functions at the Commission. In order to be assured of proper oversight and management of the critical functions of E 9-1-1, utility infrastructure safety, gas and pipeline safety and damage prevention (Dig Safe), the Commission has consolidated all the safety and security functions into one division.

The Consumer Assistance Division (CAD) provides information and assistance to utility customers to help them resolve disputes with utilities. CAD investigates a variety of complaints involving utility service including: quality of utility service, billing disputes, payment arrangements, rates or charges, disconnection, and utility repairs. The CAD processes complaints and in response determines what utility practices, if any, should be corrected. The CAD also educates the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, and evaluates utility compliance with State statutes and Commission rules.

The Legal Division provides hearing officers in cases before the Commission and assists in preparing and presenting Commission views on legislative proposals. This division also represents the Commission before federal and state appellate and trial courts, and various regional and federal administrative and regulatory agencies.

The Energy Division (called “Efficiency Maine”) develops and carries out a statewide electric energy conservation program and manages the federal government’s energy programs in Maine. Following legislative action in 2009, this division will move from the Commission to a new and separate entity, the “Efficiency Maine Trust,” in July 2010.

The Administrative Division handles day-to-day operational management of the Commission, with responsibilities for fiscal and personnel matters, contract and docket management, and the physical plant. The administrative staff also provides support services to the other areas of the Commission and assists in coordinating Commission activities.

During the past year the Commission processed the following caseload:

CASES CLOSED 2009

CAD Appeals	32
Telecommunications	116
Conservation	2
Damage Prevention	0
E9-1-1	1
Electric	122
Gas/Gas Safety	24
Multi-Utility	4
Rulemakings	6
Water	104
Water Common Carrier	3
Total	**414**

CASES OPENED 2009

CAD Appeals	38
Telecommunications	124
Conservation	2
Damage Prevention	2
E9-1-1	1
Electric	122
Gas	13
Multi-Utility	2
Rulemakings	5
Solar Energy	0
Water	106
Water Common Carrier	4
Total	**419**

TELECOMMUNICATIONS

THE TELEPHONE INDUSTRY IN MAINE

Regulated landline telephone service consists of the following services: local exchange service, in-state interexchange (or long distance) service, and interstate interexchange service. This Commission regulates local and in-state service, while the Federal Communications Commission (FCC) regulates interstate service. Wireless mobile carriers are regulated by the FCC.

The Commission regulates three types of landline carriers: Incumbent Local Exchange Carriers (ILECs) whose monopoly service territories were established before competition entered the telecommunications market, Interexchange Carriers (IXCs) that provide in-state or interstate long distance services, and Competitive Local Exchange Carriers (CLECs) that provide local service in competition with ILECs and other CLECs. A map showing the State's ILEC territories appears at the end of this section. The Commission's regulation of CLECs and IXCs is more relaxed than its regulation of ILECs because market forces tend to discipline the prices charged by CLECs and IXCs.

Many telephone carriers also provide broadband service that delivers high-speed internet services. Broadband is provided through a variety of technologies, including Digital Subscriber Line (DSL), cable, and wireless technologies. Generally, broadband service is not regulated by the Commission.

KEY EVENTS

- **FairPoint**: FairPoint completed a transaction on April 1, 2008, by which it assumed control of the network through which Verizon New England previously provided the local exchange services. The Commission's approval was contingent upon acceptance by FairPoint of a series of conditions intended to protect customers, improve financial security, and expand broadband service. As a result of the transaction, FairPoint now offers service to 85% of Maine's telecommunications customers.

  Cut-over: On February 1, 2009, FairPoint began the so-called "cutover" from the legacy Verizon backoffice systems to new systems designed and integrated by FairPoint and its contractor, Capgemini. While FairPoint did a significant amount of pre-cutover system testing, the Company began to experience numerous problems with all aspects of its systems and processes immediately following cutover. These problems affected email service, billing, customer call centers, repair service centers, and the order provisioning operations of the Company throughout its Northern New England territory. Although the magnitude of the problems have abated somewhat, FairPoint's business operations have not returned to "business as usual" status.

  Chapter 11 bankruptcy: On October 26, 2009, FairPoint filed for Chapter 11 bankruptcy protection in the Southern District of New York. FairPoint was unable

to meet the debt service requirements of its bank credit agreement and its unsecured notes and the interest coverage and leverage ratio tests contained in its credit agreement. While a smooth cutover would not have guaranteed financial stability for FairPoint, the numerous costs associated with the poorly implemented cutover exacerbated the problems that led to the Company's filing for Chapter 11 protection. In Chapter 11, the Company will attempt to reorganize its capital structure.

- **Rural Exemption**: The Commission is conducting a "rural exemption" proceeding on whether to lift federal protections that exempt rural ILECs from the requirement to negotiate interconnection agreements with a competitive carrier. The proceeding includes CRC Communications of Maine's effort to interconnect so as to permit Time Warner Cable to provide competitive voice service in the territories of five rural Maine ILECs.

- **Emergency monitoring**: The Commission has continued to strengthen its ability to monitor potential emergency situations by revising requirements for outage reporting and investigating storm response procedures to determine whether FairPoint responds adequately in outage conditions.

INDUSTRY TRENDS

Competition

Since enactment of the federal 1996 Telecommunications Act (TelAct), the telecommunications industry in Maine has been characterized by increasing but varying levels of competition. Virtually all of Maine's telephone users can obtain long distance service from an IXC, rather than from a local exchange carrier. In addition, CLECs now serve a large portion of Maine's customers. Wireless carriers are now serving more Maine households than do wireline carriers. However, wireless service is still more likely to supplement wireline service or reduce wireline use rather than fully replace a wireline customer's service. Finally, Voice over Internet Protocol (VoIP) service, which uses a broadband connection (e.g., DSL or cable) is creating additional competition among technologies. Jurisdiction over the regulation of VoIP is a topic of vigorous discussion, dispute and activity at the state and federal levels.

Relaxed Regulation

Telephone regulation in Maine is evolving to respond to the competition that exists between carriers and technologies. The Commission has relaxed its regulation of services when competition creates conditions in which the market will control prices. For example, after years of providing modest oversight of CLECs' and IXCs' rates, the Commission ruled in 2007 that it was no longer necessary for CLECs and IXCs to file retail tariffs. In addition, the Commission found that ILECs need not file competitive bundled service tariffs for Commission approval. State law and Commission rules retain consumer protections for competitive services and the Commission's CAD continues to resolve complaints involving competitive carriers subject to State jurisdiction.

Broadband Availability

Although the Commission does not directly regulate broadband service, it is mindful of the state's goal of establishing broadband access that reaches as many Maine customers as possible. During 2009, carriers in Maine expanded broadband in Maine through a variety of technologies, and the State's Connect Maine Authority (on which the Commission Chairman serves) awarded an additional round of monetary grants in support of broadband expansion.

The Commission filed comments regarding its recommendation as to how applications for stimulus money should be evaluated by those entities making the grants. The Commission also assisted the Connect Maine Authority in issuing a Request for Proposals (RFP) for a broadband inventory mapping project and, subsequently assisted in the evaluation process by which the James W. Sewall Company, of Old Town, was ultimately awarded the contract.

MAJOR CASES AND EVENTS

FairPoint

Unsuccessful Cutover from Verizon's Backoffice Systems: Although FairPoint's backoffice systems cutover was scheduled to occur on August 1, 2008, the Company requested deferrals based on its own assessment of cutover readiness as well as the assessment of the states' consultant (Docket Nos. 2007-67 and 2008-108). In November, the Commission accepted FairPoint's decision to complete the cutover, as did regulators in Vermont and New Hampshire. Cutover occurred on February 1, 2009, and significant operational problems began to occur. Customers who were being switched to FairPoint as their Internet Service Provider were unable to access their email accounts for some time because of poor communication about the steps necessary to accomplish the change. Customers attempting to call the Company about service issues (concerning email and regular service or repair calls) were unable to get through to customer service representatives (CSRs) in a timely fashion. Because of problems with the new systems and the unfamiliarity of the CSRs with the new systems and processes, the representatives were, in many cases, unable to resolve the customers' issues. The new systems were unable to process orders in the manner for which they were designed. The number of late or unfilled orders increased to levels unacceptable by any standard of service. In addition, billing errors created customer confusion and dissatisfaction and contributed to a significant decline in the Company's cash flow. Customer complaints lodged with the Commission against FairPoint increased nearly six-fold in 2009 (from 167 complaints against Verizon/FairPoint in 2008, to 983 against FairPoint in 2009).

Stabilization Plan: The Commission ordered FairPoint to file a Stabilization Plan addressing the numerous operational deficiencies experienced after the February cutover and its proposals for expeditiously resolving these issues. FairPoint's initial Stabilization Plan, as filed with the Commission was inadequate and was rejected by the Commission. On April 1, 2009, FairPoint filed a Revised Stabilization Plan containing benchmarks and milestones for key performance metrics.

FairPoint committed to deploy the necessary resources to meet its milestones and return the Company's operations to normal levels by June 30, 2009. FairPoint worked with the Liberty Consulting Group and staff members of the Northern New England utility regulatory agencies to develop daily and weekly summary reports. These reports were intended to track the Company's progress in meeting the performance benchmarks set forth in the Revised Stabilization Plan. By June 30th, it was clear that the Company had failed to meet most of the benchmarks it had established for itself through the Plan. Since the Company has made incremental progress in addressing operational deficiencies with improvements advancing more quickly over the past few months.

Third Party Consultant to Analyze Backoffice Systems: At the insistence of the Commission, FairPoint agreed with the suggestion of the Office of the Public Advocate (OPA) to retain the outside consulting firm, Accenture, in order to analyze the backoffice systems and to provide recommendations for system improvements over the short, medium and long term. The Commission and the OPA are in the process of jointly retaining a consulting firm to provide ongoing monitoring of FairPoint's efforts to implement the recommendations of Accenture.

Filing for Chapter 11 Bankruptcy: On October 26, 2009, FairPoint filed for Chapter 11 bankruptcy protection in the Southern District of New York. The Company is engaging in discussions with various interested parties--such as the group of bank lenders, the unsecured bondholders, its employee unions and other creditors--in order to reorganize the company in order to result in financial stability. The reorganization plan will be submitted to the bankruptcy court for approval.

Fairpoint hopes to reduce the amount of debt it carries, which would result in a more stable and viable financial structure. FairPoint believes that a reduced debt load would provide it with the capability to meet its debt obligations going forward. One major result of the proposed reorganization plan is that current equity holders would see their holdings wiped out, with the bank group and the bondholders becoming the new shareholders of FairPoint stock. The Commission is participating in the bankruptcy proceedings in order to protect its authority to regulate FairPoint as a public utility in Maine with respect to rates, facilities and quality of service. To assist the Commission in this proceeding and to provide expert recommendations, the Commission has engaged experienced bankruptcy counsel. The outcome of the bankruptcy case will have a significant impact on Fairpoint's continuing operation and return to acceptable service.

Ongoing Monitoring: The Commission is also monitoring FairPoint's continuing migration from Verizon technology to its own. For example, in November, the Commission's staff actively monitored, in real time, the first step in FairPoint's successful reconfiguration of its SS7 signaling system—a system used to route telephone calls.

Rural Exemption Cases

During 2007, CRC requested interconnection with Oxford Telephone Company, Oxford West Telephone Company, Unitel, Inc., Lincolnville Telephone Company, and

Tidewater Telecom, Inc. (the rural ILECs). The interconnection agreements would allow CRC to provide wholesale services that would enable Time Warner to provide its Digital Phone service in the rural ILECs' territories. If such agreements were successfully negotiated, Time Warner would become the first wireline company permitted to compete with these ILECs in their service territories.

The Commission has determined that before the rural ILECs can be compelled to negotiate with CRC, the Commission must determine whether to lift the so-called rural exemption which, under the TelAct, protects rural ILECs from the obligation to engage in interconnection negotiations. During 2008, the Commission conducted proceedings (Dockets No. 2008-214 through 2008-218) to consider the findings required by the TelAct. In November 2008, after evaluating the testimony submitted by CRC and Time Warner, the Commission found that CRC had not met its burden of providing sufficient information to allow the Commission to lift the rural exemption.

In 2009, CRC re-filed its case and has since filed supporting testimony. This litigation is well underway, and the Commission has established a procedural schedule which calls for hearings in March 2010.

Wireless Eligible Telecommunications Carrier (ETC) Designation

In 2009, the Commission renewed the "Eligible Telecommunications Carrier" (ETC) status of one wireless carrier: United States Cellular Company (US Cellular). Under the TelAct, ETC designation allows these carriers to receive funding from the federal Universal Service Fund (USF), thereby encouraging build-out of wireless service to rural areas in which it would otherwise not occur. US Cellular is now the only wireless ETC operating in Maine as Unitel, following a merger with Verizon Wireless, has relinquished its ETC status.

INVESTIGATIONS AND RULEMAKINGS

Investigation into Requirements of Certain VoIP Providers

The Commission opened an investigation into whether Time Warner Cable Digital Phone LLC and Comcast IP Phone, LLC or any other facilities-based VoIP providers must request authorization to provide telephone service under the requirements of Maine law (Docket No. 2008-421). A decision is expected in early 2010.

Federal Rulemakings and Investigations

The Commission contributed expertise to other states and organizations regarding proposals set forth by the FCC. These proposals could affect funds flowing to Maine through the federal USF and through access charges paid among carriers, broadband and wireless build-out, and jurisdiction over certain types of telecommunications carriers. The Commission also filed a petition in the 10th Circuit Court of Appeals seeking an order compelling the FCC to engage in further rulemaking on USF funding as required by a decade-old decision of that Court. As a result of that filing, the FCC agreed to issue an order, by April 2010, addressing the substantive, and fundamental, question of what level of USF support is necessary to ensure that

telephone service in rural areas such as Maine is reasonably comparable in price to service in urban areas.

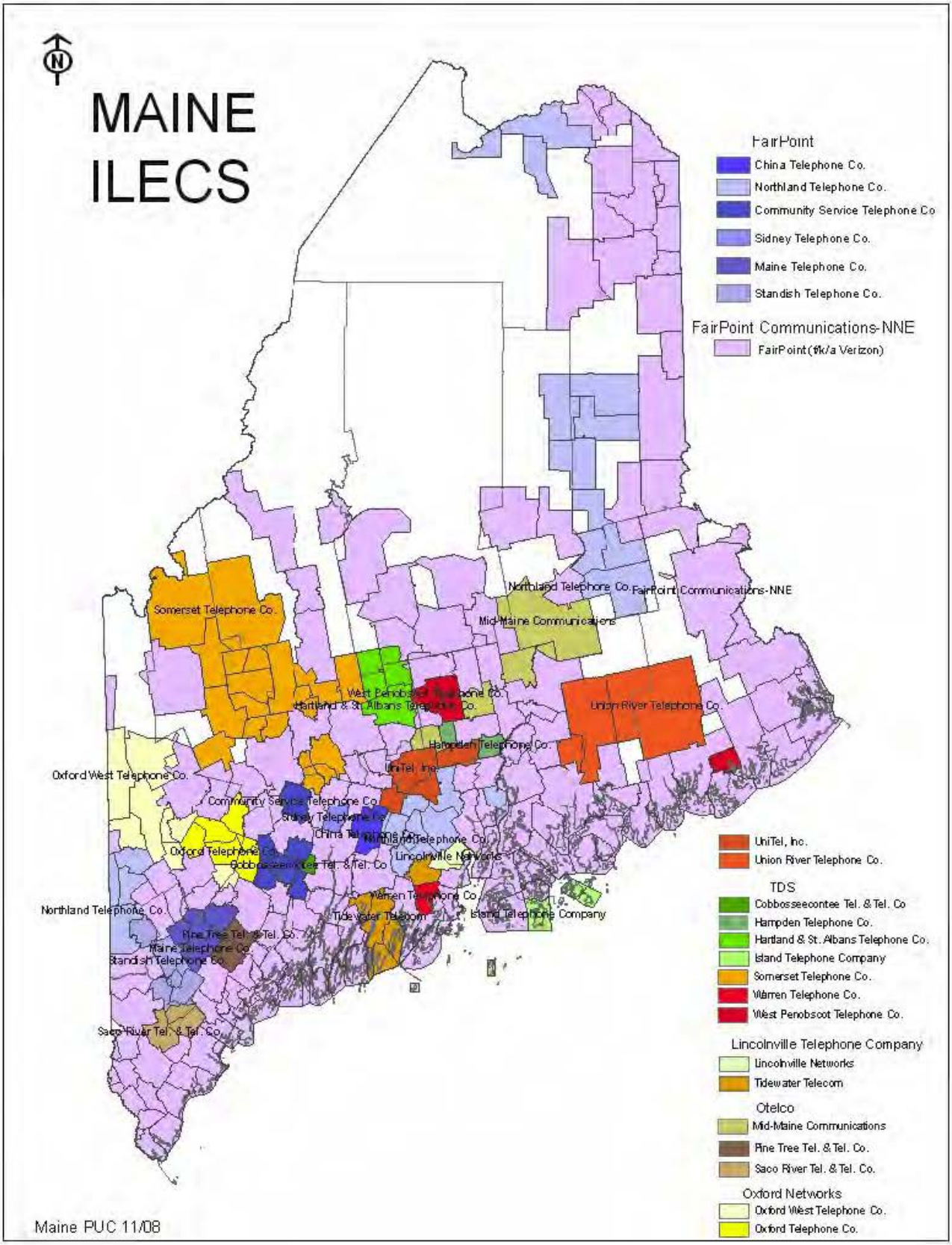
Prison Telephone Service Complaint

In 2007, the Commission considered a complaint asking the Commission to investigate whether the rates for telephone service provided by the Maine Department of Corrections (Department) were unreasonable (Docket No. 2007-467). The Commission determined that as a prerequisite to addressing the reasonableness of the rates charged to inmates it must first consider whether the Department is a public utility subject to Commission jurisdiction. The Commission concluded that the Department was a public utility under Maine law and ordered it to file rate schedules and the terms and conditions of service. The Department appealed this decision to the Supreme Judicial Court which found that the Commission lacks regulatory jurisdiction over the Department of Corrections. In accord with the Law Court's decision, the Commission subsequently dismissed the complaint.

LEGISLATIVE MANDATES

Public Interest Phones (PIPs)

During 2007, in response to Maine law and Chapter 252 of the Commission's Rules, the Commission oversaw the installation of approximately 50 Public Interest Payphone (PIP) sites throughout Maine. The contract for PIP installation and maintenance extends until March 2010, and, until that time, fully exhausts the annual funding provided by law for the PIP program. The Commission has issued an RFP for a successor contract. Depending upon the bids received and the vendor selected, the Commission may be able to consider approval of additional PIP sites during 2010.


MAINE
ILECS
FairPoint
China Telephone Co.
Northland Telephone Co.
Community Service Telephone Co
Sidney Telephone Co.
Maine Telephone Co.
Standish Telephone Co.
FairPoint Communications-NNE
FairPoint (f/k/a Verizon)
Somerset Telephone Co.
Northland Telephone Co.
FairPoint Communications-NNE
Mid-Maine Communications
West Penobscot Telephone Co.
Hartland & St. Albans Telephone Co.
Union River Telephone Co.
Hampden Telephone Co.
UniTel, Inc.
Oxford West Telephone Co.
Community Service Telephone Co.
Sidney Telephone Co.
China Telephone Co.
Northland Telephone Co.
Oxford Telephone Co.
Lincolnville Networks
Cobbosseecontee Tel. & Tel. Co
Warren Telephone Co.
Northland Telephone Co.
Tidewater Telecom
Island Telephone Company
Pine Tree Tel. & Tel. Co.
Maine Telephone Co.
Standish Telephone Co.
Saco River Tel. & Tel. Co.
UniTel, Inc.
Union River Telephone Co.
TDS
Cobbosseecontee Tel. & Tel. Co
Hampden Telephone Co.
Hartland & St. Albans Telephone Co.
Island Telephone Company
Somerset Telephone Co.
Warren Telephone Co.
West Penobscot Telephone Co.
Lincolnville Telephone Company
Lincolnville Networks
Tidewater Telecom
Otelco
Mid-Maine Communications
Pine Tree Tel. & Tel. Co.
Saco River Tel. & Tel. Co.
Oxford Networks
Oxford West Telephone Co.
Oxford Telephone Co.
Maine PUC 11/08

ELECTRIC

THE ELECTRIC INDUSTRY IN MAINE[1]

Electricity in Maine is comprised of two components: delivery and supply. Delivery includes transmission, distribution and customer-related functions such as metering and billing, and supply includes the production and provision of electric energy and capacity. Delivery is fully regulated; supply is provided by markets. Maine electricity consumers receive delivery service from a transmission and distribution (T&D) utility and supply service from a Maine-licensed competitive electricity provider (CEP). The Commission fully regulates the operations and rates of the T&D utilities, except for transmission rates, which are regulated by the Federal Energy Regulatory Commission (FERC).

With respect to supply, the Commission licenses CEPs, oversees the retail market, and administers the competitive procurement processes for standard offer service. Standard offer service provides electricity supply for customers who do not participate in the retail market. The Commission is required to ensure that standard offer service is available to all customers who do not have another retail supplier. The Commission procures standard offer service through periodic competitive bid processes. The Commission also monitors the regional wholesale markets and related activities of the New England Independent System Operator (ISO-NE), and advocates for Maine consumers in regional forums and before the FERC.

There are thirteen T&D utilities in Maine: three investor-owed utilities (IOUs) and ten consumer-owned utilities (COUs). The IOUs, Central Maine Power Company (CMP), Bangor Hydro-Electric Company (BHE) and Maine Public Service Company (MPS), serve about 95% of the total State load. There are currently 121 Maine-licensed CEPs, and during 2009, seven different CEPs provided standard offer service. More detail about the T&Ds and CEPs is provided below. In addition to the T&D utilities and CEPs that provide service directly to retail consumers, there are also several electricity generation facilities located in Maine. Summary information about these facilities is provided in Appendix A.

Electricity use by Maine consumers is currently about 12 million megawatt hours (MWh) per year, with a peak demand of about 2,200 MW. Maine is currently a net electricity exporter, with total generation capacity from in-state plants in the range of 3,500 MW.

[1] In addition to reporting on the electric industry, this section includes the Commission's Annual Reports on Electric Restructuring required pursuant to 35-A MRSA § 3217 and Electric Incentive Ratemaking required pursuant to 35-A MRSA § 3195(5) which where consolidated into the PUC Annual Report required pursuant to 35-A MRSA § 120 as part of PL 2009, Chapter 122 enacted during the First Regular Session of the 124th Maine Legislative Session.

Key Events, Issues and Industry Trends

- The Commission completed a proceeding in which continued participation by Maine utilities in the New England Regional Transmission Organization (RTO) was examined. The terms RTO and ISO-NE are often used interchangeably. The Final Order, issued in June, found that the best option for Maine utilities in the near term was to remain in the RTO and seek identified reform objectives.

- The Commission considered significant "Smart Grid" investment for Maine in the form of advanced metering infrastructure (AMI) proposals by CMP and BHE. The AMI investment includes smart meters and related systems that will provide improved service quality and a platform for pricing and other programs designed to lower bills for CMP and BHE customers. In CMP's case, the AMI project was selected by the U.S. Department of Energy (DOE) to receive $96 million in funding under the Smart Grid Investment Grant Program of the America Reinvestment and Recovery Act of 2009 (ARRA).
- Several major transmission line proposals were before the Commission during 2009, including the Maine Power Reliability Program (MPRP), a CMP proposal to invest $1.5 billion in Maine's transmission system, and the Maine Power Connection (MPC), a joint proposal by CMP and MPS to construct transmission that would connect northern Maine with the rest of the region and support wind generation in Aroostook County.
- The Commission administered a power supply procurement process throughout the year for long-term contracts for capacity and energy resources. The process attracted a large number and wide range of proposals. In October, the Commission approved the first contract resulting from the process. Pursuant to the contract, CMP and BHE will acquire the output of the Rollins Wind Project, a 60 MW wind facility to be developed by First Wind in Penobscot County, Maine.
- Standard offer service was procured through several competitive bid processes the Commission conducted throughout the year. Standard offer prices averaged about nine cents/kilowatt hour (kWh) for residential and small commercial consumers.

- In the electricity market affecting Maine consumers, wholesale prices were substantially lower and more stable in 2009 than in prior years. For example, during the twelve-month period ending October 2009, energy prices in the ISO-NE spot market were almost 50% lower than during the same period last year.
- Retail competition remained robust for medium and large commercial and industrial (C&I) customers of CMP and BHE. As of late 2009, approximately 70% percent of this load was served by several different retail suppliers with the remaining 30% receiving standard offer service.

- Competition in northern Maine continued to be weak. Although a new entrant, New Brunswick Power (NB Power), began supplying standard offer service in northern Maine, there remained only two retail suppliers (Integrys and NB Power) active in the region. In late 2009, major asset sale transactions were announced by both Integrys and NB Power, the implications of which for northern Maine are not yet known.

- Transmission rates continued to increase for most Maine consumers in 2009. For CMP and BHE customers, transmission rates increased by 23% and 14% respectively. Because of recent and expected future trends in transmission investment in the region, transmission is a growing component of electricity bills for Maine consumers. In addition, distribution rates for CMP customers increased by 6%.

- Significant attention was given to developing renewable generation, including wind, as well as the associated infrastructure to transmit renewable generation to load. At the request of New England governors, ISO-NE conducted a study of transmission needs to support in-region renewable generation. The Commission is also an active participant in the Eastern Interconnection States' Planning Council (EISPC) which was formed with funding assistance from the DOE to help state policy makers compile information and collaborate on similar issues.

- The Commission continued to participate in regional forums and at FERC regarding issues that affect Maine electricity consumers. During 2009, major issues arose in areas including: the ISO-NE capacity market; transmission costs and cost allocation; and responsiveness of regional entities to consumers.

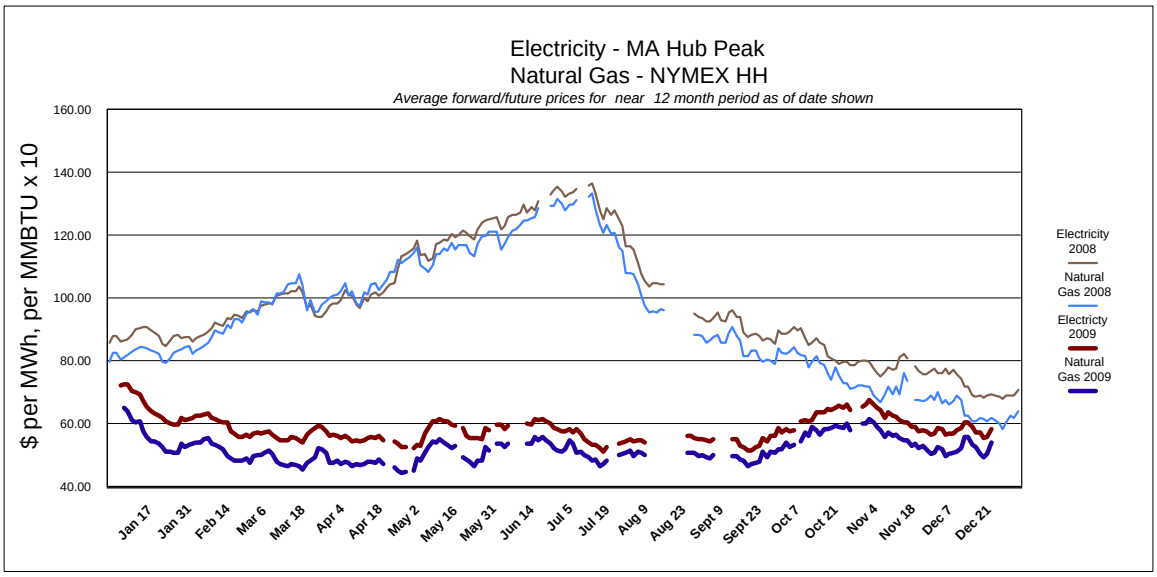
- The Commission received $783,554 under the State Regulators Assistance Grant Program of the ARRA. The funds will be used to supplement the Commission's staffing resources in cases related to smart grid, transmission infrastructure, energy efficiency and renewable resources.

Electricity Service: Prices, Processes and Market Conditions

Wholesale Supply Market

Electricity supply prices in Maine are determined by wholesale prices in the ISO-NE markets, most notably the market for energy and, to a lesser extent, capacity. During the twelve month period through October 2009, energy prices in the ISO-NE spot market averaged 4.2 cents/kWh, which reflects a decrease of 47% compared to the same period last year. In fact, the 2009 energy prices were the lowest they have been in five years. New York Mercantile Exchange (NYMEX) forward market energy prices were also considerably lower and more stable than in prior years, following similar trends in natural gas prices. Figure 1 provides an illustration of forward prices for electric energy and natural gas prices during the most recent two years.

Figure 1 - Wholesale Prices for Electricity and Natural Gas



Capacity prices were 14% higher in 2009 than in 2008 as a result of continued increases in capacity "transition payments" to New England generators pursuant to a FERC-approved settlement. Transition payments on average for the year were $3.95 per kW-month, or about one cent per kWh for a typical residential consumer.

Retail Supply Market

Since the enactment of the Maine's Electric Restructuring Act (PL 1997, Chapter 306) consumers in Maine have had the right to shop for electricity products and suppliers in the market. As described below, the retail market in Maine is robust for some, but not all, sectors.

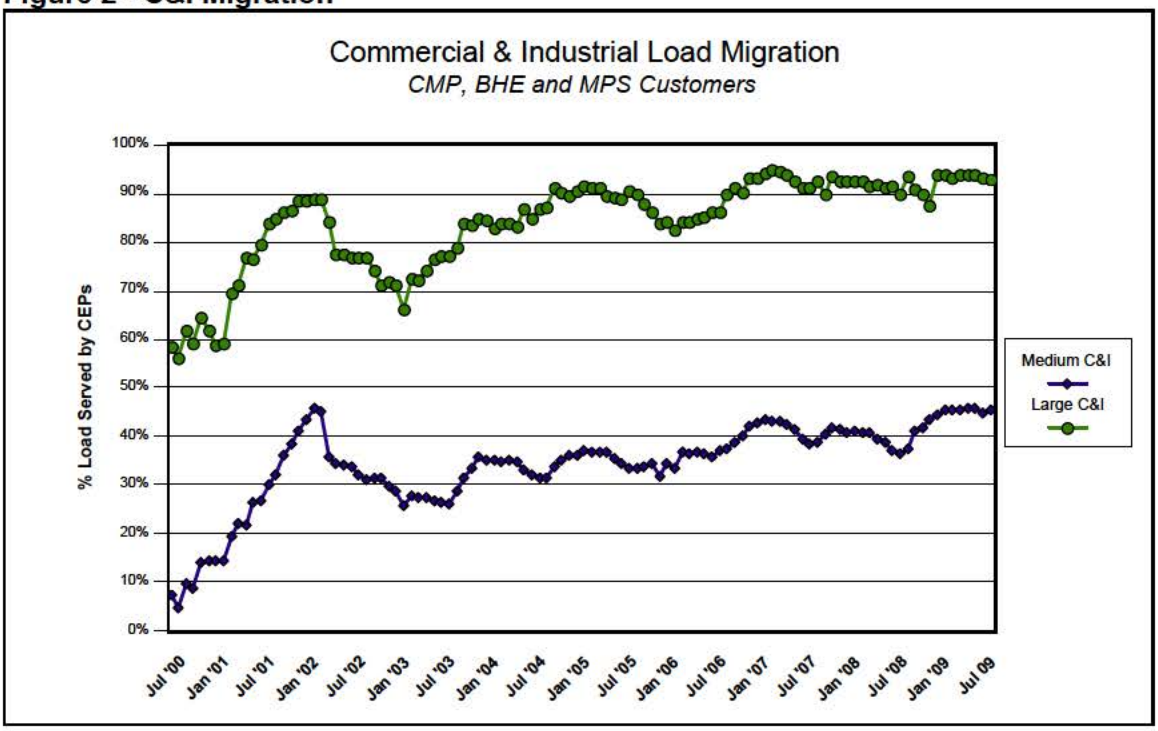
As of early December, the Commission had licensed eight new CEPs in 2009. CEP's include direct suppliers, as well as brokers and aggregators. In total, there are 121 CEPs currently licensed to operate in Maine, although many of them are not active in the market. A complete list of licensed CEPs is available at: http://www.maine.gov/mpuc/industries/electricity/ElectricSupplier/ceplist.htm

The retail market in most areas of Maine continued to reflect a reasonable level of competitive activity in the medium and large commercial and industrial customer sectors. Most of the load of these customers is served by supply arrangements C&I customers acquire directly in the retail market. Terms of service and prices are negotiated between these customers and suppliers, or, in some cases, with the assistance of aggregators or brokers. Depending upon customer preference and supplier product offerings, prices may be fixed for multi-year terms, or, at the other end

of the spectrum, prices may change hourly in accordance with real-time or near real-time wholesale markets.

Although migration to and from the competitive market is influenced to some extent by the relationship between standard offer and non-standard offer prices, the prevailing trend is for customers to remain in the market once they have left the standard offer. Figure 2 below shows migration among medium and large customers, and reflects the overall trend from standard offer service to the retail market. Currently, about 45% percent of the load of Maine's medium C&I customers and more that 90% of the load of the large C&I customers is served through individual retail arrangements.

Figure 2 - C&I Migration



During 2009 there continued to be little retail market activity in the residential and small commercial sectors in Maine or other states. However, because Maine's standard offer providers are chosen through bidding processes, residential and small commercial customers are receiving competitively-procured supply, albeit at the bulk level.

In northern Maine, retail competition remained weak during 2009 due to structural and wholesale market deficiencies that characterize the region. These deficiencies have hindered market development since retail access began in 2000. Although a new retail entrant, NB Power, began supplying customers in northern Maine, there were still only two CEPs (Integrys and NB Power) active in the region. Finally, two events affecting these suppliers occurred in late 2009. First, in October NB Power and Hydro-Quebec (HQ) announced an agreement for HQ to purchase most of NB Power's assets. Second, in November Integrys signed an agreement to sell its northern Maine generation assets and sales obligations to Algonquin Power & Utilities Corporation. The implications of these events for northern Maine are unclear at this point.

Standard Offer Service

During 2009, the portion of Maine's electric load receiving standard offer service remained steady at about 60%. By customer class, standard offer service supplied about 55% of the load of medium C&I customers and less than 10% of the load of large C&I customers in Maine. Standard offer service continued to supply virtually all residential and small commercial customers, as has been the case since retail access began. The Commission conducted several competitive bid processes during 2009, procuring supply for various classes. Figure 3 provides a summary of standard offer suppliers and prices during 2009.

Figure 3-Summary of Standard Offer Prices and Suppliers, 2009

Customer Class	Average Price (cts/kWh)	Suppliers
CMP Residential /Small Commercial	9.1	CECG, Independence, NextEra
CMP Medium C&I	7.8	TransCanada, NextEra, Dominion, Integrys
CMP Large C&I	8.8	NextEra, Dominion
BHE Residential/Small Commercial	9.2	Integrys, NB Power, CECG, NextEra
BHE Medium C&I	7.5	Dominion, TransCanada
BHE Large C&I	9.0	CECG, Dominion
MPS Residential/Small Commercial	8.4	Integrys, NB Power
MPS Medium C&I	9.0	Integrys, NB Power
MPS Large C&I	9.6	Integrys, NB Power

T&D Service and Rates

T&D service includes electricity delivery and customer-related services such as metering and billing. Delivery encompasses high-voltage transmission and lower-voltage distribution systems, including the construction, operation and maintenance of the necessary facilities. T&D is fully regulated for service adequacy, quality and rates. The Commission oversees most aspects of T&D service except, most notably, for transmission rates over which the FERC has jurisdiction. There are thirteen T&D utilities in Maine – three IOUs and ten COUs. The three IOUs serve most of Maine, and among them CMP is the largest, serving about 80% of all Maine load. BHE and MPS serve most of the remaining load, with the COUs serving, in the aggregate, a few percent. Figure 4 below shows the geographic areas each utility serves.

Figure 4

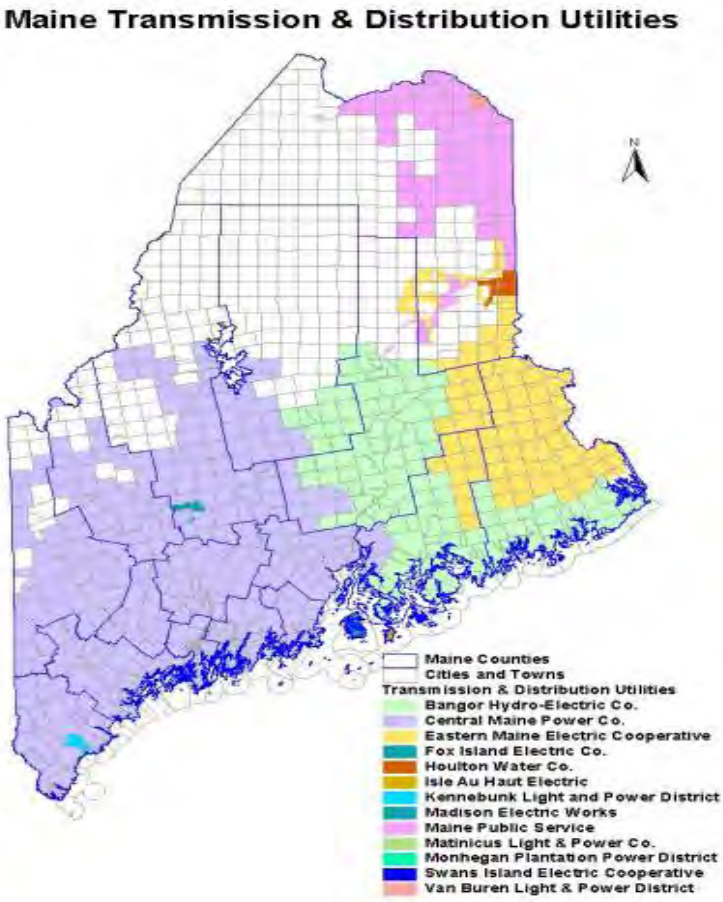


Figure 5 below provides a summary of residential electricity sales and rates by each T&D utility.

Figure 5

RESIDENTIAL RATES IN MAINE
(As of 12/1/09)*

	% of State Residential Load	kWh	T&D Delivery Rate ¢/kWh	Standard Offer Rate ¢/kWh	Total Rate ¢/kWh
INVESTOR-OWNED UTILITIES					
CMP	78.6%	3,431,901,000	6.14	8.92	**15.07 ¢/kWh**
BHE	13.6%	592,775,000	8.61	9.00	**17.60 ¢/kWh**
MPS	4.1%	177,573,000	8.50	8.33	**16.84 ¢/kWh**
COOPERATIVES & MUNICIPAL-OWNED UTILITIES					
EMEC	1.2%	53,856,640	9.12	9.15	**18.27 ¢/kWh**
Houlton	0.7%	28,978,566	3.14	8.60	**11.75 ¢/kWh**
Van Buren	0.2%	7,265,452	3.38	8.325	**11.71 ¢/kWh**
Kennebunk Light & Power	1.0%	44,635,292	2.04	11.00	**13.04 ¢/kWh**
MEW	0.4%	17,571,247	4.92	10.54	**15.46 ¢/kWh**
Matinicus	0.0%	232,938	Exempt from Standard Offer requirements		75.65 ¢/kWh
Monhegan	0.0%	335,138	Exempt from Standard Offer requirements		50.86 ¢/kWh
Fox Island	0.1%	6,124,232	16.92	6.34	**23.25 ¢/kWh**
Isle au Haut	0.0%	251,763	36.08	7.20	**43.28 ¢/kWh**
Swans Island	0.0%	2,077,489	21.73	7.20	**28.94 ¢/kWh**
STATE AVERAGE		4,363,577,757	6.56	8.93	15.50 ¢/kWh

** - T& D rates based on 2008 annual reports. Standard offer rates reflect average rates as of 12/09.*

T&D rates are comprised of three components: transmission, distribution, and stranded costs. Transmission rates cover the cost of constructing and operating the transmission system in Maine, as well as costs allocated to Maine for regional pool transmission facilities (PTF)--high voltage transmission lines which serve as the backbone of the New England system and are paid for by all New England ratepayers. As noted above, transmission rates are regulated by the FERC. Distribution rates cover

costs incurred by the T&D utility to construct and operate the local distribution system, as well as costs for customer-related activities such as metering and billing. Stranded cost rates reflect the net, above-market costs for generation obligations that utilities incurred prior to industry restructuring. Distribution and stranded costs rates are regulated by the Commission.

Major Adjudicatory Proceedings

Transmission Lines

- **Maine Power Reliability Project (MPRP)**

On July 1, 2008, CMP filed for approval to build the MPRP (Docket No. 2008-255). CMP asserts that the MPRP is needed for it to maintain adequate reliability of its transmission network and that it is required by newly enforceable, federally-mandated standards. CMP proposes to build seven new sections of 345 kilovolt (kV) transmission lines (the largest lines CMP owns) and eight new sections of 115 kV lines and to rebuild twenty sections of 115 kV lines and two sections of 345 kV lines. Virtually all the new lines would be built in existing transmission corridors, although CMP has or would seek to expand the width of many of the existing corridors. CMP estimates that the MPRP would cost more than $1.5 billion but that Maine ratepayers would pay only 8% of that because the cost of the project would be socialized among ratepayers in all New England states.

The Commission's MPRP proceeding is one of the largest ever in terms of the number of parties and scope of the network buildout. Over 150 persons or organizations have been granted intervenor status, including more than 125 persons who own property that abuts one of the transmission corridors where CMP would construct new lines.

The Commission's task is to determine whether it agrees with CMP that a need exists to improve the reliability of CMP's transmission network, and, if there is a need, whether CMP's proposed solution is a reasonable and least-cost solution. (Other solutions might include non-transmission alternatives, like conservation or distributed generation.) If a transmission solution is preferred, many property abutters want the Commission to decide whether CMP's proposed construction of the poles, wires and other equipment is reasonable and safe.

During the last six months of 2008, the Commission and parties sent many requests for data to CMP and spent 14 days in technical conferences asking questions of CMP's experts. After analyzing both the verbal and written responses of CMP, the Commission became concerned that CMP's load flow computer modeling, that forms the basis for CMP's decision that new transmission is needed, stressed its transmission system too hard and therefore overstated the need for new transmission. After discussions during a case conference in February, CMP agreed that it would conduct additional load flow computer modeling with less severe stresses to the system, and that the Commission staff and consultant would choose the modeling assumptions, in consultation with CMP and other parties. Since the computer modeling must involve simulating the entire New England grid, only CMP is capable of performing the modeling.

With CMP's cooperation, the Commission and other parties met many times over the next nine months and at staff's direction, CMP performed the computer modeling that stressed CMP's system with less severe assumptions and then tested various transmission solutions to resolve any violations that were indicated by the testing. The computer simulation is so complex that each step in this analytical process took weeks of computer "runs." The Commission had to wait for the new data before conducting the next conference and discussing the results with CMP and deciding next steps needed to complete the additional analysis in a manner comparable to the analysis CMP presented in its petition.

This process was finished in September. In October, the Commission staff (including the Commission's outside consultant) presented its Bench Analysis. This analysis represents the staff's technical analysis of the evidence submitted by CMP to date, including the additional analysis that CMP conducted at the direction of the Commission. The Bench Analysis agreed that the evidence demonstrated substantial transmission needs in the CMP service territory. However, in staff's view, CMP's analysis overstated the need because CMP imposed unreasonable stresses on the system when CMP did its own computer modeling.

The most significant difference between the Bench Analysis and CMP's Petition involves a third 345 kV line from the Portland area to the New Hampshire border as well as two other significant 115 kV lines in western and north-central Maine. Although the Bench Analysis did not analyze non-transmission alternatives, various other parties, such as the OPA and GridSolar, had explored non-transmission solutions, including conservation and distributed generation as alternative solutions to any transmission system violations (or need). In particular, GridSolar provided an extensive proposal for an alternative to the MPRP that would involve a "smart grid" system in conjunction with distributed resources including solar power.

Beginning during the summer of 2009, the Commission has also sponsored a number of settlement conferences, conducted by the hearing examiners and other staff, at which all parties are invited to attend and participate. Over the last few months, staff and many of the parties have made and discussed settlement proposals. These settlement discussions have occurred concurrently with the litigation schedule and are expected to continue into early 2010. It is unclear at this point whether a full or partial settlement will be reached.

In December, the Commission held two more public witness hearings in the case, in Gorham and South China. (The Commission held two public witness hearings in November 2008, in Waterville and Lewiston.) The Commissioners wanted to hear from citizens and ratepayers regarding their concerns about CMP's transmission proposal. Also in December, CMP, and other supporters of the MPRP, such as ISO-NE, filed rebuttal testimony in response to the Bench Analysis and intervenor testimony. After additional technical conferences and surrebuttal testimony, the case will be ready for two weeks of evidentiary hearings in early February 2010. After briefs, reply briefs and an Examiners Report (recommendation), the case is scheduled to be decided by the Commission in mid-May, 2010. If a settlement is submitted before May, then the case may be decided earlier depending on how many parties support or oppose the settlement.

- **Maine Power Connection**

On July 1, 2008, MPS and CMP sought Commission approval to construct a 345 kilovolt (kV) electric transmission line from Limestone in MPS's service territory to an interconnection point in CMP's system near Detroit (Docket No. 2008-256). The Petitioners referred to the project as the Maine Power Connection, or MPC. As proposed, the MPC would provide the first direct electrical connection between northern Maine and the southern Maine/New England bulk power grid, at a cost estimated to be $625 million. MPS and CMP stated that the MPC would also enable Aroostook Wind Energy (AWE), an 800 MW wind generation project, to be developed in Aroostook County.

MPS and CMP requested that ISO-NE determine that the MPC would be eligible for regional (or socialized) cost treatment. If the MPC was socialized, MPS would join the ISO-NE RTO. MPS indicated that the MPC would not go forward if socialized treatment was denied.

About thirty intervenors were granted party status, including generators, ratepayers, environmental groups, other T&D utilities and property abutters. Shortly after the case was filed, a group of parties (the Moving Parties) moved to dismiss arguing that the petition was premature because of the unresolved question of whether the MPC would be socialized. The Commission denied the motion noting the public interest in moving forward to address issues involving serving northern Maine load.

Shortly thereafter, CMP and MPS informed the Commission that the System Impact Study (SIS) being performed by ISO-NE was indicating significant adverse impacts resulting from interconnecting the 800 MW of wind generation associated with the MPC. On December 15, 2008, the Moving Parties filed a Motion for Reconsideration and Renewed Motion to Dismiss. On December 31, 2008, AWE filed a letter with the Commission stating that in light of the likely cost of the additional SIS that would be needed, it would not move ahead. In addition, AWE noted that recent changes in the wholesale power market rendered its investment potentially uneconomical.

On February 5, 2009, the Commission issued an Order of Dismissal in the MPC proceeding, finding that the status of the project had significantly changed such that dismissal of the petition was appropriate.

- **Saco Project**

In 2006, CMP requested to build a double circuit 115kV transmission line in the Saco area (Docket No. 2006-487). CMP proposed to build the two circuits on single poles that would extend from Loudon Substation in Saco to a new substation near Saco Industrial Park, continuing on to a new substation near the Ross Road in Old Orchard Beach. CMP proposed that the new lines be placed in an existing corridor that would replace existing 34.5kV lines.

Many Saco residents from areas near the proposed route participated in the case, as did the City of Saco. Generally, the residents opposed building the new lines in the corridor because the existing poles are much shorter than the new poles would be – 35-to-40 feet compared to 65 feet. The residents also expressed concern about

property values and health effects of electro-magnetic fields from the new lines, especially near the Saco Middle School, which abuts the existing 34.5kV corridor.

Over the next 18 months, the staff and parties engaged in extensive discovery and technical conferences with CMP, and the staff required CMP to perform additional computer load flow modeling to explore some smaller and less costly alternatives to the double-circuit 115 kV transmission line. As part of that process, the Commission's consultant spent one week at CMP's offices directing additional computer modeling.

By early 2008, the case was ready for hearings and decision. Because of suggestions made by City officials and Saco residents at a public hearing in Saco, that CMP should consider an alternative route for the new line along the Maine Turnpike Authority (MTA) corridor which would avoid some of the residential neighborhoods and the middle school, the Commission suspended the litigation schedule engaged in settlement discussions to consider alternative routes. At the request of the Commission, CMP acquired options to buy most of the property rights that it would have needed to construct the new line adjacent to the MTA corridor. Ultimately, residents of the neighborhoods abutting the MTA corridor opposed the location of the new line next to the turnpike, and there was no local consensus achieved and the settlement discussions failed.

The case went to hearings in late 2008, and was decided by the Commission on April 22, 2009. The Commission found that the Saco-area transmission system currently did not meet reliability standards and additional transmission improvements were needed immediately. The Commission found that the least cost transmission solution for Saco was a new double line in the same location and design as proposed by CMP, except one line at 115 kV and the other at 345 kV. The Commission also decided that certain new substation construction could be deferred. The Commission's decision resulted in new transmission that was less costly than CMP's proposed new transmission improvements, but the new double line was almost identical in physical appearance to the double-line proposed by CMP.

- **BHE Downeast Reliability Project**

On January 15, 2009, BHE filed for approval to build the Downeast Reliability Project, a new 115 kV transmission line from Ellsworth to Harrington (Docket No. 2009-26). The Project also includes a new substation near Tunk Lake and a switching station at Epping. All but $1 million of the estimated $67 million to build the Project has been designated Pool Transmission Facilities (PTF) by ISO New England. Since PTF costs are socialized among all New England power pool customers, Maine ratepayers will pay for about 8% of the PTF portion of the Project.

Five organizations or people intervened in the Commission's Proceeding, only one of which is a property abutter to the proposed transmission corridor. After extensive discovery and three technical conferences, the parties and the Staff agreed with BHE that there is a need for improved transmission reliability in the Downeast region and that a new 115 KV transmission line along the coastal route (as opposed to the alternative inland route) was the least cost solution to the reliability issues. About 40% of the new line will be built in existing corridors. The new transmission line creates a 115 kV loop to serve the region, adding to the single radial 115kV that currently

serves it. A loop provides greater reliability than a radial line, because maintenance and restoration of power after an outage can be accomplished more efficiently.

BHE and the OPA entered into a Stipulation, recommending that the Commission grant the CPCN and authorize BHE to build the new line. All the other parties did not oppose the Stipulation. On December 22, 2009, the Commission approved the Stipulation and authorized BHE to build the new transmission line.

- **Record Hill Transmission Project**

On July 30, 2009, CMP filed for approval to build a new transmission line and substation to interconnect the Record Hill Wind, LLC, wind farm into CMP's transmission grid (Docket No. 2009-216). The proposed transmission line will be constructed in an existing CMP right-of-way, and for the most part will involve rebuilding an existing 34.5 kV line with a new 115 kV line. The new line will go through the towns of Rumford, Roxbury and Mexico.

CMP proposes to build the new line to provide interconnection service to Record Hill as it is required to do under the ISO-New England's Open Access Transmission Tariff (OATT). In accordance with the OATT, Record Hill will pay for virtually all of the costs to build the new line.

In addition to the OPA, three individuals who reside in the area intervened in the Commission's proceeding. At a technical conference on CMP's petition, the intervenors and staff asked many questions of the Company and received more written information from CMP after the conference. The individual intervenors requested that the Commission hold a public witness hearing on CMP's petition in the Rumford area. In the letter, the individual intervenors state that many local citizens are concerned about the environmental impacts, aesthetics, health and safety associated with the new transmission line. The Commission expects the proceeding, including a public witness hearing, to continue into 2010.

Advanced Metering Infrastructure (AMI, or Smart Grid)

The Commission considered significant "Smart Grid" investments for Maine in the form of AMI investments by CMP and BHE (Docket Nos. 2007-215 and 2006-661). AMI includes smart meters and related systems that allow for automated and remote meter reading, detailed customer usage measurement and data storage, and communications to and from customer meters. AMI systems add expenses to the system, but provide utility operational savings (e.g., lower storm restoration costs) and a platform for programs that allow customers to lower their energy costs through more accurate and timely information and pricing programs that better reflect the hourly and seasonal differences in electricity costs (e.g., time-of-use rates).

Prior to 2009, the Commission had ongoing litigated proceedings with CMP and BHE in which the cost-benefits of AMI installation were examined. These proceedings intensified when the ARRA became law (February 2009). The ARRA included provisions for grants for up to 50% of the cost of qualifying AMI systems. The Commission, CMP, BHE and the OPA began working to position CMP and BHE to receive these grants.

The Commission also had discussions with MPS to determine if the ARRA provided it with an opportunity to upgrade it systems. MPS has already installed automated meters that could be read remotely, but not a full AMI system. MPS concluded that, even with a federal grant, an AMI project would not be cost beneficial because (1) it had already obtained most of the operational savings with its existing remote-read-capable meters and (2) the northern Maine market lacked the time-differentiation in costs needed for AMI-related energy programs to yield consumer benefits.

CMP and BHE prepared and submitted grant applications under the DOE Smart Grid Investment Grant Program of the ARRA. In October, DOE notified CMP that it would receive $96 million in funding under the Smart Grid Investment Grant Program of ARRA-- 50% of the cost of CMP's AMI project—though the final award may be somewhat less that this initial figure indicated by DOE. BHE was not awarded any grant monies. BHE nonetheless continued to seek Commission approval for its AMI proposal. The Commission approved substantially all BHE's AMI proposal. As a result BHE will move installation of their AMI system forward in 2010. A decision on CMP's proposal is expected in early 2010.

CMP Distribution Rate and Service Proceedings (From the Electric Incentive Ratemaking Report)

Alternative Rate Plan (ARP)

CMP continued to operate under the terms of an ARP approved in 2008 (ARP 2008) which established the following:

- a $20.3 million decrease in CMP distribution rates effective July 1, 2008;
- a new five-year ARP (ARP 2008) to take effect in January 2009;
- a formula by which CMP's distribution rates will be adjusted annually based on inflation less a productivity offset of 1%;
- an upper-end earnings sharing provision in the event CMP's Return on Equity (ROE) exceeds 11% in any calendar year during ARP 2008;
- a five-year cycle trim program for vegetation management on CMP's distribution system;
- a set of service quality provisions intended to ensure CMP's reliability and customer service performance, including seven performance metrics and penalties of up to $5 million.

On March 13, 2009, CMP submitted its annual price change filing under the terms of ARP 2008. In its filing, CMP requested that it be authorized to increase its distribution rates by 10.5% effective July 1. On June 19, 2009, the Commission

approved a Stipulation authorizing CMP to increase its distribution rates by 5.96% (Docket No. 2009-71). The increase included recovery of certain expenses CMP would incur under its five-year cycle trim program as well as partial recovery of certain service restoration costs described below.

ARP 2008 provided that CMP could request an accounting order to defer service restoration costs related to certain storm events. On January 9, 2009 CMP filed a Request for an Accounting Order asking that it be authorized to defer and recover the incremental costs incurred to restore electric service to customers as a result of an ice storm in December 2008 (Docket No. 2009-18). In its request, CMP noted that restoration costs would be $11.6 million. On September 25, 2009, the Staff issued a Bench Analysis proposing that CMP should recover a portion but not all its deferral request. Staff indicated that a substantial portion of the restoration costs were attributable to CMP's inadequate tree-trimming. Hearings in the case are scheduled for mid-January 2010 and the Commission is expected to issue its decision next March.

Line Extensions

In 2006, the Commission opened an investigation into the reasonableness of CMP's line extension terms and conditions based on a complaint signed by Robert Bemis and twelve other persons filed pursuant to 35-A MRSA. § 1302 (Docket No. 2005-412). A Stipulation and a revised Stipulation were filed and approved by the Commission in 2007 that set flat, per-foot charges for line extensions constructed by CMP. The revised Stipulation also provided for an independent audit of CMP's line extension costs and an opportunity to revisit the approved line extension charges after the audit.

An auditor was jointly selected by the Staff and the parties and on January 22, 2009; the final results of the auditor's report were submitted to the Commission. The audit found areas of discrepancy in CMP's line extension-related costs and as a result, CMP filed updated cost data. A litigation schedule was set to resolve disputed issues and set per-foot charges based on the updated data. On June 16, 2009, the Commission granted a request by one of the parties to re-open the case to consider alternatives to flat, per-foot prices for line extensions. In granting the request, the Commission specified it would consider such requests after establishing the per-foot price.

On October 19, 2009, the Commission adopted revised per foot prices. On November 9, 2009, consistent with the June, 2009 Order, a request for the Commission to adopt an alternative pricing methodology to the flat, per-foot pricing was filed. Accordingly, a litigation schedule was adopted and a final Commission decision is contemplated on this issue in early 2010.

Utility Line Extension Stakeholder Group

During the 2009 session, the Legislature enacted Resolve, Regarding New Utility Line Extension Construction (Resolves 2009, Chapter 69). The Resolve directs the Commission to convene a stakeholder group to study the practices of investor-owned T&D utilities with respect to new utility line extension construction. The Resolve states

that the study must include, but is not limited to, an evaluation of how the utilities' line extension practices affect private line extension contractors. The Resolve requires that the Commission shall, at a minimum, invite representatives from the investor-owned T&D utilities, associations of builders and contractors, private line extension contractors and the OPA to participate in the stakeholder group.

On September 1, 2009, the Commission through a Notice of Inquiry (Docket No. 2009-273), convened a stakeholder group to examine utility practices involving new line extensions. The stakeholder group participated in several meetings in which information and viewpoints were exchanged. As required by the Resolve, the Commission will submit a report of the findings and recommendations of the stakeholder group to the Utilities and Energy Committee by February 15, 2010.

BHE Distribution Rate and Service Proceedings

There were no major proceedings in 2009.

MPS Distribution Rate and Service Proceedings

On September 24, 2009, MPS filed the necessary information for the periodic review of its stranded costs, as required by statute (35-A MRSA §3208 (6)). MPS states that the revenue requirement associated with its stranded costs will decrease over the next two years, from $11.9 million per year to $10.7 million per year. MPS proposes to increase the amortization of certain stranded cost balances rather than reduce stranded cost rates. MPS's proposal is consistent with prior cases involving stranded cost rates in which MPS's rates were not increased even though its revenue requirement increased. The OPA is the only other party to the proceeding. The Commission expects to decide the case in the first quarter of 2010, likely by stipulation.

Transmission Rates

Transmission rates for Maine's utilities in ISO-NE (CMP and BHE) continued to rise in 2009 primarily due to the build-out of new transmission projects in the region. Specifically, in 2009, CMP's average transmission rates increased by approximately 23% and BHE's average transmission rates increased by 15%. In contrast, MPS's average transmission rates decreased by approximately 21% in 2009.

Key Commission Investigations, Rulemakings and Other Proceedings

Long-term Contracting

Pursuant to its statutory authority (35-A MRSA § 3210-C), in December 2008 the Commission issued a RFP for long-term contracts for capacity and energy. The RFP required comprehensive proposals and indicative prices to be submitted by April 7, 2009. The Commission received a large number and wide range of proposals. The number of proposals, proposed terms and pricing, and the names of entities submitting proposals are considered by the Commission to be confidential business information. Commission Staff and consultants conducted economic analyses of the proposals and

worked with several bidders and the utilities throughout the year to develop commercial and contractual terms that would be beneficial to ratepayers. The Staff also consulted on a regular basis with the OPA and the Department of Environmental Protection about potential long-term contracts.

The overarching goal of this RFP process has been to obtain contracts that would be beneficial in terms of lower and/or more stable electricity rates. Other goals include promoting State energy policy to facilitate new renewable development in Maine. Due to the long-term nature of these contracts and their potential to create new stranded costs, proposals have been carefully and critically analyzed, and negotiations with bidders have been extensive. In October, the Commission approved the first contract resulting from the process. Pursuant to that contract, CMP and BHE will acquire the output of the Rollins Wind Project, a 60 MW wind facility to be developed by First Wind in Penobscot County, Maine.

Community-Based Renewable Energy Pilot Program

During the 2009 session, the Legislature enacted An Act to Establish the Community-based Renewable Energy Pilot Program (PL 2009, Chapter 329). The Act requires the Commission to administer the pilot program, the purpose of which is to encourage the sustainable development of community-based renewable energy through incentives for locally-owned renewable generation. Individual facilities must not exceed 10 MW in size, and the total program must not exceed 50 MW. The Act requires the Commission to adopt implementing rules for the program.

On July 14 the Commission opened an Inquiry to obtain information, viewpoints and recommendations from interested persons prior to initiating the rulemaking process (Docket No. 2009-213). The Notice of Inquiry sought comment on a number of questions and issues regarding various provisions of the Act. After reviewing the comments filed, the Commission issued a Notice of Rulemaking and proposed rule for public comment (Docket No. 2009-363). The final rule is expected to be issued in early 2010.

Green Power Offer

The Community-based Renewable Energy Act also directs the Commission to arrange for a “green power offer” for residential and small commercial customers. The Act requires the Commission to select a green power offer supplier through competitive bidding, and to adopt implementing rules to govern the process.

During 2009, the Commission Staff explored various approaches to the green power offer with utilities and potential suppliers. The Commission expects to conduct a rulemaking proceeding and adopt final implementing rules by mid-2010. Following the adoption of rules, the Commission expects to begin administering solicitations for green power suppliers.

On Bill Financing of Efficiency Programs

As required by the Legislature's "Resolve Regarding On-Bill Financing Programs for Energy Efficiency" (Resolves 2009, Chapter 49), the Commission examined options for, and the feasibility of, establishing on-bill financing programs for the purchase and installation of energy efficiency measures for small businesses and residential customers. In its report to the Legislature, the Commission found that on-bill financing appeared to be a viable mechanism for increasing the penetration of certain energy efficiency measures for small businesses, in particular Efficiency Maine's lighting program. Given the potential costs associated with adopting the program on a broad scale and the enthusiasm exhibited for the business program, the Commission recommended that a small business on-bill pilot program in BHE and MPS's service territory be implemented at the present time.

Promotion of Green Supply Products

During its 2007 session, the Legislature enacted an Act to Stimulate Demand for Renewable Energy (PL 2007, Chapter 403). The Act allows for information regarding green power products (electricity supply and renewable energy credits--RECs) that are certified by the Commission to be presented through inserts in customer utility bills, with the consent of the T&D utility. To implement this legislation, in 2008 the Commission initiated an Inquiry and convened a working group consisting of Commission staff, the investor-owned T&D utilities and suppliers (Docket No. 2008-178).

The working group completed its work in 2009, and the Commission, through an order issued on April 14, 2009 (Docket No. 2008-178), accepted the group's consensus recommendations. These are:

- The adoption of agreed upon standard contract and terms and conditions under which T&D utilities will include green product information as inserts in customer bills;

- Commission certification of green supply products consisting of renewable resources as defined in Maine statutes (35-A MRSA § 3210) and RECs certified by the Green-e Renewable Energy Certification Program; and

- Utility authorization to include a reference to a green power website on the standard offer page of the bill that contains information on green supply products available in Maine. The reference states: For information on buying green power go to www.maine.gov/greenpower; the link goes to the Commission's "buying green power" page linked to the U.S. Department of Energy's list of green power products available for Maine consumers.

Utility Aggregation of Multiple Small Generators

During the 2009 session, the Legislature enacted An Act to Facilitate the Marketing of Power Produced by Small Generators (PL 2009, Chapter 197). The Act allows (but does not require) a T&D utility to administer for eligible small generators the

purchase and sale of electricity to a CEP. In carrying out this function, a T&D utility may aggregate the output of multiple eligible generators to obtain the most favorable purchase price.

On September 1, 2009, the Commission sent a letter to all Maine utilities inquiring about interest in administering transactions for small generators. The letter also sought information about what actions the utility would undertake in this regard. No utility has responded to the letter, indicating a lack of interest at the present time.

New Renewable Resource Portfolio Requirement (Class 1)

During the 2009 session, the Legislature enacted Resolve, Regarding Maine's Renewable Resource Portfolio Requirements (Resolves 2009, Chapter 51) that directed the Commission to review and make recommendations for improvements to the new renewable resource portfolio requirement authorized in 35-A MRSA. § 3210(3-A). As a vehicle for conducting the required review, the Commission, on July 14, 2009, initiated an Inquiry to explore the issues involved with Maine's new renewable resource portfolio requirement (Docket No. 2009-212). The Notice of Inquiry contained a series of items, issues and questions related to Maine's portfolio requirement for which the Commission sought information, viewpoints and recommendations from interested persons. On December 22, 2009, the Commission released a draft report on the new renewable resource requirement for comment by interested persons.

On January 15, 2010, Commission submitted a report of its findings and recommendations to the Utilities and Energy Committee as required by the Resolve. The report is available on the Commission's website under legislative activities.

Small Generator Interconnection Standards

During the 2008 session, the Legislature enacted Resolve, To Encourage Renewable Energy and Energy Conservation in Maine (Resolve 2007, Chapter 183) that directed the Commission to conduct a review of the advisability of statewide interconnection standards for small renewable generation facilities. As part of the required review, the Commission initiated an Inquiry to obtain information and viewpoints from interested persons on small generator interconnection standards (Docket No. 2008-186). On January 15, 2009, the Commission issued its final report, recommending that statewide standardized interconnection procedures for Maine's utilities should be imposed.

On July 21, 2009, the Commission initiated a rulemaking proceeding to adopt statewide interconnection standards (Docket No. 2009-219). On August 27, 2009, the Commission held a public hearing on proposed interconnection rules and in early January 2010, the Commission adopted final small generator interconnection standards.

Inquiry into Utility Financial Incentives Regarding Energy Efficiency

The ARRA contained provisions that provide grants to states for conservation and energy efficiency programs upon certain conditions. One requires that the

applicable state regulatory body seek to implement policies that ensure utility financial incentives are aligned with helping their customers use energy more efficiently. On February 27, 2009, Governor Baldacci sent a letter to the Commission Chair requesting that appropriate additional steps be considered to implement appropriate incentives for energy efficiency programs.

On May 20, 2009, the Commission initiated an Inquiry to consider the need to provide different or additional financial incentives to the state's T&D and natural gas utilities to encourage customers to use energy more efficiently (Docket No. 2009-159). In the Notice of Inquiry, the Commission sought information and viewpoints of interested parties on the issues involved with utility financial incentives. The Commission will continue to examine these incentive issues in 2010.

Regional Matters and FERC Proceedings

ISO Participation Investigation

As part of the stipulation in the Energy East/Iberdrola merger proceeding, CMP agreed to a proceeding to determine whether it would remain within ISO-NE (Docket No. 2007-355). In April 2008, the Commission issued a NOI to initiate that proceeding (Docket No. 2008-156). BHE and MPS were included due to the statewide interest of the case. The same month, Governor Baldacci approved "Resolve Regarding ISO New England" (Resolves 2007, Chapter 193) which directed the Commission to report its findings to the Utilities and Energy Committee by January 15, 2009 (Docket No. 2008-156) including whether it is the interest of Maine ratepayers for the state to get out of ISO-NE.

In January 2009, the Commission issued its Phase I Order (Docket No. 2008-156). The Commission found that the *status quo* arrangement with ISO-NE was adequate in certain areas but deficient in others, including governance, transmission cost allocation and transmission cost containment. The Commission found that, of the alternative options available, remaining with ISO-NE with specified reforms (the Reform Option) presented the best alternative and instructed CMP and BHE to pursue the Reform Option in their negotiations for the renewal of the Transmission Operators Agreement.

Of the other options presented in the case, the Commission concluded that two options remained open: (1) the Maine Transmission Owner/ISO-NE Contract Option as the preferred option of the majority of the Commissioners; and (2) the Expanded NMISA Option as presented by Commissioner Cashman in his dissent. Neither of these options, however, was sufficiently developed during the case to allow the Commission to determine their costs and benefits. The Commission determined that the best approach to pursuing ISO-NE reform was to marshal the resources of the Commission staff and the parties to this proceeding, especially CMP and BHE, to move these reforms forward (for full explanation of reforms, refer to Commission Order (Docket No. 2008-156)).

In March, the chairs of the Utilities and Energy Committee asked the Commission to provide a preliminary design for an alternative to the *status quo* similar to that discussed in Commissioner Cashman's dissenting opinion. The resulting study was filed in May 2009 ("Assessment of a Maine ISA Structure as a Possible Alternative to ISO-NE Participation"

(Brattle Group Report)). In a separate process, the Commission and other Maine stakeholders sought to achieve the reform objectives identified in the Phase I Order.

In June, the Commission issued its Phase II Order in the docket which found that the reform efforts had been only partially successful and that ISO-NE's response to the efforts of governance reforms demonstrated an apparent lack of understanding of the extent of consumer frustrations over its consideration of cost impacts and the lack of transparency underlying its decisions.

Problems emerged with several of the other alternative options to ISO-NE. The Maine Contract Option no longer appeared feasible because the ISO-NE was unwilling to enter into negotiations to implement such an option and because a FERC decision raised doubt about whether FERC would approve that option. On February 19, 2009, FERC issued a decision rejecting a proposal made by the Midwest Independent System Operator (MISO) that would have allowed non-member transmission owners to take certain market services that are available to MISO members (126 FERC at 61, 139 - 2009). The Maine Independent System Administrator option would likely increase the State's control over transmission planning, transmission cost allocation and resource additions, yet considerable authority and decision making would rest in New Brunswick which might further be complicated by New Brunswick Power's dominant market share and status as a crown corporation. The Commission found that it was unlikely that the MISA model would produce significant savings in energy and capacity costs (which represent the largest portion of Maine customers' bills). It also found that if CMP's MPRP transmission project was built as proposed, and current projections of transmission investment in the rest of New England were accurate, Maine ratepayers' transmission rates would be lower under the current ISO-NE system, at least in the near term. Finally, the Commission found that the market design inherent in the MISA model would provide less price transparency and would likely discourage the development of renewable resources in the State.

The Commission concluded that CMP and BHE should not leave ISO-NE at this time, resulting in an extension of the current agreement for two years. The Commission noted that the reform objectives set forth in the Phase I Order had not been fully achieved. To achieve its objectives of being a renewable resource hub, Maine should be within a sophisticated, competitive electricity market. The State also needs to be within a system that provides planning and operating functions sufficient to schedule and balance the flow of these resources. Some, like wind, would present particular challenges to system planning and operations. In addition, Maine consumers could not alone shoulder the cost of potential transmission system expansions associated with the State's reliability needs and renewable resource development potential. These factors indicated the need for continued association with a large-scale regional transmission organization. The Commission stated that reform efforts have not ended and it will continue to push needed reforms within the region and expects BHE and CMP, as well as other Maine stakeholders, to remain actively involved.

Forward Capacity Market

The third auction in the ISO-NE Forward Capacity Market (FCM) took place in October 2009 and, for the third year in a row, surplus capacity pushed prices to the

floor, which this year was $2.95 per kW-month. Demand resources (DR) played a key role in this regard: this year 2,896 MW of DR successfully bid into the auction, including 367 MW from Maine.

In May, the ISO-NE market monitor filed a report at FERC, finding that the capacity market was competitive and was attracting sufficient resources at a reasonable price. However, the report made certain recommendations for changes to the FCM that would address concerns that when the price floor expired existing resources would be subjected to extremely low prices given the expected near-term continuing surplus of capacity. As a result of this report, a stakeholder group was formed to consider possible changes to the market to address the concerns raised in the FERC filing. The Commission has been active in the stakeholder group and expects to remain so while these issues are pending.

Regional Transmission Organizations (RTOs) Responsiveness Proceeding

On October 17, 2008, FERC issued Order No. 719. One of the areas covered by the Order No. 719 was the responsiveness of Independent System Operators (ISOs) and RTOs. ISO-NE convened an RTO Responsiveness working group in which numerous parties, including the Commission, the OPA, and other entities representing state consumers participated and developed proposals to improve ISO-NE responsiveness. Much of the discussion focused on the mission statement for ISO-NE.

As a result of this stakeholder process, ISO-NE adopted a mission statement that states that ISO would strive to perform its functions in a “cost effective” manner. ISO also indicated that it would provide participants with quantitative and qualitative analyses on the need for and impacts of costs, major ISO initiatives, and any rule or market changes that have an impact on price. The Commission and most other state regulators and consumer advocates submitted comments to FERC advocating for stronger consumer protection language.

While these comments are pending, FERC has decided to hold a technical conference relating to RTO responsiveness. The Commission expects to actively participate in this conference. ISO-NE, the New England transmission owners and state regulators also developed procedures to improve transmission cost estimating and reporting as a first step toward addressing concerns about transmission cost overruns and the need for a greater focus on containment of costs relating to transmission.

Transmission for Renewable Resources

The New England governors requested that the ISO conduct a study of what transmission would be needed to be built, and what federal assistance might be possible, for New England to reach the potential pool of in-region renewable generation. In response, ISO-NE undertook a Renewable Development Scenario Analysis. Preliminary results of the Renewable Development Scenario Analysis demonstrate that:

1) New England has significant renewable resources;
2) Transmission infrastructure to access such resources can be identified;

3) Long-term revenue streams to support renewable infrastructure development can be obtained through various competitive market mechanisms;

4) Development of our wind resources could put downward pressure on energy and carbon prices;

5) Development of in-region resources appears significantly more efficient than importing equivalent resources from distant regions; and,

6) Choices about the level of renewable resource development to meet various objectives can be substantially informed by cost considerations, given the differences in transmission infra-structure costs.

During 2009, the Commission was also an active participant in the Eastern Interconnection States' Planning Council (EISPC) which is being formed with expected funding assistance from the Department of Energy to help state policy makers (1) compile interconnection wide data, (2) learn about other states challenges and opportunities in electricity generation and transmission and (3) collaborate on ways to meet those challenges and maximize opportunities.

Transmission Cost Allocation - FERC Request for Comments

On October 8, 2009, the FERC issued a Notice of Request for Comments related to transmission planning and coordination both within and across regions. Many of the questions focused on whether existing planning and cost allocation structures were adequate to meet state and national policy in favor of renewable development. The Commission filed comments generally making the following points:

- It is not enough for a tariff to provide for a cost allocation mechanism that would promote renewable development if significant political resistance makes an RTO reluctant to follow the plain language of its tariff, as was the case with the Maine Power Connection project;
- One way to deal with disparate treatment between projects classified as economic projects (such as the Maine Power Connection) and reliability projects is to eliminate the distinction between these two categories. This would reflect the fact that the need for most reliability projects is caused primarily by economic factors;
- Any transmission pricing methodology should allocate costs to entities in proportion to the benefits they derive from the transmission project. A hybrid pricing methodology in which some portion of costs are socialized and some are allocated to direct beneficiaries should be considered;
- The Commission should consider how to define beneficiaries by considering not only economic and reliability benefits but also fuel diversity and environmental benefits. The Commission should determine whether a load flow model is sufficient to determine beneficiaries or whether such a model defines beneficiaries too narrowly.

The Commission will continue to participate in related FERC processes in 2010.

Transmission Return On Equity Incentive Adder Cases

The Commission has been a party and, in some cases played a lead role, in protesting requests by New England transmission owners, including CMP and BHE, for higher rates of return for investment in new transmission projects. In the first of these cases, FERC granted a higher rate of return for all transmission projects approved by ISO-NE that are completed by December 31, 2008; this case has been appealed to federal court by the Commission, the Connecticut Department of Public Utility Control and the New England Conference of Public Utilities Commissioners (NECPUC). This appeal is still pending.

In addition, the Commission has been a lead protestor in numerous cases in which transmission owners have sought a higher rate of return for specific projects as incentives to construct new transmission including the two Maine projects and several projects in southern New England. The Commission and other regulatory agencies have argued that the higher rates are not justified because transmission owners are already contractually obligated to undertake these projects. FERC has routinely approved higher rates in spite of the fact that the requested higher returns will cost New England ratepayers hundreds of millions of additional dollars over the lives of these projects. Re-hearing requests of these decisions have been filed and are pending at FERC.

Supply Resources in Maine

Resources Serving Maine Customers

Maine's Electricity Restructuring Act originally established a 30% resource portfolio standard (RPS), requiring electricity suppliers (including standard offer suppliers) to supply 30% of their Maine load from "eligible resources." The Act defined eligible resources to be generating units whose capacity do not exceed 100 MW and that produce electricity from tidal, fuel cells, solar, wind, geothermal, hydroelectric, biomass, or municipal solid waste in conjunction with recycling; that qualify as small power producers under federal regulations; or that are efficient cogeneration units.

In 2007, the Legislature expanded the RPS to also require that an additional amount of electricity come from "new" renewable resources, which are generally renewable facilities that have an in-service date after September 1, 2005. New renewable resources include fuel cells, tidal power, solar arrays and installations, geothermal installations, wind generators, hydroelectric generators that meet all state and federal fish passage requirements, and biomass generators including generators fueled by landfill gas. The "new" requirement (also referred to as "Class 1") starts at one percent of load in 2008 and increases by one percent per year to ten percent in 2017, unless the Commission suspends the requirement pursuant to the provisions of the Act.

Any generation facility used toward a supplier's Class I RPS must be certified by the Commission. During 2009 the Commission certified 24 generators as Class I compliant, bringing the total certified generators to 36, for a total capacity of 652 MW.

Summary information about the Class I facilities is shown in Figure 6 below:

Figure 6 - RPS Class 1 Resources

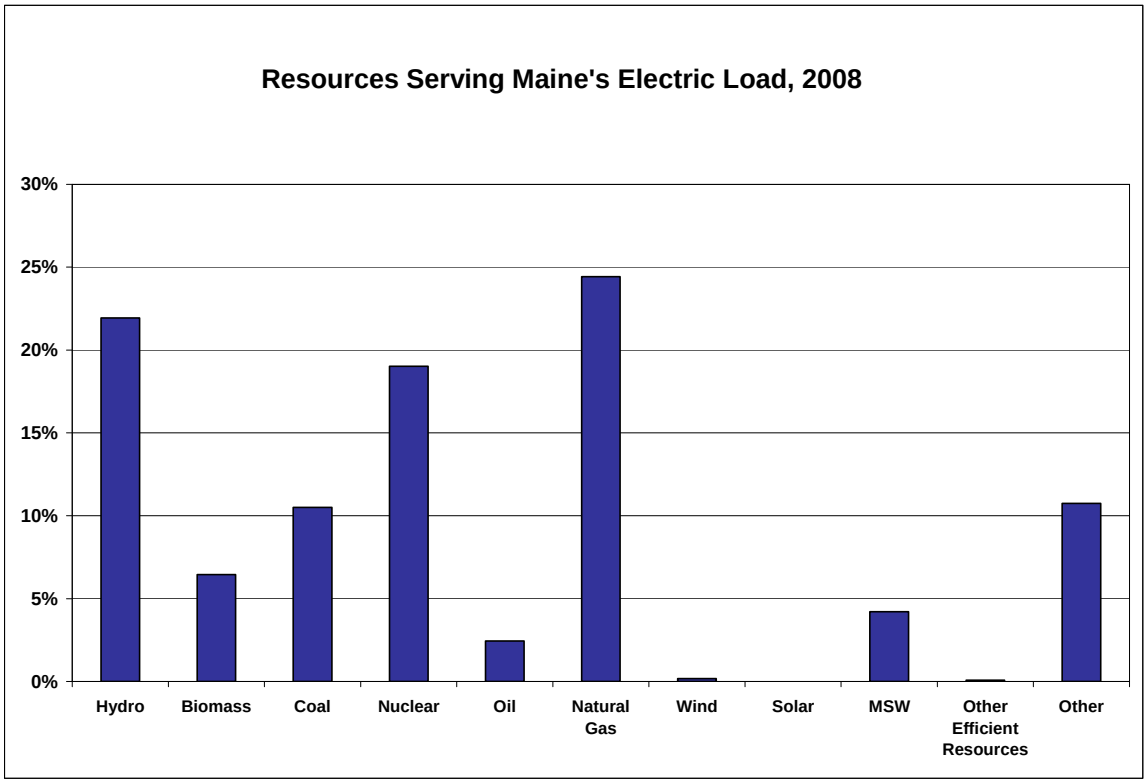
RPS Class I Eligible Resources				
Facility	Location	Size (MW)	Resource Type	Notes
Greenville Steam Co.	Greenville, ME	19.0	Biomass	
PPL EnergyPlus	Orono, ME	4.8	Hydro	
Town of Kittery	Kittery, ME	0.05	Wind	
Loring Bioenergy	Limestone, ME	55.0	Biofuel	
Lincoln Pulp and Paper	Lincoln, ME	13.5	Wood & Process Waste	
Evergreen Wind Power	Mars Hill, ME	42.0	Wind	
Seneca Energy II, LLC	Seneca Falls, NY	6.4	Landfill Gas	
Modern Innovative Energy Syst., Inc	Youngstown, NY	6.4	Landfill Gas	
Innovative Energy Syst., Inc (DANC)	Rodman, NY	4.8	Landfill Gas	
Innovative Energy Syst., Inc (Colonie)	Cohoes, NY	4.8	Landfill Gas	
Indeck Energy-Alexandria, LLC	Alexandria, NH	16.0	Biomass	
Pine Tree Landfill	Hampden, ME	3.0	Landfill Gas	
Hyland Innovative Energy Syst.	Angelica, NY	4.8	Landfill Gas	
University of New Hampshire	Durham, NH	4.0	Landfill Gas	
Evergreen Wind Power V, LLC	Washington Cty, ME	57.0	Wind	
Wm Renewable Energy LLC (High Acres)	Fairpoint, NY	6.4	Landfill Gas	
Madison Power Industries	Madison, ME	3.0	Hydro	
Wm Renewable Energy, LLC (Chaffee)	Chaffee, NY	4.8	Landfill Gas	
Wm Renewable Energy, LLC (Mill Seat)	Bergen, NY	6.4	Landfill Gas	
Lempster Wind, LLC	Lempster, NH	24.0	Wind	
Innovative Energy Systems (Clinton Landfill)	Morrisonville, NY	4.8	Landfill Gas	
Wm Renewable Energy, LLC (Fitchburg Landfill)	Westminster, MA	4.8	Landfill Gas	
Innovative Energy Systems (Chautaugua Landfill)	Jamestown, NY	6.4	Landfill Gas	
Innovative Energy Systems (Fulton Landfill)	Johnstown, NY	1.6	Landfill Gas	
Wm Renewable Energy, LLC (Crossroads Landfill)	Norrigwock, ME	3.2	Landfill Gas	
Wm Renewable Energy, LLC (Madison Landfill)	Canastota, NY	1.6	Landfill Gas	
Sheldon Energy, LLC (High Sheldon Wind)	Sheldon, NY	112.5	Wind	
University of New Hampshire (UNH Power)	Durham, NH	7.9	Landfill Gas	
Richey Properties, LLC	Newburyport, MA	0.6	Wind	
Red Shield Acquisition, LLC (Old Town Fuel & Fiber)	Old Town, ME	14.5	Biomass	
Canandaigua Power Partners (Dutch Hill Wind)	Cohocton, NY	37.5	Wind	
Canandaigua Power Partners (Cohocton	Cohocton, NY	87.5	Wind	

Wind)				
FPL Energy Maine Hydro, LLC (Gulf Island)	Lewiston/Auburn, ME	0.6	Hydro	Under Review
Beaver Ridge Wind, LLC	Freedom, ME	4.5	Wind	
PPL Renewable Energy, LLC (PPL Colebrook)	Colebrook, NH	0.8	Landfill Gas	
Seaman Energy, LLC (Gardiner Landfill)	Gardner, MA	1.0	Landfill Gas	
Fox Island Wind, LLC	Vinalhaven, ME	4.5	Wind	
MM Lowell Energy, LLC (Westford St. Landfill)	Lowell, MA	0.5	Landfill Gas	Under Review
CommonWealth New Bedford Energy, LLC	New Bedford, MA	3.3	Landfill Gas	Under Review
Sappi Fine Paper North America	Westbrook, ME	68.0	Biomass	Under Review
TOTAL		**652.3**		

Suppliers can meet their Maine RPS obligations from plants located in Maine, or in neighboring states or regions. Compliance is tracked by the New England Generator Information System (GIS), which is a regional platform for resource attribute trading and accounting.

Figure 7 below shows the mix of resources used by suppliers to serve Maine customers in 2008. Resource mix data for calendar year 2009 will be submitted by suppliers in July 2010 and provided in next year's report.

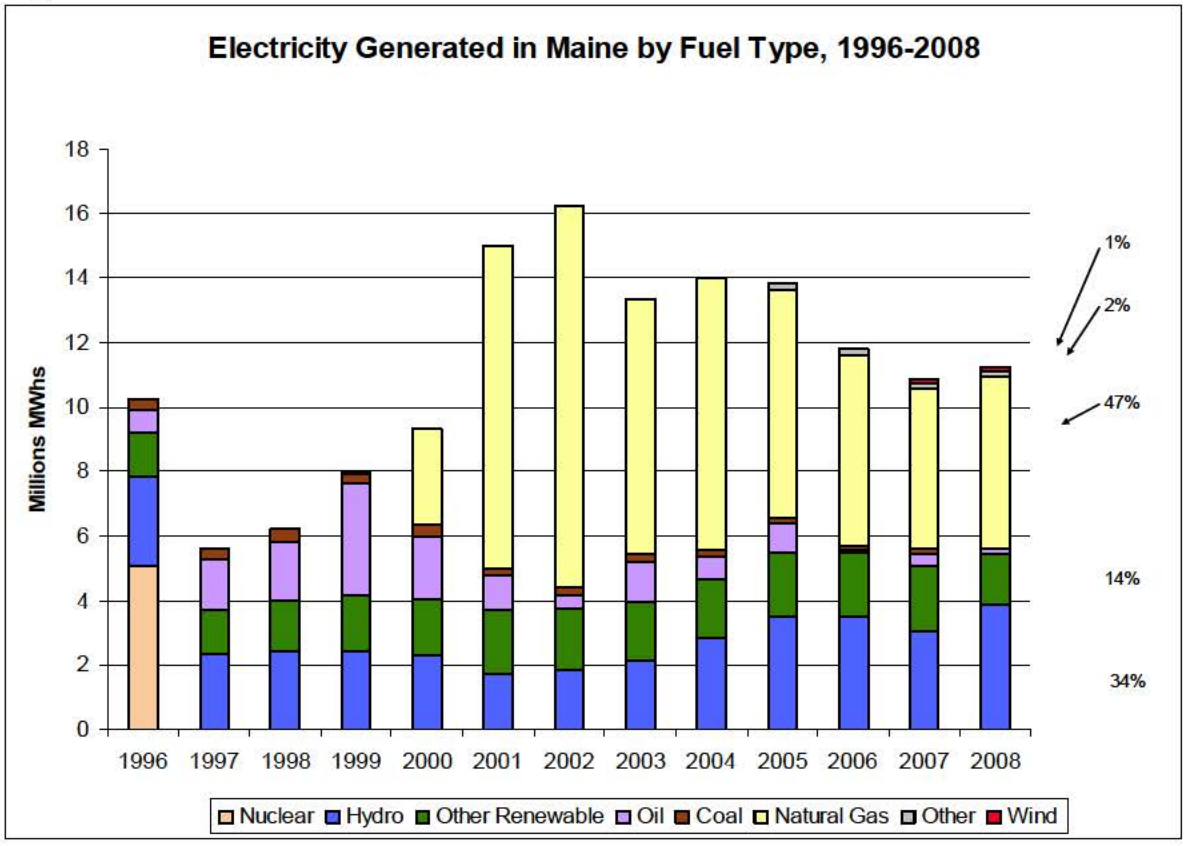
Figure 7



Electricity Generated in Maine

Just under half of the electricity produced by Maine plants is fueled by natural gas, with hydro-electricity being the next largest source. Appendix A provides a list of Maine plants, including the capacity and fuel type of each plant. Figure 8 below shows Maine's generation levels and fuel mix over time, illustrating the trend toward greater in-state production overall, as well as greater reliance on natural gas.

Figure 8



Uniform Disclosure Labels

Comparative information regarding electricity supply is provided to customers in "uniform disclosure labels" that contain a supplier's resource mix and emissions information. Residential and small commercial customer suppliers must provide a disclosure label to their customers quarterly, and suppliers to larger customers must provide the label upon request. Labels for standard offer service may be found on the Commission's web page at:
http://www.maine.gov/mpuc/industries/electricity/standard_offer/disclosure_labels_history.html

Affiliated Competitive Providers and Compliance Costs

T&D utilities and any of their supply marketing affiliates are required by statute to comply with standards of conduct and market share limitations intended to prevent undue competitive advantage in the supply market. The Commission is required to

determine and report on actual and estimated future costs of implementing these requirements. These affiliated competitive provider provisions have not been implicated in recent years, including at any point during 2009. CMP does not have a marketing affiliate. BHE formed a marketing affiliate several years ago, Emera Energy Services, Inc. (EES), but EES has not been active in Maine. MPS also formed a marketing affiliate several years ago, Energy Atlantic, but Energy Atlantic is no longer active.

Electric-Appendix A

Maine Generators - ISO-NE Region:

Facility Name	Description	In-service Date	Lead Participant	Summer Capacity Rating (MW)
YARMOUTH 4	OIL STEAM	01-Dec-78	NextEra Energy Power Marketing, LLC	603.49
MAINE INDEPENDENCE STATION	GAS COMBINED CYCLE	01-May-00	Dynegy Power Marketing, Inc.	488.28
WESTBROOK ENERGY CENTER G2	GAS COMBINED CYCLE	13-Apr-01	Calpine Energy Services, LP	255.03
WESTBROOK ENERGY CENTER G1	GAS COMBINED CYCLE	13-Apr-01	Calpine Energy Services, LP	255.03
RUMFORD POWER	GAS COMBINED CYCLE	16-Oct-00	Consolidated Edison Energy, Inc	244.94
BUCKSPORT ENERGY 4	GAS/OIL COMBUSTION (GAS) TURBINE	01-Jan-01	H.Q. Energy Services (US) Inc.	156.81
YARMOUTH 3	OIL STEAM	01-Jul-65	NextEra Energy Power Marketing, LLC	115.51
GREAT LAKES - MILLINOCKET	HYDRO (WEEKLY CYCLE)	01-Mar-87	Brookfield Energy Marketing Inc.	89.82
YARMOUTH 1	OIL STEAM	01-Jan-57	NextEra Energy Power Marketing, LLC	51.76
YARMOUTH 2	OIL STEAM	01-Jan-58	NextEra Energy Power Marketing, LLC	51.13
VERSO COGEN 1	GAS COMBUSTION (GAS) TURBINE	28-Dec-00	Energy New England LLC	47.36
VERSO COGEN 2	GAS COMBUSTION (GAS) TURBINE	28-Dec-00	Energy New England LLC	45.25
BORALEX STRATTON ENERGY	BIO/REFUSE	01-Sep-89	Boralex Stratton Energy LP	45.02
VERSO COGEN 3	GAS COMBUSTION (GAS) TURBINE	28-Dec-00	Energy New England LLC	44.14
S.D. WARREN-WESTBROOK	BIO/REFUSE	01-Nov-97	NextEra Energy Power Marketing, LLC	42.59
HARRIS 2	HYDRO (WEEKLY CYCLE)	01-Jan-54	FPL Energy Maine Hydro LLC	34.95
AEI LIVERMORE	BIO/REFUSE	01-Oct-92	Boralex Stratton Energy LP	34.70
HARRIS 3	HYDRO (WEEKLY CYCLE)	01-Jan-53	FPL Energy Maine Hydro LLC	34.21
GULF ISLAND COMPOSITE	HYDRO (WEEKLY CYCLE)	01-Jan-26	FPL Energy Maine Hydro LLC	32.97
RUMFORD FALLS	HYDRO (DAILY CYCLE - RUN OF RIVER)	06-Jul-06	Brookfield Energy Marketing Inc.	31.69
WYMAN HYDRO 2	HYDRO (WEEKLY CYCLE)	01-Jan-31	FPL Energy Maine Hydro LLC	29.87
MONTY	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-80	FPL Energy Maine Hydro LLC	28.00
WYMAN HYDRO 1	HYDRO (WEEKLY CYCLE)	01-Jan-30	FPL Energy Maine Hydro LLC	27.36
WYMAN HYDRO 3	HYDRO (WEEKLY CYCLE)	01-Jan-40	FPL Energy Maine Hydro LLC	25.73
COVANTA WEST ENFIELD	BIO/REFUSE	01-Nov-87	Covanta Maine, LLC	23.21
COVANTA JONESBORO	BIO/REFUSE	01-Nov-87	Covanta Maine, LLC	23.12
PENOBSCOT RIVER HYDRO	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-11	PPL EnergyPlus, LLC	21.94
PERC-ORRINGTON 1	BIO/REFUSE	01-Jan-88	Integrys Energy Services, Inc.	20.85
MERC	BIO/REFUSE	01-May-87	NextEra Energy Power Marketing, LLC	19.98
SKELTON	HYDRO (DAILY CYCLE - PONDAGE)	01-Jan-48	FPL Energy Maine Hydro LLC	19.70
WORCESTER ENERGY	BIO/REFUSE	01-Nov-97	Energy New England LLC	17.96
BONNY EAGLE/W. BUXTON	HYDRO (DAILY CYCLE - PONDAGE)	01-Jan-10	FPL Energy Maine Hydro LLC	17.50
HARRIS 1	HYDRO (WEEKLY CYCLE)	01-Jan-54	FPL Energy Maine Hydro LLC	16.79
GREENVILLE	BIO/REFUSE	01-Mar-87	Constellation Energy Commodities	16.73
MADISON COMPOSITE	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Sep-84	Competitive Energy Services, LLC	16.45
CAPE GT 4	OIL COMBUSTION (GAS) TURBINE	01-Jan-70	NextEra Energy Power Marketing, LLC	15.93
CAPE GT 5	OIL COMBUSTION (GAS) TURBINE	01-Jan-70	NextEra Energy Power Marketing, LLC	15.82
WILLIAMS	HYDRO (DAILY CYCLE - PONDAGE)	01-Jan-39	FPL Energy Maine Hydro LLC	14.90
Hydro Kennebec	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Mar-89	Constellation Energy Commodities	14.14
WESTON	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-20	FPL Energy Maine Hydro LLC	13.20
BRUNSWICK	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Mar-82	FPL Energy Maine Hydro LLC	11.62
HIRAM	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-17	FPL Energy Maine Hydro LLC	11.60
ECO MAINE	BIO/REFUSE	01-Aug-88	Integrys Energy Services, Inc.	10.88
SHAWMUT	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-13	FPL Energy Maine Hydro LLC	9.50
MILLER HYDRO	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Apr-84	Constellation Energy Commodities	9.14
ELLSWORTH HYDRO	HYDRO (WEEKLY CYCLE)	01-Jan-19	PPL EnergyPlus, LLC	9.10
PEJEPSCOT	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Nov-87	Constellation Energy Commodities	8.90
CATARACT EAST	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-37	FPL Energy Maine Hydro LLC	8.00
MEDWAY DIESELS 1-4	OIL INTERNAL COMBUSTION	01-Jan-60	Constellation Energy Commodities	7.70
WEST ENFIELD	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-May-88	NextEra Energy Power Marketing, LLC	7.47
LOCKWOOD	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Dec-84	NextEra Energy Power Marketing, LLC	6.95
AZISCOHOS HYDRO	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jul-88	NextEra Energy Power Marketing, LLC	6.81
MESSALONSKEE COMPOSITE	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-17	NextEra Energy Power Marketing, LLC	4.40
BRASSUA HYDRO	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Aug-89	Constellation Energy Commodities	4.20
BAR HARBOR DIESELS 1-4	OIL INTERNAL COMBUSTION	01-Jan-60	Constellation Energy Commodities	4.10
BENTON FALLS HYDRO	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Dec-87	Littleton Electric Light & Water Department	3.78
PPL GREAT WORKS - REDFIELD	BIO/REFUSE	24-Jan-07	PPL EnergyPlus, LLC	3.68
SOMERSET	BIO/REFUSE	01-Jan-76	Constellation Energy Commodities	3.26
Pine Tree LFGTE	BIO/REFUSE	01-Jan-08	NextEra Energy Power Marketing, LLC	2.87
BARMILLS	HYDRO (DAILY CYCLE - RUN OF RIVER)	01-Jan-56	FPL Energy Maine Hydro LLC	2.68

MMWAC	BIO/REFUSE	01-Jun-92	NextEra Energy Power Marke ing, LLC	2.63
EASTPORT DIESELS 1-3	OIL INTERNAL COMBUSTION	01-Jan-48	Constellation Energy Commodi ies	2.60
NORTH GORHAM	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jan-25	FPL Energy Maine Hydro LLC	1.87
BHE SMALL HYDRO COMPOSITE	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Dec-82	NextEra Energy Power Marke ing, LLC	1.72
REC DIESEL	OIL INTERNAL COMBUSTION	01-Dec-06	Vermont Public Power Supply Au hority	1.56
HARRIS 4	HYDRO (WEEKLY CYCLE)	01-Jan-54	FPL Energy Maine Hydro LLC	1.44
Beaver Ridge Wind	WIND TURBINE	15-Oct-08	New Hampshire Electric Cooperative, Inc.	1.00
PITTSFIELD HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.88
YORK HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.88
KENNEBAGO HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Apr-88	Constellation Energy Commodi ies	0.69
LEWISTON U5	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Oct-90	FPL Maine, LLC	0.64
KEZAR LEDGEMERE COMPOSITE	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Feb-96	NextEra Energy Power Marke ing, LLC	0.63
GARDINER HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jul-83	Ridgewood Maine Hydro Partners, L.P.	0.61
SWANS FALLS	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Oct-98	Public Service Company of New Hampshire	0.41
KENNEBEC WATER U5	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-95	FPL Maine, LLC	0.39
BARKER LOWER HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Apr-80	Ridgewood Maine Hydro Partners, L.P.	0.39
WAVERLY AVENUE HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Apr-84	NextEra Energy Power Marke ing, LLC	0.30
BROWNS MILL HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jul-83	Ridgewood Maine Hydro Partners, L.P.	0.22
BARKER UPPER HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jul-87	Ridgewood Maine Hydro Partners, L.P.	0.22
PIONEER DAM HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Dec-85	NextEra Energy Power Marke ing, LLC	0.20
ROCKY GORGE U5	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jan-84	FPL Maine, LLC	0.18
EUSTIS HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.14
CORRIVEAU HYDROELECTRIC LLC	HYDRO (DAILY CYCLE- PONDAGE)	10-Aug-07	FPL Maine, LLC	0.07
GREENVILLE HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.04
SYSKO WIGHT BROOK	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jan-84	FPL Maine, LLC	0.03
SYSKO STONY BROOK	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Apr-00	FPL Maine, LLC	0.01
SYSKO GARDNER BROOK U5	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Feb-02	FPL Maine, LLC	0.01
DAMARISCOTTA HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.01
Orono	HYDRO (DAILY CYCLE- RUN OF RIVER)	29-Dec-08	FPL EnergyPlus, LLC	0.00
MEAD	COAL STEAM	01-Feb-90	Constellation Energy Commodi ies	0.00
TOPMOMPAGF GEN1 U5	BIO/REFUSE	01-Jun-83	TransCanada Power Marke ing, Ltd.	0.00
MARSH POWER	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Feb-86	NextEra Energy Power Marke ing, LLC	0.00
Stetson Wind Farm	WIND TURBINE	09-Dec-08	Evergreen Wind Power V, LLC	0.00
NORWAY HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-May-85	Ridgewood Maine Hydro Partners, L.P.	0.00
HACKETT MILLS HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Dec-85	Constellation Energy Commodi ies	0.00
J & L ELECTRIC- BIOMASS I	BIO/REFUSE	01-Nov-84	NextEra Energy Power Marke ing, LLC	0.00
GREAT WORKS COMPOSITE	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Mar-84	Ridgewood Maine Hydro Partners, L.P.	0.00
MECHANIC FALLS HYDRO	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Nov-84	Ridgewood Maine Hydro Partners, L.P.	0.00
LEWISTON CANAL COMPOSITE	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jan-20	FPL Energy Maine Hydro LLC	0.00
SPARHAWK	HYDRO (DAILY CYCLE- RUN OF RIVER)	01-Jun-85	FPL Maine, LLC	0.00
J & L ELECTRIC- BIOMASS II	BIO/REFUSE	01-Aug-04	NextEra Energy Power Marke ing, LLC	0.00
Crossroads Landfill	BIO/REFUSE	31-Dec-08	Madison Electric Works	0.00
No Asset(3)	WIND TURBINE	09-Dec-08	Evergreen Wind Power V, LLC	-

Northern Maine Generators:

Note - in addition to the above, the following generators are located in northern Maine and are not part of ISONE

Facility	Owner	Fuel Type	Capacity (MW)
Boralex Ashland	Boralex	Biomass	38
Boralex Ft Fairfield	Boralex	Biomass	32
Tinker	Integrys	Hydro	35
Caribou Steam	Integrys	Oil	23
Diesel Units, various locations	Integrys	Diesel	17
Mars Hill	UPC Wind	Wind	42

Electric-Appendix B

Background and Summary of 2009 Activity in Other States

The Restructuring Act directs the Commission to report on activities in other states associated with changes in the regulation of electric utilities. The restructuring activity in the mid- to late-1990s led to development of competitive electricity markets in more than twenty states. Since that time, a number of states have reversed, suspended or modified restructuring actions and several restructured states have taken steps to delay implementation of a fully competitive retail market.

As of September 2009, eight states (Arizona, Arkansas, California, Montana, Nevada, New Mexico, Oregon, and Virginia) had suspended restructuring. In the remaining restructured states (Connecticut, Delaware, the District of Columbia, Illinois, Maine, Maryland, Massachusetts, Michigan, New Jersey, New Hampshire, New York, Ohio, Pennsylvania, Rhode Island, and Texas), several states continue to have rate stabilization programs in place (Ohio, Pennsylvania) or have postponed the full introduction of retail electric competition in portions of the state (Texas) and several have seen recent legislative activity directed toward partial re-regulation of electricity markets (Maryland, Connecticut).

Generally, developments, legislative activity and public attention during 2009 in deregulated states focused on efforts to address continued high electricity costs compared to non-restructured states; the expiration of rate stabilization plans and the impact on retail electricity rates; and resource planning and future need for generation. Average retail electricity rates in restructured markets remain above national averages in all of the restructured markets and from 2007 to 2008, five of the top six rate increases were in deregulated states (Rhode Island, 3.01 cents per kWh increase; New Jersey, 1.90 cents; District of Columbia, 1.70 cents; New York, 1.52 cents, and Maryland, 1.51 cents). Economic conditions during the later part of the year dampened the ongoing concern about retail prices as slack demand for electricity across the country led to some of the sharpest reductions in power prices in recent years. Spot market prices in the PJM area were off 40% during the first half of 2009 and all markets, regulated or restructured experienced declines in demand and reductions in fuel prices from the conditions that existed in 2008.

Examples of specific activity during 2009 are provided below:

ISO-NE

- Connecticut: Migration statistics as of August 31, 2009 show that 13.5% of customers overall in the two largest transmission service territories in the state have chosen an electric supplier. Large and small business customers dominate the statistics, but even in the residential class a relatively substantial number of customers have switched, almost 10% for Connecticut Light & Power and 14% for United Illuminating. During the 2009 legislative session, various bills were introduced directed toward lowering electricity rates, including the creation of a public power authority. The Connecticut Electric Authority would be a quasi-

public agency with the power to enter into contracts with electric suppliers in order to buy power directly.

- Massachusetts: As of August, 2009, statistics reported by the state Department of Public Utilities indicate that more than half of the state's load continues to be provided by competitive suppliers, with the largest proportion of that in the industrial sector. In addition, approximately 15% of its residential load is supplied in the retail competitive market, an increase from 10% at the end of 2007.

PJM Region:

- Maryland: After a report issued in late 2008 by the Maryland Public Service Commission found that "the public interest is not served by deregulation that requires the commission to wait passively for market forces to deliver a reliable supply of electricity at reasonable rates," legislation was introduced to partially re-regulate the utility industry. The legislation required any electric generation facility constructed in the state after July 1, 2009 to be owned by an electric transmission company or a consortium of electric transmission companies and authorized the PSC to order utilities to build new generating plants if necessary to meet the state's needs. The legislation was not enacted, but Maryland Governor O'Malley has announced plans to push for re-regulation in the upcoming session. Facing no new generation or unexpected delays in ongoing transmission projects, Maryland officials continue to project power shortages by 2012.

- Michigan: A 2008 state energy law revised Michigan's implementation of a competitive electricity market by placing a 10% cap on migration from large utility providers. Just ten months after the cap was enacted, Consumers Energy announced that the limit had been reached and business customers seeking to obtain power from competitive electricity suppliers were being placed on a waiting list. Consumers Energy cited lower demand in the manufacturing sector which led to lower prices in the wholesale market as the reason for the growth from 3% to 10% in customers choosing competitive suppliers.

- Pennsylvania: With rate caps scheduled to expire on January 1, 2010, PPL Electric Utilities announced plans to increase residential electric rates nearly 30%. The Pennsylvania Public Utilities Commission approved a rate phase-in plan that attracted more than 100,000 PPL customers who are making prepayments in anticipation of the large increase. The Legislature is not expected to act to extend the expiration of the PPL rate caps before expiration. Controls in the eastern and western parts of the state will expire on January 1, 2011.

- Ohio: An amendment to the Ohio restructuring law signed in 2008 extended rate stabilization plans that had been due to expire at the end of 2008. The new law

incorporates a system under which rates are set by the Public Utilities Commission of Ohio and outlines a path to implement market based pricing. Utilities were required to submit electric security plans extending rate stabilization programs through the end of 2011.

NYISO Region:

- New York: Residential migration continued to grow to 18.2% of the load in August 2009, according to the New York State Public Service Commission. Overall, just under half of the state's total load was served by competitive electricity providers.

ERCOT

- Texas: Legislation passed in August postponed the introduction of retail electric competition in the southeastern portion of the state and the integration of the area into ERCOT citing concerns that the benefits would outweigh the costs and the potential for increased retail electricity rates. Separately, a comprehensive report on the ten year history of deregulation in Texas cited higher prices, wholesale market abuses and flaws in the deregulated market as reasons to support a package of legislation introduced early in 2009 to reform the restructured market and lower electricity prices.

NATURAL GAS

GAS REGULATION IN MAINE[2]

The Commission approves the service terms and rates charged by Maine's natural gas utilities to ensure that they are reasonable and just. In addition, the Commission investigates and approves proposed sales, acquisitions or mergers among corporations owning gas utilities doing business in the State. The Commission also reviews and analyzes gas purchasing strategies and pricing options that can stabilize natural gas prices that Mainers pay.

There are three natural gas local distribution utilities serving Maine. Unitil f/k/a Northern Utilities, Inc. (Unitil) serves the south-central area, primarily in greater Portland and Westbrook, greater Lewiston/Auburn and Biddeford, Saco and Kittery. Unitil and its predecessors have served Maine for over 150 years and have approximately 27,000 customers. The Commission approved the sale of Northern by NiSource, Inc. to Unitil Corporation, a New England electric and gas corporation; the transaction closed on December 1, 2008. Two other gas companies began service in 1999. Maine Natural Gas Corporation (Maine Natural Gas) serves primarily in the Windham, Gorham, Brunswick and Topsham areas. Bangor Gas Company, LLC (Bangor Gas) serves the greater Bangor area, including Orono, Old Town, Brewer and Bucksport.

In addition to its rate and service responsibilities, the Commission oversees the safety aspects of intrastate natural gas utility operations and facilities, as well as of certain propane facilities, by conducting inspections and enforcing utility compliance with State and federal safety regulations.

KEY EVENTS

- United States natural gas market prices declined in 2009 to a seven-year low of under $2.50 per million British thermal units (MMBtu) due to weak demand during the recession and strong shale gas production that filled storage to record levels.
- Maine residential gas consumer's 2009 – 2010 Winter Period rates are 21% lower than 2008 - 2009 Winter Period levels and are 24% less than heating oil on an equivalent heat value basis.
- The number of Maine consumers converting to natural gas continued to be strong in 2009 because its favorable price value as a heating and commercial process fuel compared to the relatively high world price of oil and its derivative fuels.

[2] This section includes the Commission's Annual Reports on Gas Conservation Programs required pursuant to 35-A MRSA § 4711(5) and Natural Gas Alternative Ratemaking Mechanisms required pursuant to 35-A MRSA § 4706(9) which were consolidated into the Commission's Annual Report required pursuant to 35-A MRSA § 120 as part of PL 2009, Chapter 122 enacted during the First Regular Session of the 124th Maine Legislative Session.

- Two major interstate natural gas infrastructure developments that will benefit the Northeast region began service in 2009. The Canaport LNG Import & Storage Terminal in St. John New Brunswick provides another major supply resource for the region. The Maritimes & Northeast Pipeline "Phase IV" expansion, which doubled its capacity, was built to deliver the Canaport gas to consumers in Maine, New Hampshire, and Massachusetts.
- Maritimes & Northeast proposed to lower its mainline rate 23%, from $0.78 per dekatherm to $0.60 per dekatherm, and to increase and reformulate its compressor Fuel Retainage Quantity (FRQ) charges in a manner that would result in Maine shippers subsidizing deliveries south of Maine. The case is pending before FERC.
- The Commission approved a three-year phased base rate increase (12%, 10% and 10%) for Maine Natural Gas beginning January 1, 2010, in order to allow the utility an opportunity to earn a reasonable return on its capital investment. Second and third year increases are conditioned on need as measured by the company's actual revenue levels and prior year financial performance.
- Unitil completed implementation of Automated Meter Reading technology ahead of schedule for monthly readings beginning November 1, 2009.
- Unitil implemented numerous improvements to operations and safety practices that were identified in the Commission-directed Management Audit of Northern's practices under its prior owner, NiSource.
- Unitil completed or advanced several safety compliance actions required by a comprehensive settlement of nine alleged safety violations which was approved by the Commission in late 2008.

INDUSTRY TRENDS

Regional Issues

Over the last ten years Maine, New England and the nation saw increased demand for gas for electric generation and other uses. Gas-fired electric generation plants located in Maine consumed approximately 74% of the natural gas used in Maine in 2007. This heightened demand for gas raised interest in liquefied natural gas (LNG) and numerous import facilities have been proposed along the East and Gulf coasts, including two terminals proposed for Washington County that are under review by FERC.

Two natural gas supply and infrastructure projects that will affect Maine's gas consumers went into service in 2009. The Maritimes & Northeast Pipeline's Phase IV expansion, which doubled its capacity, began service on January 15, 2009. The Maritimes expansion allows it to bring LNG imports from an import and storage facility in New Brunswick (Irving's Canaport) to Northeast markets, which initiated service in 2009. As a result of the expansion, Maritimes has proposed to reduce pipeline rates 23%. The Commission has urged the FERC to grant distance-based compressor fuel charges to ensure that Maine consumers do not subsidize service costs for gas consumers in southern New England.

While interstate facilities such as Maritimes & Northeast may be regulated by federal authorities, the Commission works with state and federal agencies involved in the construction and regulation of these entities to ensure appropriate and adequate, but not onerous, public review of issues that fall within the Commission's purview. Those may include rates interstate pipeline companies charge Maine shippers and consumers, service terms, regional energy policy directives, and safety issues. Rate change proposals filed by the Portland Natural Gas Transportation System and Maritimes & Northeast Pipeline are currently undergoing review before FERC.

Security

Commission staff continued in 2009 to participate in weekly New England Governor's Conference Summer and Winter Fuels Monitoring Calls. The Commission also contributes to the Maine Emergency Management Agency's efforts to ensure adequate preparation by utilities that are vulnerable to winter fuel shortages, lost work force due to a pandemic, the threat of terrorist attack, or drastic price spikes.

Competitive Gas Supply

Since 1999, commercial and industrial customers have been free to enter into competitive gas supply arrangements, taking delivery-service only from the utility that operates local distribution pipelines. Over half of all deliveries made by Maine's three natural gas utilities in 2007, not including deliveries to electric generators, were supplied by competitive gas providers.

However, mandatory capacity assignment charges in place since 2006 have made it less cost effective for some customers to purchase gas from a competitive supplier causing them to return to utility sales service. The Commission will continue to monitor the progress that gas supply competition is making in Maine and the region and the effect of Maine's regulatory policies on these markets.

Gas Service Quality Issues

The Commission actively monitors customer service and safety standards to ensure adequate performance by the merged companies. The Commission has developed incentive mechanisms, conditions on reorganizations, and other methods that aim to improve or maintain customer service and safety standards for Maine's largest gas utility (Unitil f/k/a Northern). The Service Quality Plan (SQP) requires Unitil to maintain specified levels of service performance for eleven measures or be subjected to monetary penalties.

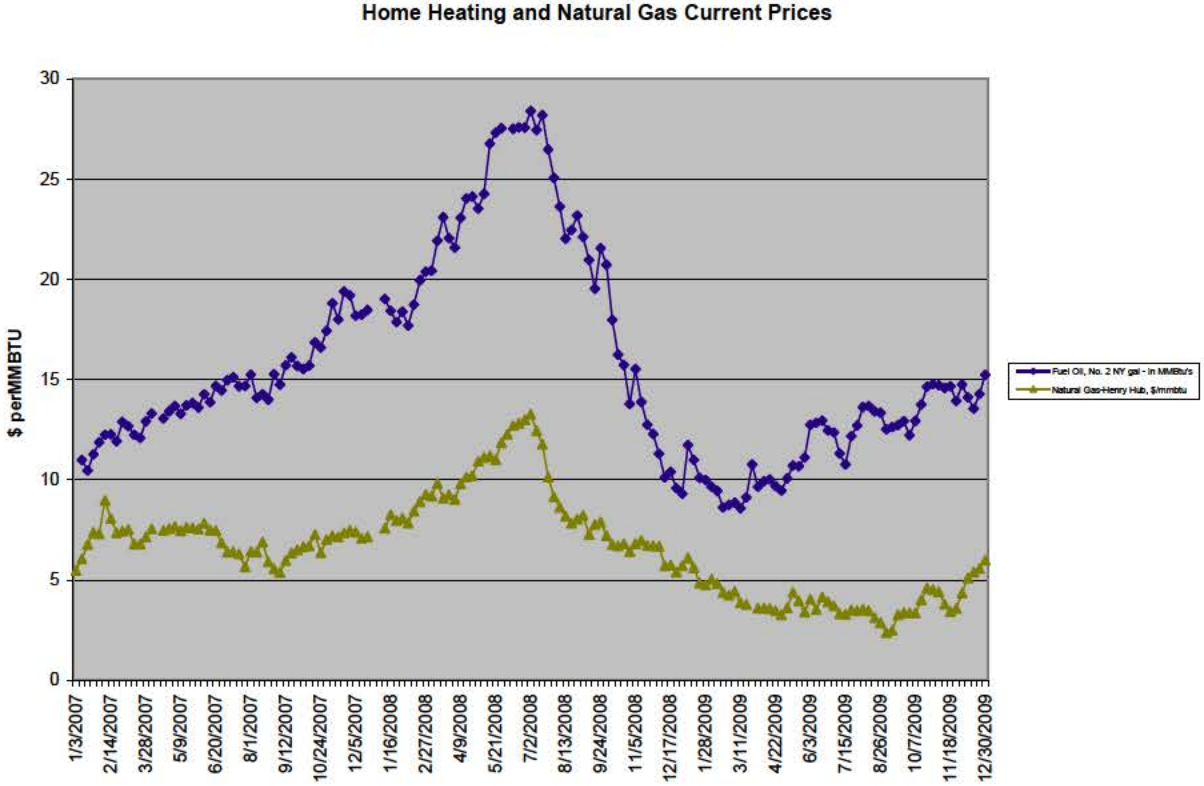
Consumer Prices

By statute, Maine gas utilities may pass through the cost of gas supply used to serve their customers, with no profit adder. To a large degree, the cost of the gas that utilities purchase is determined by the world gas market price on the date of purchase. Market prices reflect the relationship between supply and demand. The Commission reviews all proposed gas utility cost of gas rates to ensure that the rate accurately reflects the utility's gas costs. All three gas utilities offer consumers the option of even monthly payments year-round, to assist consumers in managing the effects adverse market conditions have on gas bills.

In 2006, spot market prices for natural gas ranged from approximately $4.00 to $8.50 per MMbtu, averaging approximately $6.50 for the year. The year 2008 first brought increasing prices, from about $8.00 to $14.00 per MMBtu, then decreases to

around $6.40 per MMBtu. In 2009, with new shale gas reserves production and depressed demand, gas market prices reached 7-year low levels, of around $2.50 per MMBtu. A quiet hurricane season and record national gas storage levels allowed natural gas prices to stay below $5.00 per MMBtu as winter approached.

While decreased prices are welcome news, gas prices are susceptible to spiking if extreme weather events or other supply disruptions occur. The chart below shows NYMEX natural gas and heating oil prices on a heat value basis for 2007 through 2009.



The chart above also demonstrates the relative economy of natural gas when compared to current heating oil prices. In 2008 and 2009, many Maine residents turned to natural gas as an economical heating fuel.

The effects of Unitil's hedging program and its gas purchasing strategies continued to help stabilize gas commodity rates for customers again during the winter of 2008-2009. Dramatically lower natural gas market prices in 2009 resulted in average winter bill reductions of 21% for residential consumers for the 2009-2010 winter season compared to last winter.

Low-Income Program

The Commission approved Maine's first natural gas utility charge discount, with Unitil's agreement, beginning December 2008. The discount is 30% of total service charges for all customers that are eligible for all Low Income Home Energy Assistance Program (LIHEAP), pursuant to 35-A MRSA § 4706-A. Unitil will submit program costs for rate recovery the next time it comes in for a base rate adjustment after 2010.

MAJOR CASES AND EVENTS

Automated Meter Reading Technology

In 2008, the Commission approved a settlement in Docket No. 2002-140 to address Northern Utilities' failure to obtain timely meter readings in which Northern agreed to implement Automated Meter Reading technology for use no later than January 1, 2010. In 2009, Unitil completed installation of automated meter-reading technology on all of its Maine customer meters. Of the total AMR program investment of $1.9 million, $316,000 will be borne by shareholders. This technology enables Unitil to convert Northern's previous bi-monthly estimated billing practice to monthly billing as required by Chapter 815 of the Commission's Rules. Monthly billing is considered more accurate and acceptable to consumers and should alleviate billing problems that have arisen periodically. Unitil completed the installation and transitioned to monthly automated reading and billing two months ahead of schedule on November 1, 2009.

Conservation Programs

Unitil continues to offer gas conservation programs that provide rebates to residential and commercial gas customers who install high-efficiency heating or water heating equipment, ENERGY STAR programmable thermostats or windows and commercial and industrial infrared heating units or food service equipment. Unitil also offered comprehensive weatherization for eligible residential low-income heating customers, in conjunction with Community Action Program (CAP) agencies. Unitil offered residential heating customers a rebate of up to $25 for weatherization and water-usage reduction materials purchased and installed by the customer.

Unitil spent approximately $591,625 on Northern's Maine Division Energy Efficiency programs between May of 2008 and April of 2009 to serve 707 participants. The installations will save consumers much more than that in offset energy costs and will provide total lifetime energy savings equivalent to the energy needed to provide heat and hot water for 2,250 typical homes a year. The surcharge to cover these program costs in 2008-2009 was approximately 2.0 cents per 100 cubic feet (ccf) for residential customers, or about $2.00 per month on the average monthly residential gas bill to support conservation programs.

Unitil reports that its expenditures equate to a cost of $0.21 per lifetime ccf saved, compared to $1.91 per ccf for the assumed residential average retail cost of gas. Unitil is a member of GasNetworks®, a collaborative of natural gas utilities offering common energy efficiency programs in four New England states. Unitil states that the cost effectiveness of Unitil's entire portfolio of programs over the past year is 1.9 using the Total Resource Cost Test in Chapter 480 of the Commission's Rules.

During the 2009 session the Legislature enacted An Act Regarding Maine's Energy Future (PL 2009, Chapter 372) which establishes that the responsibility for delivery of energy efficiency programs will be transferred to the Efficiency Maine Trust beginning July 1, 2010. The Commission will retain authority to set the surcharge rate to be charged Unitil's customers.

Management Audit of Northern's Operations and Safety Practices

In 2007, following a number of serious incidents on Northern's system, the Commission opened an investigation and management audit of the Company's safety practices to determine whether there were systemic issues that could jeopardize safe operation of the gas distribution system. This investigation was completed in August 2008 and many of the recommended improvements were implemented by Unitil in 2009 (Docket No. 2008-155). For more information, see the Gas Safety section of this report below.

Change of Corporate Ownership and Granite State Study

In November 2008, the Commission approved the sale of Northern and its interstate pipeline affiliate, Granite State Gas Transmission (Granite State), to Unitil under a Stipulation that contained numerous provisions to ensure that the change in ownership would not adversely affect customers (Docket No. 2008-155). This included Unitil's agreement to conduct a study of whether Granite State should be merged into the distribution system and come under state regulation. In early 2010, Unitil is expected to present the results of its study to the Maine and New Hampshire Commissions and an ultimate determination of the matter is anticipated in 2010.

Other matters contained in the sale Stipulation included a rate stay-out of up to two years, and a study of the treatment of an unused harbor-front parcel of property in Portland which has undergone remediation due to pollution. The Commission anticipates that Unitil will seek a base rate increase when the stay-out expires in 2010.

Hedging Program Review

In early 2009, the Commission began to investigate the effectiveness of Unitil's hedging program (Docket No. 2008-93). A Staff Assessment questioned whether the cost of the program is warranted given the extent of rate stabilizing effect achieved for ratepayers. Unitil is currently revising its proposed improvements to Unitil's hedging program for review by the Commission.

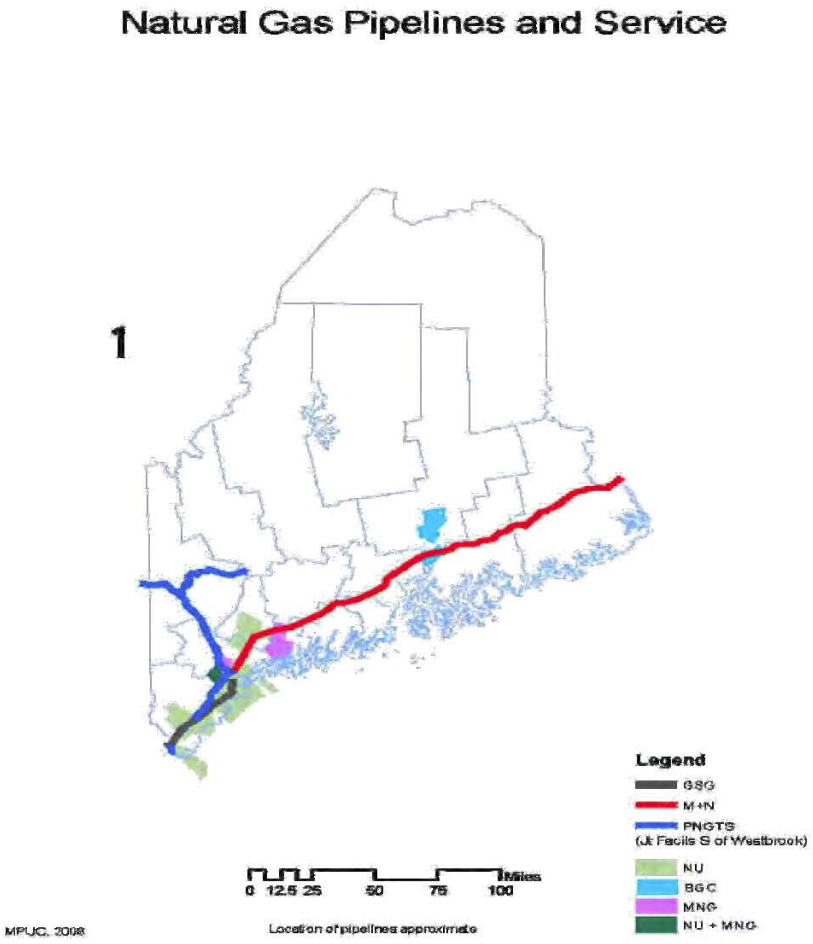
Maine Natural Gas Base Rate Case

In December 2009, the Commission approved a revised settlement with the OPA proposed to allow annual base rate increases of 12% - 10% - 10% in each of three successive years beginning on January 1, 2010, in order to allow the utility an opportunity to earn a reasonable return on its capital investment (Docket No. 2008-67). Second and third year increases are conditioned on need as measured by the company's actual revenue levels and prior year financial performance. The Commission will consider whether the full second and third year's increases are warranted if Maine Natural Gas's adjusted gross margins are 15% higher than projections. The 2010 increase will result in an overall bill impact of approximately 4% to customers.

Maine Natural Gas which began to serve Maine consumers in 1999 under a five-year alternative rate plan under which base rates did not change. With the expiration of the rate plan in 2005, the Commission approved a three-step base rate increase, allowing approximately 3% bill increase in each of three years from 2006 – 2008.

MAP OF MAINE SERVICE AREAS AND PIPELINES

The map below shows the placement of major natural gas pipelines and local gas company service areas.



Natural Gas Alternative Ratemaking Actions Taken by the Commission

The Commission is authorized by statute (35-A MRSA § 4706) 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 ratemaking 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**.**

In 1999, under this authority, the Commission implemented alterative rate plans for two natural gas utility start-up ventures, Bangor Gas Company LLC, and Maine Natural Gas Corporation, offering these entities a degree of entrepreneurial freedom not previously envisioned under Maine law. For instance, Bangor Gas Company operates under an alternative rate plan, which included 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 into special contracts without prior Commission approval. This flexible regulation encouraged expansion of natural gas service into areas that previously had no natural gas utility.

After 2000, consumers worldwide faced increased natural gas prices and market volatility resulting in significantly higher consumer bills, particularly during the winter months. From 2000 to 2004 gas spot market prices quadrupled from historic levels of approximately $2.00 per MMBtu to about $8.00 per MMBtu, punctuated with spikes to $19.00 per MMBtu in 2003. Prices stayed at $14.00 per MMBtu in 2005 after Hurricanes Katrina and Rita damaged the Gulf coast supply area then moderated to $5.00 - $8.00 per MMBtu during 2006 – 2008. In 2009, gas market prices dropped to 7-year lows of about $2.50 per MMBtu.

In 2001, the Commission approved Northern's use of a detailed hedging plan which helped stabilize its winter gas commodity rates for its customers. In May 2003, the Commission invited Maine's local distribution companies to propose pricing options that would assist customers in managing their gas bills. Under Section 4706, the Commission approved fixed and indexed price options for Maine's natural gas utilities to offer greater stability and predictability in monthly bills.

In 2005, the Commission approved monthly cost of gas adjustment mechanisms for Maine's two start-up local distribution companies to ensure more realistic price signals to consumers and to help moderate gas revenue imbalances that accrue between rate adjustment intervals. In 2006, the Commission guided the implementation of new policies, such as capacity assignment, and new services, such as non-daily metered transportation service. In 2007, the Commission approved a three-year extension of Bangor Gas' rate plan when Energy West purchased Bangor Gas from Sempra Energy. In 2008, the Commission approved a low income customer bill discount program and a two-year base rate freeze for Northern Utilities with its acquisition by Unitil from NiSource.

2009 Gas Utility Company Activity

Maine Natural Gas, L.L.C.

In 2009, the Commission approved settlement between Maine Natural Gas (MNG) and the OPA to implement a 3-phase base rate increase projected to raise an

average residential customer's bills by about 3.4% per year in three successive years, the last of which occurs on December 1, 2011 (Docket No. 2008-67). The final two increases will be subject to findings that MNG will not over-earn.

Northern Utilities, Inc.

In August 2009, Unitil proposed a number of modifications to the hedging plan designed to improve its performance and price moderating benefits to consumers. The Commission will complete its investigation during the winter 2009-2010 season (Docket No. 2008-93).

GAS SAFETY

GAS SAFETY REGULATION AND ENFORCEMENT IN MAINE

The Commission is responsible for the safety and reliability of gas distributed through 654 miles of natural gas mains. In addition, the Commission monitors the safety of nearly 900 propane gas facilities that primarily serve multi-unit housing complexes and commercial buildings and operated by approximately 50 propane distributors.

The Commission's authority for safety oversight is derived from both State and federal law. Chapter 420 of the Commission's Rules adopts federal safety regulations for pipelines that transport hazardous gases to protect the public and govern the safe operation of distribution facilities within the State. The Commission is also a certified agent for the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration (PHMSA). As such it is responsible for compliance with the federal and state regulations through operator inspections, enforcement actions, and accident investigations.

During 2009, the gas safety staff conducted natural gas distribution inspections and propane gas distributions compliance audits. They were performed to determine whether operators conformed to the design, construction, operating and maintenance requirements of the safety regulations.

KEY EVENTS

- In April of 2009, propane distributors and the Commission gas safety staff entered a Stipulation that created a process to resolve all pending federal and State safety violations. Under the Stipulation, propane distributors agreed to repair all deficiencies cited in the violations and engage in discussion with the Commission gas safety staff regarding enforcement procedures.

- In November of 2008, the Commission approved the sale of Northern Utilities and its interstate pipeline affiliate, Granite State, to Unitil under a Stipulation that contained numerous provisions to ensure that the change in ownership would not adversely affect customers. Pursuant to the Stipulation, in 2009, Unitil has conducted a series of engineering and costing studies regarding the potential integration of Granite State and Unitil in collaboration with the Commission Staffs and Offices of the Public and Consumer Advocates of Maine and New Hampshire. The final report with recommendations will be filed in early 2010.

INDUSTRY TRENDS

In 2005, PHMSA identified excavation incidents as a primary cause of damage to pipeline facilities. Since then, PHMSA has worked with industry groups to decrease the occurrence of excavation related damage to underground facilities and encouraged states to modify damage prevention programs to implement industry best practices that have been identified by the Common Ground Alliance (CGA). PHMSA continues to encourage and support state efforts to decrease damage incidents related to excavation

through grants for damage prevention programs at the state level and coordination with stakeholder groups such as CGA.

MAJOR CASES AND EVENTS

Unitil's Operations and Safety Practices

On October 9, 2007, the Commission initiated a broad investigation (Docket No. 2007-529) into whether recent accidents and incidents were an indication that Northern (now Unitil) may not be providing "safe, reasonable, and adequate service to customers in Maine," as required by Maine law. This investigation was concluded in August 2008. The Commission obtained Unitil's agreement to implement the proposed 26 recommendations upon its acquisition of Northern which include improving managerial practices, safety training, improving mapping accuracy and facility record-keeping.

Also in 2008, the Commission concluded its investigations of several serious gas incidents associated with Northern's gas distribution system and issued nine Notice of Probable Violations (NOPVs) to Northern, pursuant to gas safety rules and federal regulations, over a period of time between December 2006 and May 2008. As a result, Northern agreed to implement a series of compliance actions and system improvements costing approximately $3.5 million.

Commission staff met regularly with Unitil in 2009 to monitor progress and compliance with these orders.

Cast Iron Replacement

In 2008, pursuant to a Commission Order in Docket 2000-322, Northern completed the replacement of 64 miles of cast iron piping in the Lewiston-Auburn area with more reliable plastic piping. In late 2009, Unitil submitted its study for a cast iron replacement program in the Portland area that will result in 62 miles of cast iron, 13 miles of unprotected and wrought iron, 38 miles of plastic pipe and 13 district regulator stations replaced over either 8, 12, or 20 years (Docket No. 2008-151). The Commission will review the costs and benefits of the plans and alternatives and issue a decision in 2010.

Rulemakings

In late 2009, the Commission issued a Notice of Rulemaking (Docket No. 2009-392) and anticipates opening a companion rulemaking in early 2010 in order to propose a series of revisions to the gas safety rule (Chapter 420). Significantly, the Commission proposes to split Chapter 420 into two rules: Chapter 420 will remain the natural gas safety rule and a new rule, Chapter 421, will contain the liquid propane gas (LPG) safety provisions. These rulemakings will be completed in 2010.

WATER

THE WATER INDUSTRY IN MAINE

There are more than 150 water utilities in Maine which fall into three categories: water districts, water departments and investor or privately owned companies. Water districts are quasi-municipal entities formed through Private and Special Laws enacted by the Legislature. Water districts may serve more than one municipality. Water departments are a part of a local municipality. The water districts and water departments are considered "consumer-owned" and are not-for-profit entities. Privately owned water companies are owned by shareholders and are "for-profit" entities.

The Commission regulates the rates and services of water utilities. The Department of Health and Human Service's Drinking Water Program regulates water quality through the enforcement of the Federal Safe Drinking Water Act. Finally, the Department of Environmental Protection is also involved in water utility issues, for example, with regulations on water sources.

KEY EVENTS

- During 2009, the Commission addressed a number of water rate cases. The Commission conducts investigations for all rate cases initiated pursuant 35-A M.R.S.A. § 307 and for rate cases initiated pursuant to 35-A MRSA § 6104 when 15% or more of a water district's customers file a petition the Commission requesting an investigation of the rates filed by the utility. In petitioned cases pursuant to Section 6104, customers often express a general dissatisfaction with the district's plans to increase rates.

- One of Maine's larger water utilities, Kennebunk, Kennebunkport and Wells Water District (KKWWD) filed a rate design case based upon a cost of service study. The rate design allowed the Commission to evaluate the rates for both seasonal and year-round customers of KKWWD. On February 10, 2009, the Commission approved settlement of this rate design case.

- KKWWD also submitted a comprehensive engineering plan in the context of a case in which the Commission sought to evaluate the efficacy and fairness of KKWWD's System Development Charge (SDC). The SDC is a fee assessed on new customers (or customers with significantly increased demand for water) to help defray the costs of growth-related construction projects. Submission of the comprehensive plan allowed the Commission to evaluate the reasonableness of the existing charge and the case was settled by a Stipulation between KKWWD and interveners which was approved by the Commission on August 25, 2009.

- On April 10, 2009, after one of the smaller water utilities in Maine, Baileyville Utilities District, requested a residential rate increase of 84.31% (34.10% overall), the Commission conducted an extensive investigation into the District's rates

(Docket No. 2009-135). The primary factor supporting the District's proposed rate increase was the closing of the Domtar plant in Baileyville. During the course of the investigation, the plant reopened and the District was able to modify its rates schedule accordingly. The Commission approved a Stipulation on September 29, 2009, thereby approving a 8.26% rate increase.

- During 2009, as part of the ARRA, the Drinking Water State Revolving Fund (DWSRF) obtained additional funding to support its loan and principal forgiveness programs. DSWRF was thus able to offer principal forgiveness of at least 30% and a 0% interest rate for loans to qualifying water utilities for necessary capital projects subject to ARRA approval timelines. Pursuant to 35-A MRSA §§ 901 and 902, the Commission must approve all security issuances with terms greater than 12 months. The Commission approved forty-six water security issuances during 2009. The majority of these issuances were a result of the availability of ARRA funding. Based upon the information filed with the Commission in support of the various requests for the issuance of such indebtedness, the Commission expects that many of the districts which obtained such financing will likely be filing for rate increases during the next two years.

INDUSTRY TRENDS

Increasing Costs

Water utilities have been facing increasing costs for a number of years. These costs include common operating expenses such as electrical power and fuel. Other costs, such as chemical treatment, have also been rising due to manufacturing processes, cost of raw materials and shipping costs.

One of the largest costs for a water utility, however, is the cost to repair or replace infrastructure. Many water utilities have been serving customers for many years, some for more than a century, and the infrastructure that was built long ago is now reaching the end of its useful life. New infrastructure costs are allowed in rates over the life of the plant through depreciation. In addition, consumer-owned water utilities may also include in rates the full debt repayment for these projects. As a result, new infrastructure needs can drive substantial rate increases to water utility customers.

Loss of Major Customers

The major portion of the customer base for most water utilities is residential. However, water utilities with an industrial base have seen a decrease in water sales due to either the shut-down or slow-down of these operations. As a result, some utilities have to shift costs to the remaining customers, causing even larger rate increases.

Water Conservation

A large part of operating a water utility focuses on water conservation. Some conservation happens inside the utility. This type of conservation is gained primarily through leak detection on water mains, then the repair of any leaks, and monitoring of system water usage.

The other way a water utility promotes water conservation is through education of its customers. This might include posters, newsletter and bill stuffers telling customers

how they can reduce their water consumption. Some water utilities offer, at cost, low-flow shower heads and other kits that can help customers reduce their usage.

MAJOR CASES AND EVENTS

KKWWD Cost of Service & Rate Design

In 2007, the Commission approved a Stipulation which required KKWWD to conduct a Cost of Service Study (Study) and, if warranted, submit a new rate design (Docket No. 2008-228). This study would determine the total cost to provide water service and the proper allocation to current customers by class and other similar characteristics. The allocation is the basis of the rate design used to establish rates. The costs included in a Cost of Service study are capital costs (through depreciation and debt service) and operating costs necessary to provide water service to the District's customers. These costs make up the utility's revenue requirement to be recovered from its customers.

KKWWD submitted its study on May 16, 2008. The rates, as proposed, were intended to allocate costs between year-round ratepayers and seasonal ratepayers. Parties to the case settled on January 14, 2009 and stipulated that KKWWD would adopt a voluntary curtailment program for large users, an annual service fee to seasonal customers and a provision that allows KKWWD to file for a seasonal rate. The Stipulation was approved by the Commission on February 10, 2009 (Docket No. 2009-135).

KKWWD Comprehensive Plan and System Development Charge

Also in 2007, the Commission ordered KKWWD to perform a Comprehensive Engineering Plan (Plan) in support of its existing SDC and any necessary modification to that charge. The basis for the calculation of a SDC is a Comprehensive Engineering Plan which looks at the future capital needs of a water utility taking into account projects necessary due to estimated growth. In calculating the SDC, the cost of projects are allocated to both existing and future customers, depending on the project.

KKWWD submitted its Study on August 28, 2008 in Docket 2008-345 and the investigation into the Plan and the proposed SDC. The investigation into the study and the proposed rates was settled on July 9, 2009 and the Stipulation was approved by the Commission on August 2, 2009. The Stipulation allows KKWWD to adjust the SDC at a set amount per meter for one time and then annually adjust the SDC based upon construction costs.

Aqua Maine, Inc, Camden Rockland Division Rate Case

On May 7, 2009, Maine's largest privately owned water company, Aqua Maine, Inc – Camden & Rockland Division (Aqua Maine), filed a request for a 7.28% rate increase (Docket No. 2009-155). The basis for the rate increase was to secure additional annual revenue to cover increased operating expenses and the bond

payments associated with indebtedness obtained for the purpose of funding the construction of a new water storage tank.

The OPA and a local large business, FMC Corporation, intervened. Parties settled the case on September 16, 2009. The Stipulation provides for an increase of 5.5% over current revenues. The Commission approved the Stipulation on September 29, 2009. As part of the Stipulation, Aqua Maine informed the other parties that it intends to request approval from the Commission to file for an increase in rates less than a year after its most recent rate case. The Stipulation provided that the other parties would not oppose this request. This filing for an increase in rates, planned for January 2010, is intended to ensure sufficient revenue to cover the costs of a new water treatment filter plant.

DIG SAFE

UNDERGROUND FACILITY DAMAGE PREVENTION AND ENFORCEMENT IN MAINE

The Commission enforces Maine's underground facilities damage protection law, called "the Dig Safe Law" (23 MRSA § 3360-A). The law is intended to prevent damage to underground utility facilities, such as gas lines, water lines, or underground telecommunications and electric equipment, to avoid the associated safety hazards, service interruptions, and costs.

Under the Dig Safe law and the Commission's Rule (Chapter 895) any person or company planning to excavate near underground facilities must follow certain safety procedures, and must notify the facility owners of the planned excavation. Large utilities can be notified through the inter-state Dig Safe Systems Inc. by calling 1-800-DIGSAFE, or online at www.digsafe.com. Municipal utilities and other non-members can be located through the Commission's OKTODIG program by calling 1-800 OKTODIG or online at www.oktodig.com. Utilities have an obligation to locate and mark their underground facilities in accordance with the Dig Safe law so that excavators will be sufficiently aware of their location when they are digging. Violations of the Dig Safe law and Chapter 895 must be reported to the Commission, which then investigates and determines the appropriate enforcement action. The Commission also holds training programs, both at the Commission and on site at excavators or operator's request, and provides public education materials to improve awareness and effectiveness of the law.

KEY EVENTS

During the 2009 legislative session, the Chairs of the Utilities and Energy Committee directed the Commission, by letter, to seek input from stakeholders on several areas of the damage prevention law. In response, on November 2, 2009, the Commission issued a Notice of Inquiry (Docket No. 2009-371) into these issues and invited excavators, facility operators and other interested parties to comment on the Commission's current practices in this respect.

INDUSTRY TRENDS

Telecommunications facilities have continued to experience the most damage related to excavating. This can be attributed, at least in part, to the fact that there are more telecommunications facilities underground than the others. Natural gas and electric facilities have stayed well below the telecommunications industry rate of incident on an average five year period.

MAJOR EVENTS

In 2009, the Commission initiated more aggressive enforcement measures through the assessment of higher penalty levels to curb activities that placed people and underground services at risk. The action was taken in response to recent damage

incident activity that resulted in increased concern for the safety and welfare of the public, and the uninterrupted delivery of utility services to customers and ratepayers. The Commission now imposes penalties up to $5,000 involving egregious or repeat offenders that demonstrate complacency or an unwillingness to comply with the safety requirements set forth in the Dig Safe law. Additionally, the Commission has added a second Damage Prevention Investigator to its staff. As a result, the Commission has been able to increase its response time when a facility is reported to have been damaged. The Commission has begun to check worksites for compliance with the requirements of the Dig Safe law prior to a damage incident occurring.

Reported Incidents by Industry	2007	2008	2009
	419	307	315
Electric	67	66	62
Gas	62	36	42
Telecomm	133	112	121
Water	54	34	58
Sewer	10	7	10
CATV	59	39	30
NOPVs Issued**	307	265	305
Penalties with NOPVs	$213,500	$257,950	$278,600
Penalties Waived with Training***	$41,000	$42,750	$64,400
Penalties Not Waived	$172,500	$219,200	$212,200
Excavator Violations	179	150	170
Operator Violations	153	124	134

* Includes outstanding damage incidents under investigation

** Notice of Probable Violation (NOPV). Recipients of NOPVs issued by Dig Safe staff may negotiate a settlement to be approved by the Commission. If settlement discussions are not successful, the Commission may initiate an adjudicatory investigation that can result in penalties.

*** When warranted, the Commission may waive penalties but require training for the recipients of NOPVs.

Public Awareness, Training and Education

The Commission continues to work with utilities, excavators, the regional Dig Safe organization, and private property owners to promote education and training about how to reduce and prevent damage incidents involving underground facilities and ensure the safety of residents and property located near those facilities.

In March 2009, the Commission completed its fifth season of working directly with the Managing Underground Safety Team (MUST), which includes Maine Dig Safe members, excavating contractors and underground facility location workers. Training seminars were held in Presque Isle, Bangor, Augusta, Freeport, Sunday River and Wells. Discussions focused on safe work practices around underground facilities, compliant excavation site and underground facility markings, the design of various underground facilities and the risks involved when proper damage prevention steps are not taken.

The Commission also sponsored 23 certification and/or informational sessions at various businesses, organizations, trade shows and the Commission. The Commission remains committed to providing training and education for any individual or organization seeking assistance in understanding the roles and responsibilities of excavators, facility operators, the regional Dig Safe organization and the Commission.

EMERGENCY SERVICES COMMUNICATION BUREAU

E9-1-1 SERVICES IN MAINE

The Emergency Services Communications Bureau (ESCB) manages the statewide Enhanced 9-1-1 (E9-1-1) system, which is the component of the statewide emergency response system that displays the telephone number and physical location of an E9-1-1 caller to the call-taker at a Public Safety Answering Point (PSAP).

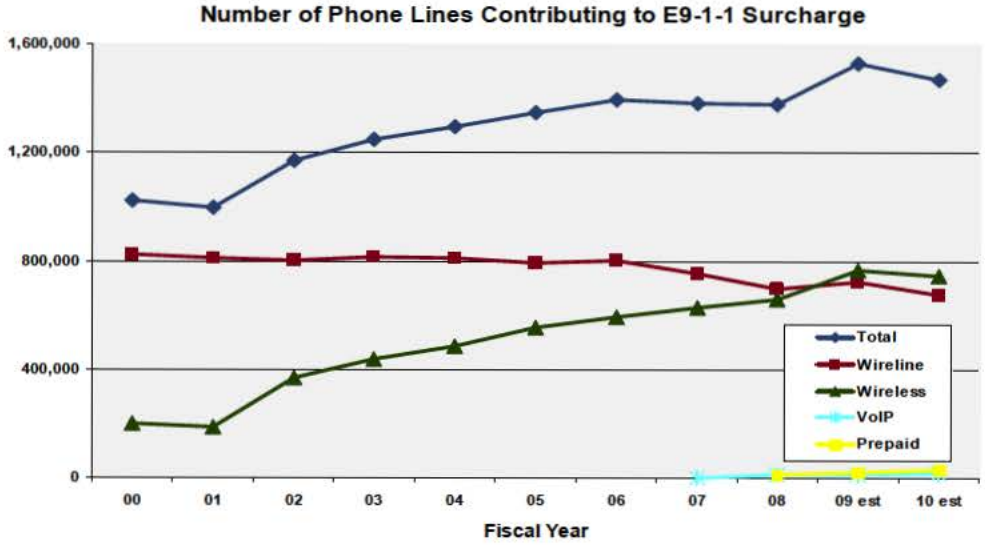
KEY EVENTS

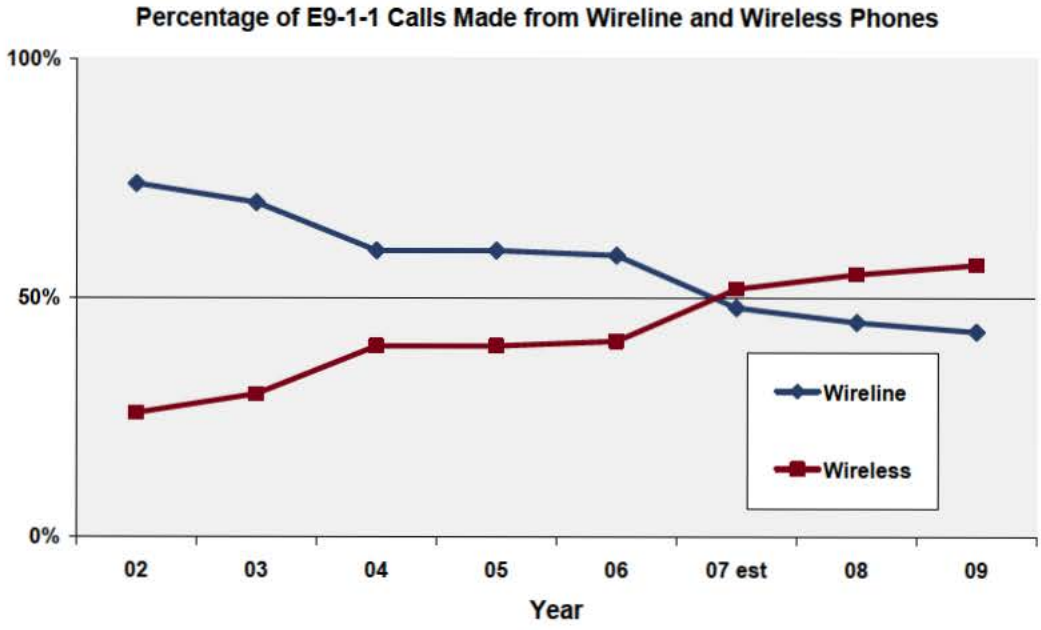
- The ESCB oversaw the successful cutover of E9-1-1 services from Verizon to FairPoint.
- Implementation of a single statewide Emergency Medical Dispatch (EMD) contract began, ensuring statewide standardization of emergency medical protocols by each PSAP call-taker.
- The Legislature increased the E9-1-1 surcharge rate from 30 cents to 37 cents per line per month beginning July 1, 2009.
- The Legislature enacted a law changing the methodology for collecting surcharge on pre-paid wireless services to point-of-sale effective January 1, 2010.
- The Legislature enacted a law requiring ESCB to report by February 1, 2010 on the Optimum PSAP configuration for Maine.
- Local exchange carriers implemented E9-1-1 access service, providing 9-1-1 access to residential accounts involuntarily disconnected. A separate report dated December 31, 2009, provides an evaluation of the first year.

INDUSTRY TRENDS

- Nationally and in Maine, wireless phones have accounted for an increasing portion of E9-1-1 calls and payments of the E9-1-1 surcharge.
- E9-1-1 governing authorities across the United States continue to look for funding solutions outside of a surcharge on phone lines as more types of devices are capable of accessing 9-1-1 networks.
- The overall number of lines assessed an E9-1-1surcharge dropped in 2009. There was a decrease in both total landlines and total wireless lines. (See tables below)

- For the third year in a row, there were more E9-1-1 calls made from wireless phones than wireline phones in Maine.





MAJOR CASES AND EVENTS

Transition of Verizon to FairPoint Communications

As further detailed in the Telecommunications section of this report, on April 1, 2008, FairPoint completed a transaction in which it assumed the local exchange and some long distance services formerly provided by Verizon New England. This sale was a significant event for the ESCB because Verizon had been the statewide E9-1-1 service provider.

Throughout 2008, the ESCB monitored FairPoint's development of its own E9-1-1 systems and procedures for transferring control from Verizon to FairPoint's systems. ESCB's focus was on attaining an effective and seamless transition, and ensuring that no emergency call to 9-1-1 went unanswered. The ESCB participated closely in the E9-1-1 cutover that took place in January 2009. During that month, the most critical component of the E9-1-1 system, the address database, which allows a call-taker to identify a caller's location, moved from Verizon's to Intrado (FairPoint's chosen provider). The transition was a success and no calls were missed.

The ESCB continues to closely monitor the performance of FairPoint and its partner Intrado to insure that it meets the terms of the E9-1-1 contract and to ensure that the financial and customer service issues do not adversely impact the E9-1-1 system.

Optimum PSAP Design

Legislation enacted last session (PL 2009, Chapter 219) directed the ESCB to prepare a report on the Optimum PSAP Design. The consulting firm of L. Robert Kimball and Associates is assisting with the research and a report will be presented to the Utilities and Energy Committee on February 1, 2010. The study will analyze various PSAP configurations taking into account the benefits and consequences from an economic, policy, and stakeholder perspective, as well as the impact of migration to Next Generation 9-1-1.

Next Generation 9-1-1

New communications media enable people to send and receive text messages, photographs, and streaming video with handheld devices using IP technologies for transmission. Automatic crash notification systems such as OnStar™ can automatically report motor vehicle accidents, and even provide information on the accident such as potential injuries. Yet none of these technologies has access to the current E9-1-1 system. "Next Generation 9-1-1" service (NG9-1-1) is a dramatic change in 9-1-1 that will allow call-takers to receive and recognize the location of 9-1-1 calls from any of these devices. It will do so by moving from decades-old analog technologies to modern, digital Internet Protocol (IP) technology. The ESCB has retained L. Robert Kimball and Associates to develop recommendations on a NG9-1-1 network as well as a migration plan that will allow Maine to most efficiently transition to the new network taking into account the Optimum PSAP design that will be part of the February 2010 report.

Emergency Medical Dispatch

Maine law requires that the ESCB provide for and fund Emergency Medical Dispatch training for PSAP personnel. The training instructs call-takers on providing medical instructions to a caller before an ambulance arrives. In January 2009, the ESCB contracted with Priority Dispatch to provide a single protocol to be used by all PSAPs and dispatch centers providing Emergency Medical Dispatch. The ESCB hosted 13 classes for 289 students in 2009, the majority of the students were transitioning from other Emergency Medical Dispatch protocols to the new State standard.

The ESCB also provided four Emergency Medical Dispatch Quality Assurance classes to a total of 62 students. This 2-day course trains center personnel to administer a quality review program for their Emergency Medical Dispatch calls. This process helps assure center adherence to protocols, and Maine's Emergency Medical Service rule. Training will continue in 2010.

LEGISLATIVE MANDATES

E9-1-1 Surcharge Increase

The Maine Legislature enacted PL 2009, Chapter 416 which raised the monthly E9-1-1 surcharge from $0.30 to $0.37 on July 1, 2009. The law also raises the surcharge to $0.52 on July 1, 2010, though it gives the Utilities and Energy Committee the authority to revisit the surcharge amount in the upcoming legislative session.

E9-1-1 Access Only (Soft Dialtone)

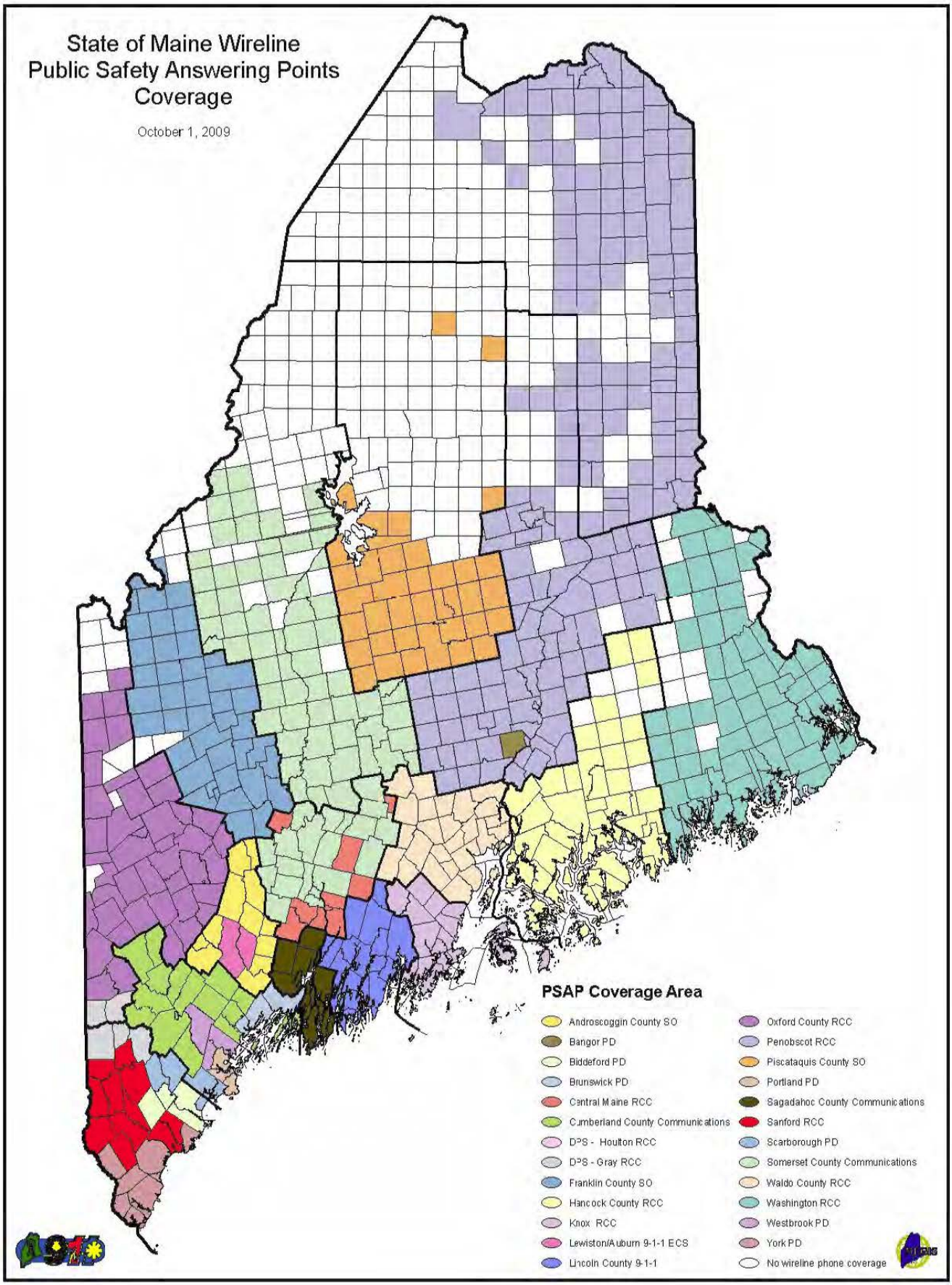
In 2007, the Maine Legislature enacted Resolves 2007, Chapter 157 requiring local exchange carriers to provide E9-1-1 access to a residential customer's premises after the customer's service has been otherwise disconnected (known as soft dialtone which allows calls to E9-1-1 with no call incoming functionality). To carry out this law, the Commission promulgated Chapter 3 of the Commission's Rules, which requires that "soft dialtone" be maintained during a period of temporary suspension, for 90 days after a customer has been involuntarily disconnected, and at any time that the customer can obtain a dialtone (Docket No. 2007-457). Implementation began October 1, 2008. A separate report to the Utilities and Energy on December 31, 2009, contains the ESCB's evaluation of the program's first year.

Pre-Paid Wireless Service and VoIP

In December 2008, the Commission opened a rulemaking regarding certain provisions of PL 2007, Chapter 68 which clarified that providers of pre-paid wireless and VoIP service must collect and submit the E9-1-1 surcharge required by the law (Docket No. 2008-505). The law enacted last session (PL 2009, Chapter 400) changed the surcharge methodology for pre-paid providers to point of sale as of January 1, 2010. This change rendered the Commission's rulemaking unnecessary and the Docket was closed.

Department of Public Safety (DPS) PSAP Rate Setting

During 2008, the Legislature enacted a law requiring the Commission to establish the rates that the DPS charges to provide PSAP services at their communications centers in Houlton, Orono, Augusta, and Gray (PL 2007, Chapter 622). The Commission opened an investigation into this matter (Docket No. 2008-225). In January 2009, the Commission issued an order in that Docket that found that the rates charged to political subdivisions must be set at a level that would recover only the costs associated with providing services to those political subdivisions. As a result, a variety of costs were removed from the revenue requirement that could be recovered through rates paid by political subdivisions—these costs included those for relocation of the barracks and tower, for four positions that had not received legislative approval, and for the reclassification of DPS employees. This resulted in new rates that DPS assess for the provision of PSAP and dispatch services provided by the DPS to political subdivisions of the State.


State of Maine Wireline
Public Safety Answering Points
Coverage
October 1, 2009
PSAP Coverage Area
Androscoggin County SO
Bangor PD
Biddeford PD
Brunswick PD
Central Maine RCC
Cumberland County Communications
DPS - Houlton RCC
DPS - Gray RCC
Franklin County SO
Hancock County RCC
Knox RCC
Lewiston/Auburn 9-1-1 ECS
Lincoln County 9-1-1
Oxford County RCC
Penobscot RCC
Piscataquis County SO
Portland PD
Sagadahoc County Communications
Sanford RCC
Scarborough PD
Somerset County Communications
Waldo County RCC
Washington RCC
Westbrook PD
York PD
No wireline phone coverage

PSAP Performance

ESCB Administrative Rules require PSAPs to answer all calls in 10 seconds or less 90 percent of the time. All PSAPs met this requirement.

Call Center Efficiency
1/1/09 to 12/31/09

PSAP	Incoming 911 Calls	Calls Answered ≤ 10 seconds	Avg Ring Duration
Androscoggin Cty SO	6,935	98.31	5
Bangor PD	16,468	98.80	4
Biddeford PD	9,719	98.31	5
Brunswick PD	9,616	99.54	3
CMRCC	63,594	96.90	4
Cumberland Cty RCC	17,505	98.72	6
DPS Gray	155,461	97.25	4
DPS Houlton	12,074	97.17	5
DPS Orono	44,413	96.59	5
Franklin Cty RCC	7,477	99.06	4
Hancock Cty RCC	8,133	98.07	5
Knox Cty RCC	11,151	99.44	4
Lewiston Auburn 911	28,821	98.62	4
Lincoln Cty RCC	11,135	99.57	4
Oxford Cty RCC	14,359	99.81	4
Penobscot Cty RCC [1]	9,286	96.84	6
Piscataquis Cty SO	5,173	97.51	5
Portland PD	49,991	93.49	5
Sagadahoc Cty RCC	8,784	99.98	3
Sanford PD	12,632	99.15	4
Scarborough PD	8,733	98.10	5
Somerset Cty RCC	22,828	99.85	4
Waldo Cty RCC	9,428	97.68	5
Washington Cty RCC	6,719	97.16	6
Westbrook PD	9,123	97.65	5
York PD	6,006	98.62	5

Total Calls	565,564

Source: Magic Monitor
[1] Penobscott RCC shows 3 months data only 9/28/09 to 12/31/09

ENERGY PROGRAMS

The Commission's Energy Division (known as "Efficiency Maine") oversees a portfolio of energy conservation programs which are central to Maine's efforts to reduce energy use. Efficiency Maine is a statewide effort to promote the more efficient use of electricity, help Maine residents and businesses reduce energy costs, and improve Maine's environment by reducing carbon emissions. Efficiency Maine is funded by electricity consumers. As outlined in 35-A MRSA § 3211-A(2)(A), Efficiency Maine's five primary objectives are to:

- Increase consumer awareness of cost-effective options for conserving energy;
- Create more favorable market conditions for the increased use of efficient products and services;
- Promote sustainable economic development and reduced environmental damage;
- Reduce the price of electricity over time for all consumers by achieving reductions in demand for electricity during peak use periods; and
- Reduce total energy costs for electricity customers in the State by increasing the efficiency with which electricity is consumed.

Energy prices fluctuated and economic conditions worsened in 2009. As has been the case for six years however, Efficiency Maine's programs returned $3 in energy savings for each dollar spent at an average cost of 4.1¢ for each kilowatt-hour (kWh) of electricity saved. This verifies again that energy efficiency provides the best energy value for Mainers— averaging less than a third the cost of kWh provided by other sources of energy.

KEY EVENTS

- **Business Program** completed 1,438 projects for 929 companies—a record number. Lifetime savings of 447,879 MWh nearly matched last year's record levels and accounted for 62% of total energy savings generated by Efficiency Maine programs. Participating businesses will save nearly $50 million on electric bills over the life of their new equipment.
- **Residential Lighting Program** experienced challenges due to economic conditions and other factors. Purchases of 705,091 energy-efficient compact fluorescent light bulbs (CFLs) were 35% below 2008's record level as a result of the economic downturn, concern about mercury in CFLs, and, to some extent, the Program's great strides in previous years. Even this reduced number of CFLs will have a substantial positive impact, saving 30,609 MWh and $23.3 million in electricity costs over the useful lifetime of the bulbs. Our expanded CFL recycling

program in more than 300 stores throughout Maine is helping keep mercury out of Maine landfills.

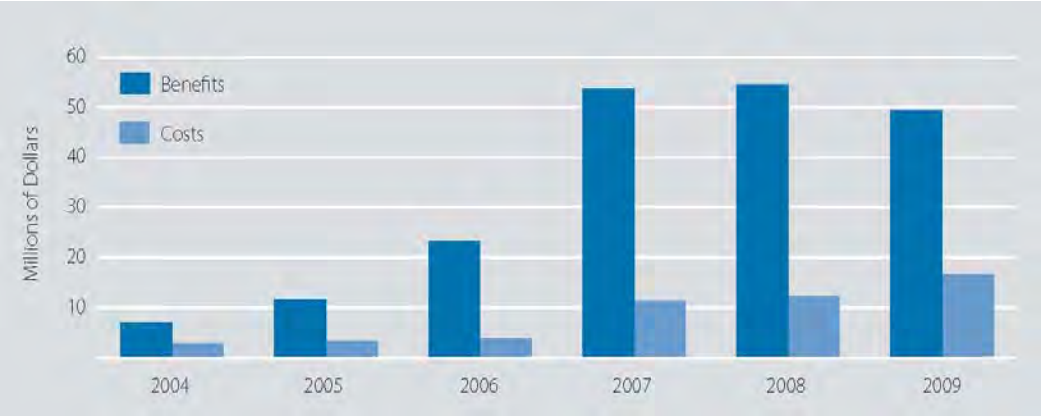
- **The Low-Income Programs** account for 20% of the Efficiency Maine budget as required by statute. In 2009, the programs helped thousands of families reduce the financial burden of their electric bills by installing energy-efficient appliances -- providing 1,625 energy efficient refrigerators, 525 freezers and over 18,400 CFLs. These low-income programs returned a dollar of energy savings for every dollar invested; they generated 3,911 MWh of annual savings and $2.5 million in lifetime economic value.

- **Education Programs** used an effective curriculum to raise awareness of energy-efficiency opportunities among large numbers of school-age students. The first three units of a new standards-based, hands-on energy curriculum, "PowerSleuth," became available at no cost to schools statewide.

- **Professional Training** courses offered 691 professionals—more than double last year's number—skills and hands-on experience to save money for their employers, clients and customers, while reducing environmental impact. There was an unprecedented number of attendees at solar installation courses, and 358 received solar installer certification which indicates strong potential for future energy savings.

- **The Renewable Program** goal is to reduce Maine's carbon footprint and increase our energy security by encouraging the use of diverse sources of energy. The Program offered rebates for home wind energy systems for the first time, while continuing to fund rebates for qualifying solar thermal and photovoltaic systems. Renewables will get a major boost through the infusion of $500,000 for solar and wind rebates over the next two years from the federal stimulus money (ARRA) in 2010 and 2011.

Efficiency Maine Business Program Benefits vs. Costs 2004-2009



Regional Initiatives

As directed by the Legislature, Efficiency Maine is involved in several regional initiatives for energy efficiency and works with several institutional partners on its programs. Efficiency Maine is developing a program in conjunction with the University of Maine Cooperative Extension Service to provide educational programming in locations around the State. Efficiency Maine continues to support Maine Partners for Cool Communities as they develop efficiency programs and policies in dozens of communities. Most importantly, Efficiency Maine encouraged regional applications in our Energy Efficiency and Conservation Block Grant Program. As of the end of 2009, Efficiency Maine had received six proposals from groups representing more than one municipality. Upon full review, these proposals will offer new ideas for achieving efficiency beyond the borders of one community.

Environmental Impacts

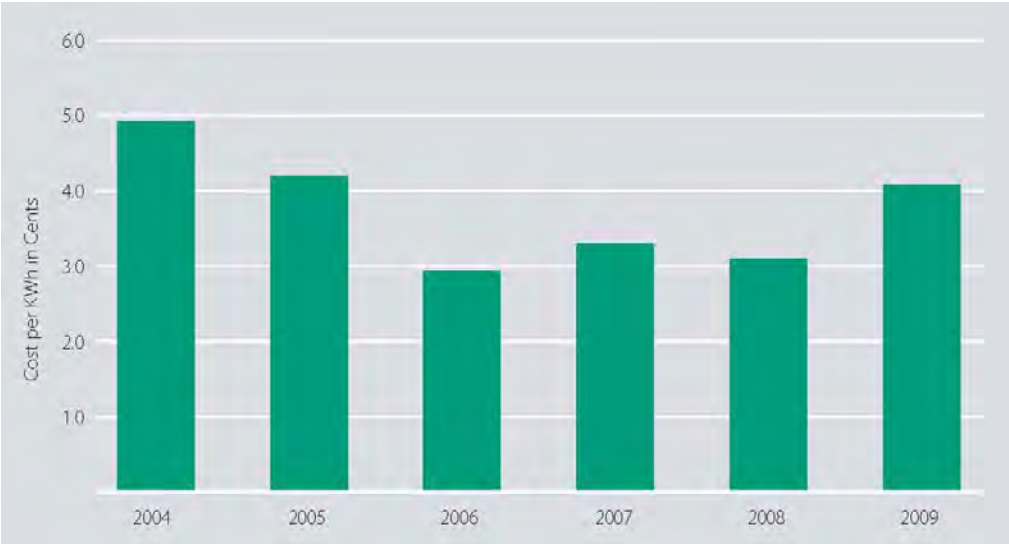
In 2009, Efficiency Maine programs made possible the following reductions in unwanted emissions from electric power generation:

- 201 metric tons of nitrogen oxide
- 516 metric tons of sulfur dioxide
- 338,106 metric tons of carbon dioxide

The reduction of these unwanted emissions is equivalent to what would be achieved by keeping 51,585 cars off the road for a full decade, improving the health of our communities and reducing the risk of climate disruption.

The past twelve months saw increasing revenue from the quarterly auctions of carbon dioxide emissions allowances through the Regional Greenhouse Gas Initiative or RGGI (for more on RGGI see subsequent section). These proceeds are administered in Maine by the Energy and Carbon Savings Trust (ECST), which reinvests these funds in the Maine economy to achieve more efficiencies and promote fossil fuel conservation across the State. To date, $13,507,410 has been raised from Maine carbon credit auctions, the vast majority of which will be used to deliver expanded efficiency programs for consumers and businesses.

Efficiency Maine Program-Wide Cost/kWh for Energy Savings 2004-2009



Economic Impact

Efficiency Maine has played an important role in transforming Maine's economy to be more energy-efficient, sustainable and affordable. Efficiency Maine's programs and services have helped businesses and residents save vast amounts of electricity. Efficiency Maine has also worked to build sustainable long-term changes in the marketplace that will ensure that these savings continue year after year.

In 2009, however, easing energy costs and economic uncertainty dampened investment in efficiency measures, especially for CFLs. This is likely an anomaly which will be monitored closely in 2010. We will not only continue to deliver the programs developed over previous years, but also add substantial new opportunities. Efficiency Maine now has the mandate and resources to provide solutions for all fuel sources, not just electricity.

The Regional Greenhouse Gas Initiative (RGGI)

In June 2007, the Maine Legislature enacted the law titled "An Act to Establish the Regional Greenhouse Gas Initiative Act of 2007" (PL 2007, Chapter 317) directing Maine to join other northeastern states in a regional program to limit greenhouse gas emissions. Maine's RGGI statute established a cap-and-trade program for CO_2 emissions from in-state power plants. Effective in 2009, emissions are capped at 5.9 million tons per year until 2015, at which time emissions must ratchet down by 10% by the year 2018. Maine's RGGI statute directed the Maine Department of Environmental Protection (DEP) to promulgate rules to govern the program, including how the emissions allowances are assigned and sold, and required proceeds from allowance auctions to be administered by the ECST and used for certain specified purposes. The statute also required formation of the Energy Conservation Board (Board) to assist in the development, coordination and integration of Maine's efficiency program planning and implementation.

Since September 2008, six auctions have occurred. Table A shows dates, clearing prices and total auction proceeds. The auctions were conducted on a regional basis by RGGI, Inc., which is a non-profit corporation created to support development and implementation of the participating states' CO_2 Budget Trading Programs. All ten of the RGGI states participated in the auction. In all auctions, the market monitor overseeing the auction on behalf of RGGI Inc., Potomac Economics, found no material concerns regarding the auction processes or the results, and the participating states considered the auctions successful.

As noted above, proceeds from the sale of Maine's CO_2 allowances must be administered by the ECST and used for specified types of public benefit programs, primarily electric energy efficiency. A major substantive rule to govern fund disbursements was approved by the Legislature. The Energy Conservation Board submitted a recommended interim plan for the use of ECST funds through June 30, 2010. The Trustees accepted the plan. Approximately half of the proceeds are transferred to Efficiency Maine to expand and support its commercial and residential programs. Approximately 25 percent of the funds will be awarded through a competitive bid process as grants for large energy efficiency and conservation projects, ranging from $100,000 - $1,000,000. The remaining funds are being allocated based on additional cost-effective energy efficiency needs identified by the Trustees.

As a result of a law passed during the 124th Legislative session (PL 2009, Chapter 372), the ECST will dissolve on July 1, 2010. Proceeds from the RGGI auctions will be governed by the Efficiency Maine Trust.

Table A: RGGI Auction Results

Date	2009 Vintage RGGI allowance clearing price	Auction Proceeds
September 2008	$3.07	2,678,593.42
December 2008	$3.38	2,949,070.28
March 2009	$3.51	$3,262,078.91
June 2009	$3.23	$2,734,239.32
September 2009	$2.19	$1,883,428.12
December 2009	$2.05	$1,739,197.44

American Reinvestment and Recovery Act (ARRA) Funding

By far the biggest change at Efficiency Maine in 2009 is the receipt of over $38 million in federal ARRA funding. ARRA allotments for the State Energy Program (now part of Efficiency Maine) target economic development and job creation and retention, with a strong emphasis on transformation of our energy economy to a cleaner and more sustainable model. While System Benefit Charge (SBC) funds were dedicated exclusively to electricity efficiency, this ARRA funding is "fuel-neutral," allowing Efficiency Maine for the first time to promote efficiency in the large home heating fuel sector. The funding will also allow for a major re-grant program for the benefit of Maine

municipalities and counties, supporting energy planning, renewables and innovative community-based energy-efficiency strategies.

Organizational Changes

The organizational structure of Efficiency Maine will change significantly in 2010. Public Law 2009, Chapter 372 established the Efficiency Maine Trust (EMT), a new semi-autonomous state agency dedicated to delivering energy-efficiency programs for all sectors and all fuels in Maine. Efficiency Maine will separate from the Commission to become part of the EMT on July 1, 2010. The EMT will also manage the funding stream generated by RGGI, and the ECST will cease to exist as a separate entity. The EMT is expected to provide the coordination of policy and programming that will increase the coordination and effectiveness of our energy efficiency efforts.

For more information about Efficiency Maine programs, view the 2009 Efficiency Maine Annual Report and the 2009 Annual Solar and Wind Energy Rebate Program Annual Report available on the Commission's website.

CONSUMER ASSISTANCE

The Consumer Assistance Division (CAD) is the Commission's primary link with utility customers. The CAD is charged with ensuring that consumers, utilities, and the public receive fair and equitable treatment through education, complaint resolution, and evaluation of utility compliance with consumer protection rules. As part of its mission, the CAD is responsible for educating the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, for investigating and resolving disputes between consumers and utilities, and for evaluating utility compliance with State statutes, Commission rules and the utility's Terms & Conditions for service. The Commission also uses information about consumer contacts with the CAD and other CAD data as a basis for enforcement actions, Commission investigations and in other Commission proceedings.

KEY EVENTS

- The Commission amended Chapter 815, its consumer protection rule for electric and gas utilities. This law became effective on April 16, 2008 and established standards for the provision of service, billing, credit and collection, and termination of service for residential and non-residential customers of electric and gas transmission and distribution utilities. The primary purpose of the rulemaking was to make corrections and additions to the rule deemed necessary after the rule became effective. The rulemaking addressed certain utility practices of concern. Customers relying on assistance funds from State and local assistance agencies for reconnection were unable to meet the terms for reconnection, even when assistance was committed to them, because the assistance could not be applied towards a deposit. To address this concern, the Commission required reconnection when a customer receives adequate funding from assistance agencies as long as there is no demand for a deposit. This ensures that utility customers are able to take advantage of public assistance resources.

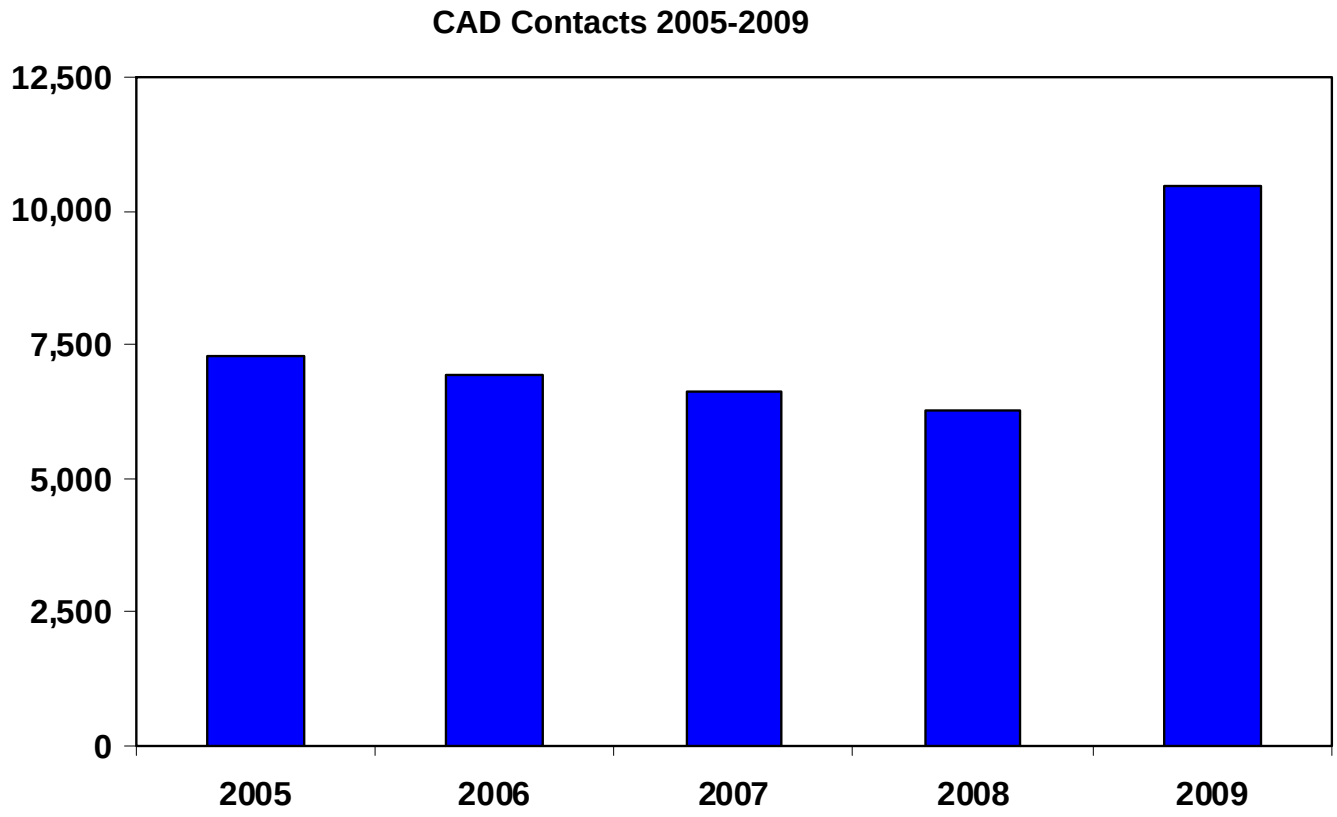
- Cutover from Verizon's software systems and databases to FairPoint's systems took place from January 31 through February 9, 2009. As outlined in the Telecommunications section of this Report, no customers reported losing telephone service as a result of the transition yet FairPoint experienced numerous problems with the accuracy of its bills, its ability to answer customer calls in a timely manner, and its ability to provision service. These problems resulted in a flood of customer calls to the CAD. To help customers resolve these problems, the CAD created an escalation process with FairPoint through which CAD staff forwarded customers with these problems to a select group of FairPoint staff specially trained to resolve these types of problems. Any problems not related to the transition or problems not resolved to the customer’s satisfaction by the escalation group were handled by CAD staff. The CAD resolved 983 customer complaints against FairPoint and sent 1,680 customers to the FairPoint escalation team.

INDUSTRY TRENDS

CAD Contacts

The CAD tracks its contacts with both consumers and utilities. Contacts take several forms, such as provision of information and assistance, investigation of a complaint involving a customer dispute with a utility that the parties have been unable to resolve, or processing a request by an electric or gas utility to disconnect a customer during the winter period (November 15 to April 15). The CAD recorded 10,475 consumer contacts in 2009. This was a 66% increase from the 6,292 contacts in 2008 and a 59% increase from the 6,604 contacts received in 2007.

As shown in the following chart, the number of overall contacts increased significantly in 2009, after a decline in each of the previous four years. The increase is primarily related to the high number of customer inquiries and complaints from FairPoint customers experiencing problems after FairPoint's transition from Verizon's software systems and databases to its own. The downward trend experienced in the previous five years is likely attributable to reduced competition in the telecommunications markets.



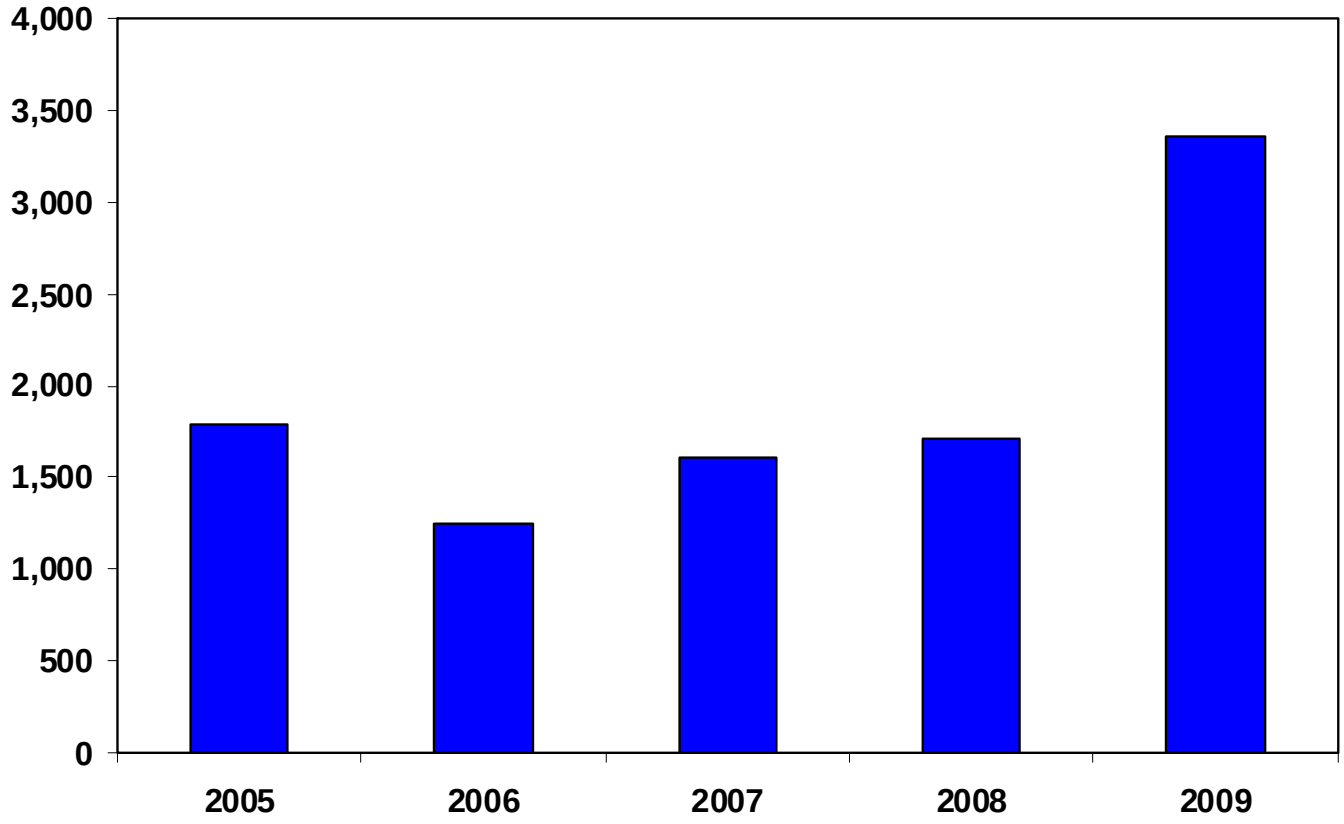
The CAD receives the majority of its consumer inquiries by telephone and strives to answer all calls live, as opposed to using an integrated voice response system. By answering calls live, the CAD is often able to answer questions and resolve customer complaints immediately. In 2009, the CAD answered 88% of the calls to the Consumer Assistance Hotline live. This is a decrease from the 98% of calls answered live in 2008.

The decrease is most likely attributable to the high number of calls received from FairPoint customers, the high number of complaints received from electric customers under the imminent threat of disconnection (discussed in more detail later in this section), and a procedural change implemented by the CAD to ensure that cases are entered into the CAD's complaint database in a timely manner.

Consumer Complaints

As shown in the following chart, the CAD received 3,357 complaints in 2009. This was a 97% increase over the 1,706 complaints received in 2008 and a 109% increase over the 1,607 complaints received in 2007.

Consumer Complaints 2005-2009



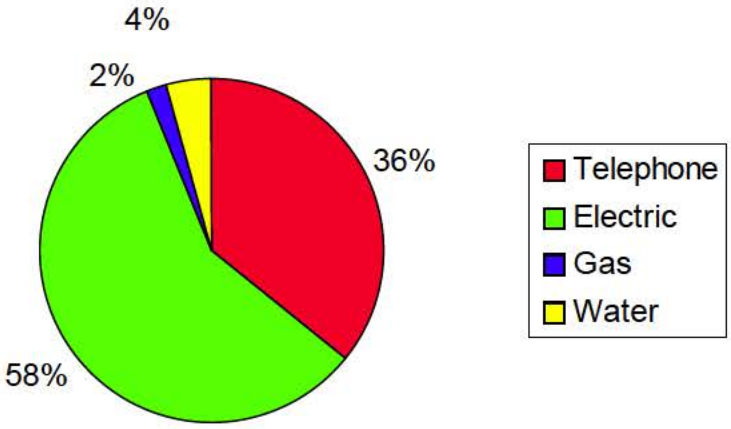
This was the largest number of complaints received by the CAD since it began keeping records. Though the CAD received almost double the number of complaints in 2009 than it did in 2008, it nonetheless resolved 49% of complaints received within 30 days and resolved 77% of complaints received within 90 days. This is comparable to the 61% of complaints resolved within 30 days and 76% resolved within 90 days in 2008. In addition, the appeal rate for CAD decisions actually decreased from 2008 to 2009, with 1.5% of CAD decisions being appealed in 2008 and 1.1% of CAD decisions being appealed in 2009. These statistics demonstrate that the average time to resolve complaints remained consistent and the quality of the decisions may have actually improved from 2008 to 2009, even though the number of complaints received doubled during that same time period.

The increase in complaints discussed above is part of a trend which started in 2007 and is primarily related to an increase in complaints filed against electric utilities. The CAD received approximately 1,950 complaints against electric utilities in 2009, compared to 1,058 complaints against electric utilities in 2008 and 900 in 2007. As noted above, complaints received against telecommunications providers have generally declined during this same period, though complaints associated with FairPoint's transition problems mask this trend. The CAD received 1,208 complaints against telecommunications providers in 2009, with 983 of these complaints being filed against FairPoint. This compares to 426 complaints against telecommunication utilities in 2008 and 502 complaints received in 2007. With FairPoint complaints removed from the 2009 statistics, the CAD received 225 complaints against telecommunication utilities.

The increase in complaints filed against electric utilities was caused primarily by an increase in the number of customers contacting the CAD who were under the threat of disconnection or who were actually disconnected. This is part of a trend which started in 2007. Last year's report explained that the cause of the trend was increasing fuel oil and gasoline prices, as well as changes CMP implemented to its credit and collections policies. Though fuel oil and gasoline prices stabilized during 2009, the economy in general took a significant downturn in late 2008 that continued through much of 2009. Again, these factors were the major cause for the 1,460 complaints received from electric customers under the threat of disconnection for non-payment in 2009. This represented 75% of the total number of electricity-related complaints filed with the CAD.

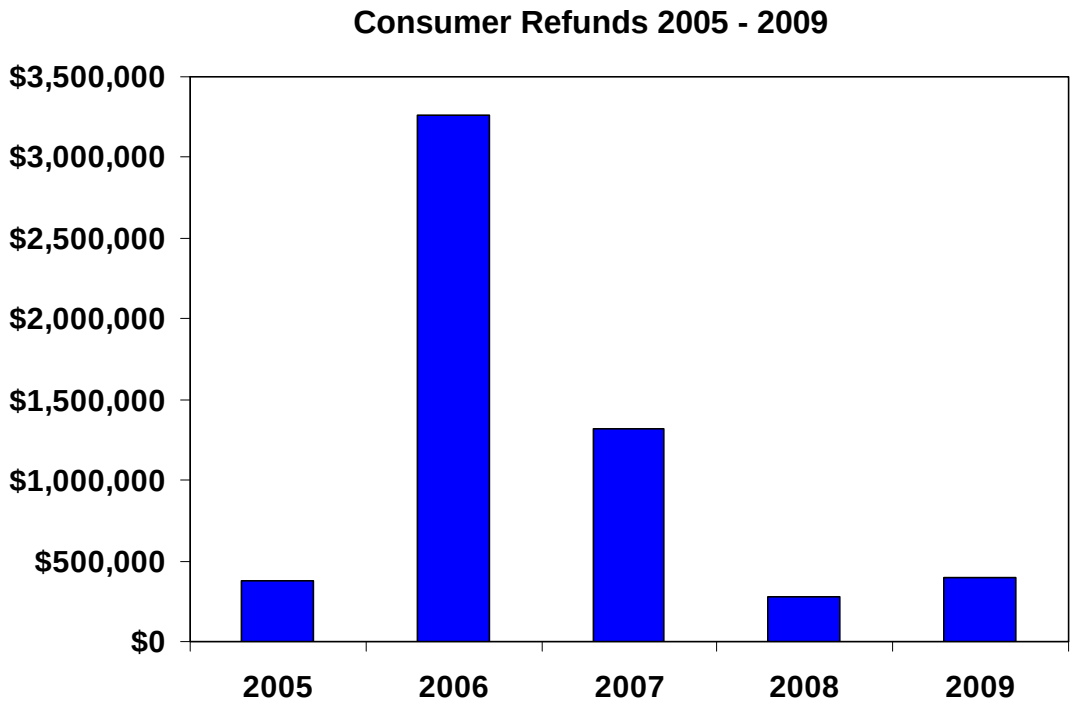
As shown in the following chart, electricity-related complaints accounted for 58% of all complaints received by the CAD in 2009, a slight decrease from the 63% in 2007 and a slight increase over the 57% in 2007. This is consistent with trends noted above, including a rise in electricity-related complaints that began in 2007, the general decline in telecommunications complaints related to a smaller number of competitors in that field, and the increase in FairPoint complaints associated with the transition problems.

Complaints Received in 2009



Refunds to Consumers

The CAD frequently obtains credits or refunds for customers as part of its resolution of customer complaints filed against utilities. In 2009, approximately $402,820 was abated by utilities to 240 customers. This is 46% higher than the $275,474 abated by utilities in 2008, but significantly lower than the $1,316,749 abated by utilities in 2007 (see chart below). In both 2006 and 2007, large abatements were made either as a result of a Commission investigation (initiated due to a CAD complaint) or as a result of an individual complaint involving a large commercial or industrial customer. (In 2007, a single commercial customer received a $1.1 million abatement.) No such investigations were conducted or single large abatements made in 2009.



RULEMAKINGS

As noted in last year's report, the Commission completed a major rewrite of its consumer protection rules for electric and gas utilities in 2007. The new rule, Chapter 815, became effective on April 16, 2008, and established the minimum standards of fairness in credit and collection programs for residential and non-residential utility service including the granting and denying of service, credit and deposit practices, billing, disconnection, consumer complaint procedures, disconnection procedures during the winter months and methods for obtaining exemptions from the rules. The Commission opened a rulemaking proceeding on October 27, 2008, to correct errors and omissions from the rule and completed the rulemaking on June 15, 2009 (Docket No. 2008-429).

LOW INCOME PROGRAMS[3]

Electric Low-Income Assistance Programs and Oxygen Pump and Ventilator Benefits

Background: Prior to the restructuring of Maine's electric industry, T&D utilities had programs to assist their low-income customers pay their electric bills. As part of restructuring, the Commission was directed to create a state-wide low-income assistance plan for electric customers. The Commission adopted Chapter 314 of its rules which establishes the standard design, administration and funding criteria for a statewide plan. The rule required participating T&D utilities that were operating low-income programs to either continue those programs or create a new program and required participating T&D utilities that did have a low-income assistance program to create one that is consistent with the requirements of the rule. Ten of Maine's 13 T&D utilities participate in the statewide plan and have Low Income Assistance Programs (LIAPs). The three small island T&D utilities do not participate in the statewide plan. Chapter 314 creates a central fund to finance the statewide plan and apportions the fund to T&D utilities based on the percentage of persons residing in their respective service territories who are eligible for the federal Low Income Home Energy Assistance Program (LIHEAP). Chapter 314 provides that the Maine State Housing Authority (MSHA) will administer the statewide plan and the individual LIAPs.

In 2005, the Legislature directed the Commission to establish an "equitable-treatment program" within the statewide plan. The equitable-treatment program must provide electric bill payment assistance benefits to low-income residential electric customers who rely on electric oxygen pumps for medical reasons. It must also establish oxygen pump benefits that are equitable regardless of where the qualifying customer lives within the state. While Chapter 314 established a state-wide plan, the Commission allowed each T&D utility to either create its own LIAP or continue its existing LIAP. As a result, a customer who moves from one T&D utility's service territory to another T&D utility's service territory may not receive the same level of LIAP benefits. The new law provided that electric customers who qualify for LIAP benefits may also qualify for these additional oxygen pump benefits. In 2007, the Legislature further amended the law to require the addition of ventilators to the equitable-treatment program beginning October 2007.

The law also required the Commission to report annually (by November 1) to the Utilities and Energy Committee. The report must, at a minimum, include the following information:

- For each month of the program year, the number of participants enrolled in low-income assistance programs, the number receiving oxygen pump benefits and the number receiving ventilator benefits;

[3] This section is required pursuant to 35-A MRSA § 3214 and was consolidated into the Commission's Annual Report required by 35-A MRSA § 120 as part of PL 2009, Chapter 122 enacted during the First Regular Session of the 124th Maine Legislative Session.

- For each month of the program year, the dollar amount of low-income assistance program benefits, the dollar amount of oxygen pump benefits and the number receiving ventilator benefits;
- An assessment of the effectiveness of the oxygen pump benefit and ventilator benefit with regard to covering only those electric charged directly related to use of an oxygen pump or ventilator by the program participant.

In 2008, the Legislature further amended the law so that this annual reporting was included in the Commission's Annual Report (which explains this section).

2008 Program Year Results

Chapter 314 includes three statewide low-income assistance programs. Beginning in October 2001, qualifying low-income customers in Maine could receive a LIAP benefit to help pay their electric bills. While the total amount of the low-income benefit to be distributed statewide and the amount for each T&D utility is determined by Commission order, each T&D utility was allowed to create its own program to distribute its apportioned benefit to individual customers. Thus, LIAP benefits could vary from service territory to service territory.

In 2005, the Oxygen Pump Program was created and began providing benefits in October 2006. Unlike the LIAPs, the Oxygen Pump Program provides the same benefit statewide to qualifying low-income customers who use an oxygen pump. In October 2007, the Ventilator Program was added to the statewide low-income assistance plan. Like the Oxygen Pump Program, the Ventilator Program provides the same benefit statewide to qualifying low-income customers who use a ventilator. Customers must be eligible for LIAP benefits to participate in Oxygen Pump and Ventilator Programs but if eligible, may participate in all three programs.

As noted above, Chapter 314 delegates the administration of all three low-income assistance programs to the MSHA. The rule requires that T&D utilities file quarterly reports with MSHA, due one month after the end of each quarter. The quarters end December 31st, March 31st, June 30th and September 30th of each year. The report form is a standard form for each utility. Each quarterly report includes the number of participants, the amount of benefit provided and any reimbursement requests for the LIAP, Oxygen Pump Program and Ventilator Program benefits.

Table A at the end of this report summarizes the information relating to the LIAP, Oxygen Pump and Ventilator programs on a statewide basis required by 35-A MRSA § 3214 (6). Table A is based upon the quarterly reports submitted by T&D utilities.

Program Assessment Related to Excess Benefits

During its consideration of LD 813, the bill which gave rise to Chapter 97, the Committee discussed an error associated with oxygen pump benefits. The error resulted in some eligible customers receiving an oxygen pump benefit that exceeded the amount of the customer's entire electric bill. To address this issue, Section 3 of

Chapter 97 (codified at 35-A MRSA § 3214 (6) (C)) requires the Commission to provide an assessment of whether the oxygen pump benefit and the ventilator benefit cover only those electric charges directly related to use of an oxygen pump or ventilator by the program participants.

The subsequent revision to Chapter 314 reduced the estimated daily and monthly kWh consumption amounts used to calculate the Oxygen Pump benefit in an effort to eliminate this problem. To further ensure that customers do not receive a benefit that exceeds a customer's total electricity usage, we also amended Chapter 314 to include language that prohibits an oxygen pump or ventilator benefit from exceeding the customer's total electricity usage. These changes appear to have resolved the problem.

TABLE A

	LIAP Program		Oxygen Program		Ventilator Program	
Month	Number of Participants	Amount of Benefits	Number of Participants	Amount of Benefits	Number of Participants	Amount of Benefits
October 2008	16,458	$ 809,457	349	$ 14,128	2	$ 32
November 2008	14,869	$ 893,671	257	$ 11,009	1	$ 19
December 2008	18,136	$1,272,994	314	$ 19,911	1	$ 19
January 2009	20,026	$1,445,811	405	$ 21,455	1	$ 19
February 2009	20,108	$1,162,779	300	$ 11,290	1	$ 19
March 2009	21,269	$ 957,441	350	$ 15,102	0	$ 0
April 2009	20,537	$ 698,524	313	$ 10,567	0	$ 0
May 2009	19,498	$ 487,880	344	$ 11,093	0	$ 0
June 2009	18,754	$ 339,606	355	$ 14,099	0	$ 0
July 2009	18,012	$ 311,688	364	$ 11,266	0	$ 0
August 2009	17,344	$ 428,879	351	$ 10,496	0	$ 0
September 2009	16,832	$ 151,308	346	$ 10,623	0	$ 0
Total		$8,960,079		$161,038		$108

SUMMARY OF COMMISSION RULEMAKINGS

Chapter 301, Standard Offer Service.

These amendments implement recently enacted legislation that allows for consumer-owned T&D utilities (COUs) to aggregate their load for the purpose of providing standard offer service to customers within their service territories. The amendments also clarify the Commission's authority with respect to its financial security provisions in light of the current financial and credit market circumstances.

Chapter 313, Customer Net Energy Billing.

These amendments allow net billing for customers who share in the ownership of an eligible facility with a capacity of 600 kW or less and remove the facility vicinity requirements. They also add micro-combined heat and power as eligible facilities.

Chapter 560, Publication and Posting Requirements for Rate Changes Filed by the Casco Bay Island Transit District.

These amendments clarify notice and hearing requirements prior to rate changes by the Casco Bay Island Transit District. They also correct the rule to reflect a statutory change enacted in 1985.

Chapter 815, Standards for the Provision of Service, Billing, Credit and Collection, Termination of Service, and Customer Information for Electric and Gas Transmission and Distribution Utilities.

These amendments make corrections and additions found necessary after the rule went into effect in April of 2008.

Chapter 870, Late Payment Charges and Interest Rates to be Paid on Customer Deposits, and Charges for Returned Checks.

These amendments change the indexing mechanisms for setting the maximum late payment charge and the interest to be paid on deposits.

Chapter 930, Solar and Wind Energy Rebate Program.

These amendments revise Chapter 930 pursuant to recently enacted legislative changes. The amendments set rebate amounts and eligibility requirements required on audit before receiving a rebate and define a qualified wind energy system installer.

2009 REPORTS TO THE LEGISLATURE

The Commission submitted the following reports to the Legislature in 2009:

- Geothermal Heating Systems 01/15/2009
- Oxygen Pump and Ventilator Benefits 01/15/2009
- Statewide Small Generator Interconnection Standards 01/15/2009
- Solar and Wind Rebate Program 01/15/2009
- Consolidation of the Winterport Sewerage District and the Winterport Wate
- District to Create Incentives to Pay Sewer Bills 01/15/2009
- Collection of E-911 Surcharge from Prepaid Wireless Telephone Service and Interconnected VoIP Service Providers 01/15/2009
- Net Energy Billing 01/15/2009
- Report Regarding ISO New England 01/16/2009
- PUC Annual Report 01/29/2009
- E-911 Surcharge Report 02/02/2009
- Joint PUC/DEP Report on Energy Infrastructure Corridors and Long-Term Contracting Authority 03/16/2009
- Report on Time-of-Use Rates and Advance Metering Infrastructure 03/16/2009
- RPS Report 03/31/2009
- PUC Status Report on Use of ARRA Funds in Compliance with Resolves 2009, chapter 46 and Update on Other ARRA Related Funding 09/01/2009
- Annual Report on Alternative Forms of Regulation for Telephone Utilities [PDF] 09/11/2009
- Annual Report on Efficiency Maine (Energy Conservation) 12/01/09
- Annual Report on the Solar and Wind Energy Rebate Program 01/05/09
- E911 Access Only Report 12/22/09

FISCAL INFORMATION

The Commission is required by 35-A MRSA § 120 to report annually to the Joint Standing Committee on Utilities and Energy on its planned expenditures for the year and on its use of funds in the previous year. This section of the report fulfills this statutory requirement and provides additional information regarding the Commission's budget. All references in this section are to fiscal years -- July 1 to June 30.

In FY2009, the Commission regulated 536 utilities with gross revenues exceeding $1 billion. The Commission was authorized 76.75 full-time equivalent positions in FY2009.

Regulatory Fund

The authorized Regulatory Fund assessment for FY2009 was $7,172,489. An unencumbered balance of $2,006,069 and encumbrances of $157,206 were brought forward from FY2008. The Commission spent $6,218,439 in FY2009.

Expenditure details are presented in Table 1. An encumbered balance of $227,740 and an unencumbered balance of $3,314,104 were brought forward to FY2010. The encumbered balances generally represent ongoing contracts.

Commission Reimbursement Fund

In FY2009, the Commission collected $592,015 in filing fees, $37 in copying fees and $1,167,000 in fines. An unencumbered balance of $533,785 was brought forward from FY2008. During FY2009, $204,637 was expended. An encumbered balance of $77,674 was brought forward to FY2010. An unencumbered balance of $2,010,527 was brought forward to FY2010.

Commission Miscellaneous Fund

There was no unencumbered balance or encumbrances brought forward from FY2008. An additional $15,000 was received during FY2009. During FY2009, $936 was expended. An unencumbered balance of $14,064 was brought forward to FY2010.

Education Fund

Public Law 1997, Chapter 691 and Chapter 302 of the Commission's Rules approved by the Legislature in 1998, establishes the Public Utilities Commission Education Fund.

This fund authorized a total of $1.6 million dollars to be collected from electric utilities and dedicated for education of Maine's consumers on choices they may make in selecting electricity providers beginning March 1, 2000. The fund was allocated as follows: $200,000 for FY1998, $600,000 for FY1999, $600,000 for FY2000 and a final $200,000 for FY2001.

Under State Bureau of Purchases rules, a Request for Proposal process selected N.L. Partners of Portland, Maine, to carry out the Consumer Education Program under the direction of the Commission with assistance and input from the Public Advisory Panel. $748 was available from the balance forward from FY2008. $0 was expended in FY2009, leaving $748 as the unencumbered balance brought forward to FY2010.

Damage Prevention Grant 2007

During FY2007, the Commission received a Damage Prevention Grant in the amount of $35,400. $21,260 is the unencumbered balance brought forward to FY2009. In FY2009, $21,260 was transferred to reimburse the Commission Regulatory Fund for grant expenditures charged against this fund in prior fiscal years, leaving an unencumbered balance of $0 brought forward to FY2010.

Damage Prevention Grant 2008

During FY2008, the Commission received a Damage Prevention Grant in the amount of $40,500. $15,497 is the unencumbered balance brought forward to FY2009. In FY2009, $15,497 was expended, leaving an unencumbered balance of $0 brought forward to FY2010.

Damage Prevention Grant 2009

During FY2009, the Commission received a Damage Prevention Grant in the amount of $45,000. In FY2009, $0 was expended, leaving an unencumbered balance of $45,000 brought forward to FY2010.

Energy Programs - Efficiency Maine Conservation Administration Fund

This fund had an unencumbered balance of $1,234,303 and an encumbered balance of $39,714 brought forward from FY2008. $952,762 was expended in FY 2009. $226,979 was brought forward to FY2010.

Energy Programs - Efficiency Maine Conservation Program Fund

This fund had an unencumbered balance of $399,603 and an encumbered balance of $2,861,265 brought forward from FY2008. $13,424,166 was expended in FY 2009, leaving an unencumbered balance of $271,176 and an encumbered balance of $2,534,109 brought forward to FY2010.

Energy Programs- State Energy Fund

This fund receives grants from the Federal Department of Energy. In FY2009, $791,216 was expended on energy conservation programs.

Energy Programs- State Energy Fund Revolving Loans Fund

$149,121 was expended in FY2009.

Solar Rebate Program

Public Law 2005, Chapter 459 provides rebates for the purchase and installation of solar water heating and solar air heating systems and solar electric, or “photovoltaic,” systems for residential or commercial buildings.

An unencumbered balance of $242,901and an encumbered balance of $234,845 were brought forward to FY2009. $754,602 was expended in FY2009. An unencumbered balance of $217,072 and an encumbered balance of $62,497 were brought forward to FY2010.

Renewable Resource Fund

The Renewable Resource Fund (Fund) was established by the Legislature in 2000 and is supported by voluntary contributions made by consumers on their electric

bills. Grants from the Fund are available to small-scale community projects that will serve as demonstration projects designed to educate the community on the value and cost-effectiveness of harnessing natural resources for clean electricity. As initially established, the Fund was administered by the State Planning Office. The responsibility for administering the Fund was transferred to the Public Utilities Commission effective July 1, 2007 (PL 2007, Chapter 18).

An unencumbered balance of $122,347 and an encumbered balance of $115,827 were brought forward to FY2009. $150,977 was expended in FY2009. An unencumbered balance of $137,269 and an encumbered balance of $57,588 were brought forward to FY2010.

The Emergency Services Communications Fund (E9-1-1)

This fund had an unencumbered balance of $9,569,673 and an encumbered balance of $3,457 brought forward from FY2008. $7,398,114 was expended in FY2009. An unencumbered balance of $3,689,078 and an encumbered balance of $1,443,796 were brought forward to FY2010. The surcharge collected in FY2009 was $5,552,688.

Maine Energy Conservation Board Fund

The Energy Conservation Board was established by statute in 2007. The statutory purpose of the Board is "to assist the Public Utilities Commission and the trustees of the Energy and Carbon Savings Trust in the development, coordination and integration of planning for the State's energy conservation efforts and to provide advice and counsel to the commission and the Energy and Carbon Savings Trust on energy conservation and carbon dioxide reduction matters."

During FY2009, $30,894 was expended. An unencumbered balance of $2,829 and an encumbered balance of $36, 267 was brought forward to FY2010.

Energy and Carbon Savings Trust (ECST) Fund

The Energy and Carbon Savings Trust was established by statute (35-A MRSA §10008) in 2007. The statutory purpose of the ECST is to support the goals and implementation of the carbon dioxide cap-and-trade program established under Title 38, section 580-B. The ECST fund was established as a non-lapsing fund administered by the ECST. During the years 2009, 2010, and 2011, not less than 85% of the ECST fund must be allocated for measures, investments and arrangements that reduce electricity consumption, and not more than 15% must be allocated for fossil fuel conservation measures.

During FY2009, $252,413 was expended. An unencumbered balance of $8,179,849 and an encumbered balance of $500,000 were brought forward for use during FY2010.

Public Utilities Commission Administration Fund

Resolve Chapter 226 provides funding for small wind power generators. The funds provide an additional incentive of $2,000 to applicants who agreed to increase the height of their proposed wind installation, with the understanding that the PUC would be able to gather data from these sites compared to similar installations at lower heights.

An encumbered balance of $37,848 was brought forward for use during FY2010.

The Budget in Perspective

Table 1 details the Commission's budget for a 2-year period. The left hand column includes amounts expended in FY2009. Column 2 contains the FY2010 expenditure plan. Column 3 contains the FY2011 proposed Budget.

The Regulatory Fund Assessment in Perspective

Table 2 details the most recent ten years of Regulatory Fund assessments from Annual Reports filed by the utilities with the Commission. They include revenues for the previous year ending December 31.

Calculations are made to determine what percentage of the revenues reported by regulated utilities will produce the amount authorized by statute. The factors derived that will raise the authorized amount are applied against the reported revenues of each utility.

Under 35-A MRSA § 116, on May 1 of each year an assessment notice is mailed to each utility regulated by the Commission. The assessments are due on July 1. Funds derived from this assessment are for use during the fiscal year beginning on the same date.

The total assessment for FY2009 was $7,172,489. The assessment breakdown by utility sector was: Electric - $3,571,541; Telecommunications - $2,365,171; Natural Gas - $778,749; Water - $457,028 and Water Common Carrier -$0.

Table 1

	FY2009 Actually Spent	FY2010 Workprogram	FY2011 Proposed Budget
Regulatory Fund			
Position Count	(58.75)	(55.25)	(55.25)
Personal Services	5,205,372	5,995,180	6,223,891
All Other	1,013,067	1,964,515	1,964,515
Capital	0	0	0
Total	6,218,439	7,919,695	8,188,406
Commission Reimbursement Fund			
All Other	204,637	50,000	50,000
Commission Miscellaneous Fund			
All Other	936	15,000	15,000
Commission Consumer Education Fund			
All Other	0	0	0
Commission Damage Prevention			
Personal Services	15,029		
All Other	468		
Total	15,497	50,000	50,000
Oversight and Evaluation Fund			
All Other		0	500
Energy Programs-Efficiency Maine Conservation Administrative Fund			*
Position Count	(9)	(9)	
Personal Services	779,119	876,036	
All Other	173,643	323,964	
Capital	0	0	
Total	952,762	1,200,000	

Energy Program-Efficiency Maine Conservation Program Fund			*
All Other	13,424,166	14,085,334	
Energy Programs-State Energy Programs (SEP)			*
Position Count	(3)	(2)	
Personal Services	144,545	134,829	
All Other	646,671	302,366	
Capital	0	0	
Total	791,216	437,195	
Energy Programs – SEP Revolving Loan Fund			*
All Other	149,121	410,000	
Energy Programs-Solar Rebate Program Fund			*
All Other	754,602	500,000	
Energy Programs-Renewable Resource Fund			*
All Other	150,977	75,000	
State Energy Program Formula Grants Fund			*
Position Count		(5)	
Personal Services		398,438	
All Other		22,320,062	
Capital		0	
Total		22,718,500	
State Energy Program Block Grants Fund			*
Position Count		(1)	
Personal Services		124,880	
All Other		8,910,895	
Capital		0	
Total		9,035,775	

Emergency Svcs Comm (E-911)			
Position Count	(6)	(5)	(5)
Personal Services	410,987	466,959	476,710
All Other	6,987,127	5,792,545	8,249,342
Capital	0	0	0
Total	7,398,114	6,259,504	8,726,052
Energy and Carbon Savings Trust Fund			*
All Other	252,413	30,000,000	
Maine Energy Conservation Board Fund			*
All Other	30,894	213,400	

* Public Law 2009, Chapter 372 established the Efficiency Maine Trust. These accounts are transferred to the EMT on 7/1/09.

Table 2

Commission Regulatory Fund Assessments for the Past Ten Years
Table 2

Year	Electric Revenues	Telecom Revenues	Water Revenues	Gas Revenues	Water Carriers Revenues	Total Utilities Revenues	Amount Billed	Amount Authorized
1999	1,153,567,578	415,265,192	91,340,130	42,553,204	2,187,844	1,704,913,948	5,553,000	5,553,000
2000	1,144,803,899	456,312,932	92,952,562	35,354,982	2,259,826	1,731,684,201	4,918,000	4,918,000
2001	1,181,804,581	521,331,046	95,682,346	36,311,777	3,123,023	1,838,252,773	4,918,000	4,918,000
2002	547,912,962	500,763,978	98,835,956	55,824,836	3,521,316	1,206,859,048	5,236,000	5,236,000
2003	535,509,552	538,050,538	101,802,792	53,466,479	3,713,543	1,232,542,904	5,505,000	5,505,000
2004	524,156,143	508,708,861	105,043,583	64,913,705	3,823,145	1,206,645,437	5,505,000	5,505,000
2005	511,898,621	479,535,534	66,382,651	107,317,453	2,809,273	1,167,943,532	5,505,000	5,505,000
2006	531,365,202	492,780,390	110,130,702	71,921,808	2,949,997	1,209,148,099	5,505,000	5,505,000
2007	493,598,549	436,922,435	111,089,598	66,028,479	3,655,720	1,111,294,781	7,647,403	7,647,403
2008	475,656,450	425,737,517	115,900,129	73,573,876	-0- *	1,090,867,872	7,172,489	7,172,489

*** Revenues not included in Assessment calculation.**

PAST COMMISSIONERS

1915 - 2009

*	Benjamin F. Cleaves	1915-1919
	William B. Skelton	1915-1919
	Charles W. Mullen	1915-1916
	John E. Bunker	1917-1917
	Herbert W. Trafton	1918-1936
*	Charles E. Gurney	1921-1927
	Albert Greenlaw	1924-1933
*	Albert J. Stearns	1928-1934
	Edward Chase	1934-1940
*	Frank E. Southard	1935-1953
	C. Carroll Blaisdell	1937-1941
	James L. Boyle	1941-1947
	George E. Hill	1942-1953
	Edgar F. Corliss	1948-1954
*	Sumner T. Pike	1954-1955
	Frederick N. Allen	1954-1967
	Richard J. McMahon	1955-1961
*	Thomas E. Delahanty	1955-1958
*	David M. Marshall	1958-1969
*	Earle M. Hillman	1962-1968
*	John G. Feehan	1968-1977
	Leslie H. Stanley	1970-1976
*	Peter Bradford	1971-1977
		1982-1987
	Lincoln Smith	1975-1982
*	Ralph H. Gelder	1977-1983
	Diantha A. Carrigan	1977-1982
	Cheryl Harrington	1982-1991
*	David Moskovitz	1984-1989
*	Kenneth Gordon	1988-1993
	Elizabeth Paine	1989-1995
	Heather F. Hunt	1995-1998
	William M. Nugent	1991- 2003
*	Thomas L. Welch	1993-2005
	Stephen L. Diamond	1998-2006
*	Sharon M. Reishus	2003-current
*	Kurt Adams	2005-2008
	Vendean V. Vafiades	2007-current
	Jack Cashman	2008-current

* Chairman

GLOSSARY

- **Access Charges:** The rates that a long-distance carrier pays to local telephone companies for connecting to the local network. Access charges are a major cost component of toll rates.

- **Aggregator:** "Aggregator" means an entity that gathers individual customers together for the purpose of purchasing electricity, provided such entity is not engaged in the purchase or resale of electricity directly with a competitive electricity provider, and provided further that such customers contract for electricity directly with a competitive electricity provider.

- **All-In Rate:** The total price for electricity, including generation and delivery (transmission and distribution service).

- **Bill Unbundling (Itemized Billing):** The separation of Electricity Supply charges from Delivery Service charges on Maine consumers' electric bills beginning in January 1999.

- **Competitive Electricity Provider:** A marketer, broker, aggregator or any other entity selling electricity to the public at retail.

- **Cramming:** The practice of adding fees or charges to a consumer's bill for services that were either never provided or for services that the customer did not register for (see also Slamming).

- **Customer Classes for Electricity Consumers:** Residential/small non-residential; Medium non-residential; Large non-residential. Non-residential class determined by customer's kW demand peak.

- **Delivery Service:** The transmission and distribution of electricity to Maine consumers by a Commission-regulated distribution company.

- **Distribution Company:** A Commission-regulated utility that, after March 2000, provided only Delivery Service.

- **Electric Restructuring:** The redesign of the State's electric utility industry giving Maine consumers the right to choose their electricity supplier. The result of a law passed by the Maine Legislature in 1997.

- **Electric Supply:** Electricity that is sold or resold by a Commission-licensed Electricity Supplier, or provided under the Standard Offer.

- **Electricity Utility:** A monopoly utility that, until March 2000, provided both Electricity Supply and Delivery Service. In March 2000, electric utilities became distribution companies.

- **Eligible Telecommunications Carrier:** A basic service provider designated by the Commission as an eligible telecommunications carrier for purposes of section 254 of the Telecommunications Act of 1996, 47 U.S.C., § 151 *et seq*.

.

- **Federal High-Cost Funds:** Universal service support mechanisms that have helped make telephone service affordable for low-income consumers and consumers who live in areas, typically rural, where the cost of providing service is high.

- **Green Power:** Power generated from renewable energy sources, such as wind and solar power, geothermal, hydropower and various forms of biomass.

- **Independent Telephone Company:** This term is often used to refer to all incumbent local exchange carriers companies other than Verizon - Maine. There are 23 of these companies in Maine, although some are owned by the same parent holding company.

- **Independent Third Party Verifier:** A third party used to verify preferred carrier changes. The third party must be qualified and independent, and must obtain the customer's oral authorization to submit the preferred carrier change that includes appropriate verification data (e.g. the customer's date of birth or social security number).

- **Intrastate Access Rates:** "Access charges" and "access rates" are those charges and rates that an interexchange carrier must pay to a local exchange carrier in order to provide intrastate interexchange service in Maine.

- **Letter of Agency:** A "letter of agency" is a document containing a customer's signature that authorizes a change to a customer's preferred carrier selection.

- **LEC:** An acronym for Local Exchange Carrier. These companies provide basic local service. Subsets of LECs include incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs). The incumbents are the existing monopoly providers, and competitive carriers are the new entrants in those markets. An ILEC can be a CLEC in a region outside of its existing monopoly service area.

- **Lifeline & Link-Up:** These programs assist low-income consumers in obtaining and affording telecommunications services.

- **NPA / NXX:** NPA is an acronym that essentially stands for area code. In Maine's case, the entire State falls within the 207 NPA. NXX is the abbreviation for the

three digit sequence following the area code. For instance, if a person's telephone number was (207) 555-1234, the NPA would be 207 and the NXX would be 555. If Maine runs out of NXX codes, then a new NPA may be needed.

- **Public Interest Payphone "PIP":** As cell phones have become nearly ubiquitous, legacy telephone companies have removed public payphones that no longer collect enough revenue to support their operation. PIP phones aim to protect public safety, health and welfare by preserving public service for emergency calls in key locations around Maine.

- **Prescribed Toll Carrier "PIC":** The carrier to which a customer is presubscribed for local, intrastate, interstate, or international telecommunications service.

- **Qualifying Facility:** A small power production or cogeneration facility that meets the Federal Energy Regulatory Commission's ownership and technical requirements is a qualifying facility.

- **RBOC:** An acronym for Regional Bell Operating Company. In Maine's case, the incumbent RBOC is FairPoint.

- **Renewable Energy:** Energy from fuel cells, tidal power, solar energy, wind power, geothermal power, hydroelectric energy, biomass and municipal solid waste.

- **Retail Electric Competition:** A system under which more than one competitive electric provider can sell to retail customers, and retail customers are allowed to buy from more than one provider.

- **Section 271:** The section of the Federal Telecommunications Act of 1996 that addresses the conditions for Regional Bell Operating Company entry into the interstate market. Section 271 is also sometimes known as the "competitive checklist."

- **Slamming:** The illegal practice of switching a consumer's telephone carrier or electrical supplier without obtaining proper consent (see also Cramming).

- **Standard Offer Service:** Electric generation service provided to any electricity consumer who does not obtain electric generation service from a competitive electricity provider.

- **Stranded Costs:** A utility's legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring of the electric industry required by 35-A M.R.S.A. Chapter 32 determined by the Commission pursuant to 32-A M.R.S.A. § 3208.

- **Unbundled:** Electric utility bills that state the current cost of electric capacity and energy separately from transmission and distribution charges and other charges for electric service.

- **Universal Service:** The principle that all Americans should be able to afford at least a minimal level of basic telephone service.

- **Wireless Fidelity:** A wireless local area network providing "hotspots" with high-speed internet access service.

Maine Public Utilities Commission

The Commissioners wish to thank the staff of the Commission for assisting in the preparation of this report, with special thanks to the editors and contributing writers.

Editors

Paulina Collins
Evelyn deFrees
Karen Geraghty
Jennifer Paul

Contributing Writers

Denis Bergeron
Jim Buckley
Derek Davidson
Tammy Chamberlain
Paula Cyr
Lisa Fink
Nancy Goodwin
Andrew Hagler
Faith Huntington
Maria Jacques
Carol MacLennan
Stephani Morancie
Joel Shifman
Lucretia Smith
Amy Spelke
Joanne Steneck
Joseph Sukaskas
Mitch Tannenbaum

We welcome feedback on how we can improve next year's report. Send your comments to Karen Geraghty at 207-287-3831 or email to karen.geraghty@maine.gov.

This Annual Report was published by the Maine Public Utilities Commission.
This publication is printed under appropriation # 014-65A-0184-01.