

MAINE STATE LEGISLATURE

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FINANCE AUTHORITY OF MAINE

**A Report for the
Joint Standing Committee on Energy & Utilities**

April 15, 1995

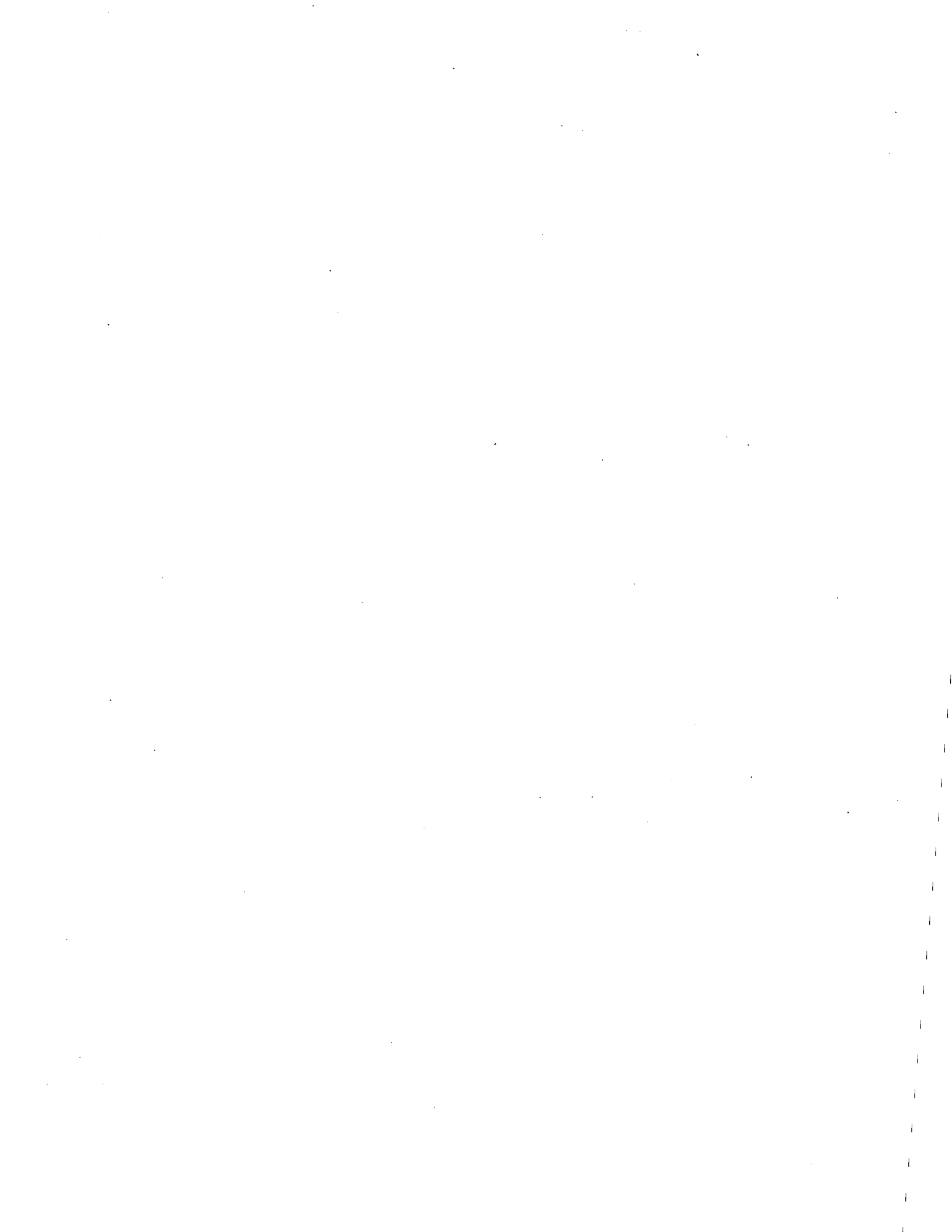
The Electric Rate Stabilization Program

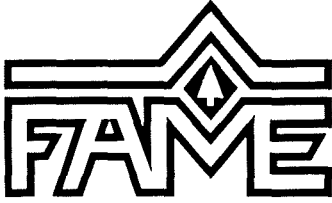
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The Electric Rate Stabilization Program

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April 15, 1995

The Honorable David L. Carpenter, Senate Chair
The Honorable Carol A. Kontos, House Chair
& The Honorable Members of the
Joint Standing Committee on Utilities & Energy
State House Station # 115
Augusta, Maine 04333

Dear Senator Carpenter, Representative Kontos and Distinguished Committee Members,

On behalf of the Finance Authority of Maine, I am pleased to submit this report on the Electric Rate Stabilization Program for your review and consideration.

The Electric Rate Stabilization Program was enacted in April of 1994 as one way to help stabilize rising electric rates in Maine. The rapidly rising costs of electricity are difficult for families and businesses alike. In fact, the increasing cost of power is proving to be a substantial deterrent to economic growth. One significant factor in the cost of electricity is the cost of power purchase contracts between Maine's electric utility companies and non-utility generators. The Electric Rate Stabilization Program was designed to promote a restructuring of these power purchase contracts in order to stabilize electric rates.

This report describes FAME's role in the Electric Rate Stabilization Program and the financing the Authority provided to assist Central Maine Power in its buyout of the Fairfield Energy Venture contract. We have also included recommendations for continuing the program to permit the consideration of future projects.

I would welcome the opportunity to discuss this report and its recommendations with you and your colleagues on the Committee.

Sincerely,

A handwritten signature in black ink that reads "Timothy P. Agnew". The signature is written in a cursive, flowing style.

Timothy P. Agnew
Chief Executive Officer

cc: The Honorable Angus S. King, Jr., Governor

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Executive Summary

On April 15, 1994, Governor John R. McKernan, Jr. signed into law P.L. 1994, Chapter 712: *An Act to Encourage Electric Rate Stabilization*. This innovative and important legislation was designed to encourage the stabilization of electric rates by establishing a mechanism to support the buy down or buyout of expensive power supply contracts between Maine's electric utilities and non-utility generators (NUGs).

In the Public Utility Regulatory Policies Act of 1978 ("PURPA"), the United States Congress sought to address the impact of the rapidly escalating price of oil by providing substantial economic incentives to non-utility power producers by allowing cogenerators and small power producers to sell their entire energy output to an electric utility at the utility's "avoided-cost." Following the lead of the Federal government, the Maine State Legislature enacted companion legislation in 1979.

In the aftermath of PURPA, Maine's electric utility companies entered into a wide variety of contracts with non-utility generators. Prices for the power output vary greatly, but in most, if not all cases, those prices substantially exceed the wholesale cost of electric power today. The result has been that Maine ratepayers are paying a premium for this power in their electric rates. While PURPA has met the goal of encouraging the development of alternative energy sources, it has done so at a price. In 1994, Maine lawmakers were becoming increasingly concerned about the high costs of electricity and the impact those costs were having on ratepayers and the State's economy.

Recognizing the problem created by these high cost contracts with non-utility generators, Governor McKernan and State lawmakers examined a variety of alternatives to stabilize rates before enacting the Electric Rate Stabilization Program. This report reviews the legislation enacted last year, the actions taken by the Finance Authority of Maine in response to the one application received under the program and the results of those actions. In addition, this report contains recommendations with regard to the program's sunset date of May 1, 1995 and the future of the program.

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In 1993 and early 1994, Central Maine Power Company sought legislation that would have placed a new tax on the revenues of independent power producers (IPPs). Based on the premise that these independent power producers were reaping windfall profits at ratepayer expense, Central Maine Power Company suggested that the State should consider implementing a windfall profits tax on the independent power producers.

While Central Maine Power Company's proposal did not garner enough support to be enacted, it prompted recognition that some action was necessary to control the rapidly rising costs of electricity throughout Maine. Governor McKernan and State lawmakers sought ways to achieve rate savings without interfering in binding contracts entered into by non-utility generators and Maine's electric utility companies.

The search for a consensus position resulted in the creation of a new program that was designed to encourage electric utilities and non-utility generators to negotiate changes in their existing contracts that would result in a stabilization of electric rates, if not an actual decline in those rates. The new program, the Electric Rate Stabilization Program, contains a two part process to set in place a contract renegotiation procedure in which all affected parties -- utilities, non-utility generators, and ratepayers -- would benefit from the results. A copy of P.L. 1994, Chapter 712, entitled *An Act to Encourage Electric Rate Stabilization*, is included with this report.

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The Maine Public Utilities Commission & the Certificate of Approval Process

The legislation creating the Electric Rate Stabilization Program provides for both the Maine Public Utilities Commission and the Finance Authority of Maine to perform specific roles to help reduce electric utility costs. The legislation contemplates a negotiation process between utilities and non-utility generators through which the utility agrees to pay a sum of money or other consideration in exchange for reductions in the rate the utility must pay for power from the non-utility generator (a "buy down") or the termination of a power purchase contract (a "buyout").

The Electric Rate Stabilization legislation established a new Certificate of Approval process, under which electric utilities can apply to the Maine Public Utilities Commission for approval of a change in the agreement between the utility and a non-utility generator. That proposed new agreement must meet the following criteria in order to receive a Certificate of Approval from the Maine Public Utilities Commission:

- There must be near-term benefits to ratepayers reflected in electric rates;
- Potential future impacts must not be disproportionate to near-term gains;
- The agreement must not result in closing of a qualifying facility with a capacity in excess of 50 megawatts;
- The agreement must be consistent with State energy policy, which requires electric utilities to pursue least cost planning taking into account risk and diversity of supply;
- The agreement must not "adversely impact the availability of a diverse and reliable mix of electric energy resources"; and

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- The agreement must not "significantly reduce the long-term electric energy or capacity resources available to the electric utility and needed to meet future demand."

The Electric Rate Stabilization legislation also contains a preference for "buy downs" over "buyouts." However, the law does not indicate how this preference is to be implemented.

Upon receipt of an application for a Certificate of Approval, the Electric Rate Stabilization legislation requires the Maine Public Utilities Commission to approve or deny the certificate within 30 days. An approval has two primary effects. First, any costs incurred by the utility under the terms of a contract approved by the Maine Public Utilities Commission under the Electric Rate Stabilization Program may not be disallowed or reduced by the Commission in any future rate proceeding, allowing the utility to recover the costs. Second, the Certificate of Approval allows the utility to apply to the Finance Authority of Maine for financing assistance to reduce the cost of borrowing associated with a specific project.

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Financing Assistance: Moral Obligation Credit Enhancement

For a variety of reasons, including the cost of power contracts with non-utility generators and the Federal Energy Policy Act of 1992, financial markets have downgraded the creditworthiness of Maine's electric utilities and most other electric utilities throughout the country. This increased concern about creditworthiness translates directly into a higher cost of capital, both through stock offerings (equity) and borrowings (debt).

A major component of the Electric Rate Stabilization Program is financing assistance to help the utilities pay for the costs of renegotiated contracts with non-utility generators at lower interest rates than they would otherwise pay. The savings translates into lower electric rates for ratepayers.

To help reduce financing costs as much as possible, the Finance Authority of Maine was authorized to issue up to \$120,000,000 in revenue obligation bonds to finance electric rate stabilization projects. Of that amount, \$100,000,000 was available for direct project costs and \$20,000,000 was made available only to be used to fund capital reserve funds to provide a reserve of one year's debt service on the bonds. In the event that the capital reserve fund is drawn upon to pay debt service and not replenished, the Finance Authority must call on the Governor to include the necessary funds in an appropriation request.

This financing mechanism is important because it effectively pledged the State's credit to secure repayment of the bonds. Because the State of Maine enjoys a high credit rating, the interest rate on the bonds is substantially less than the interest rate that would have been available to Maine utilities without the credit support made available through the Finance Authority of Maine.

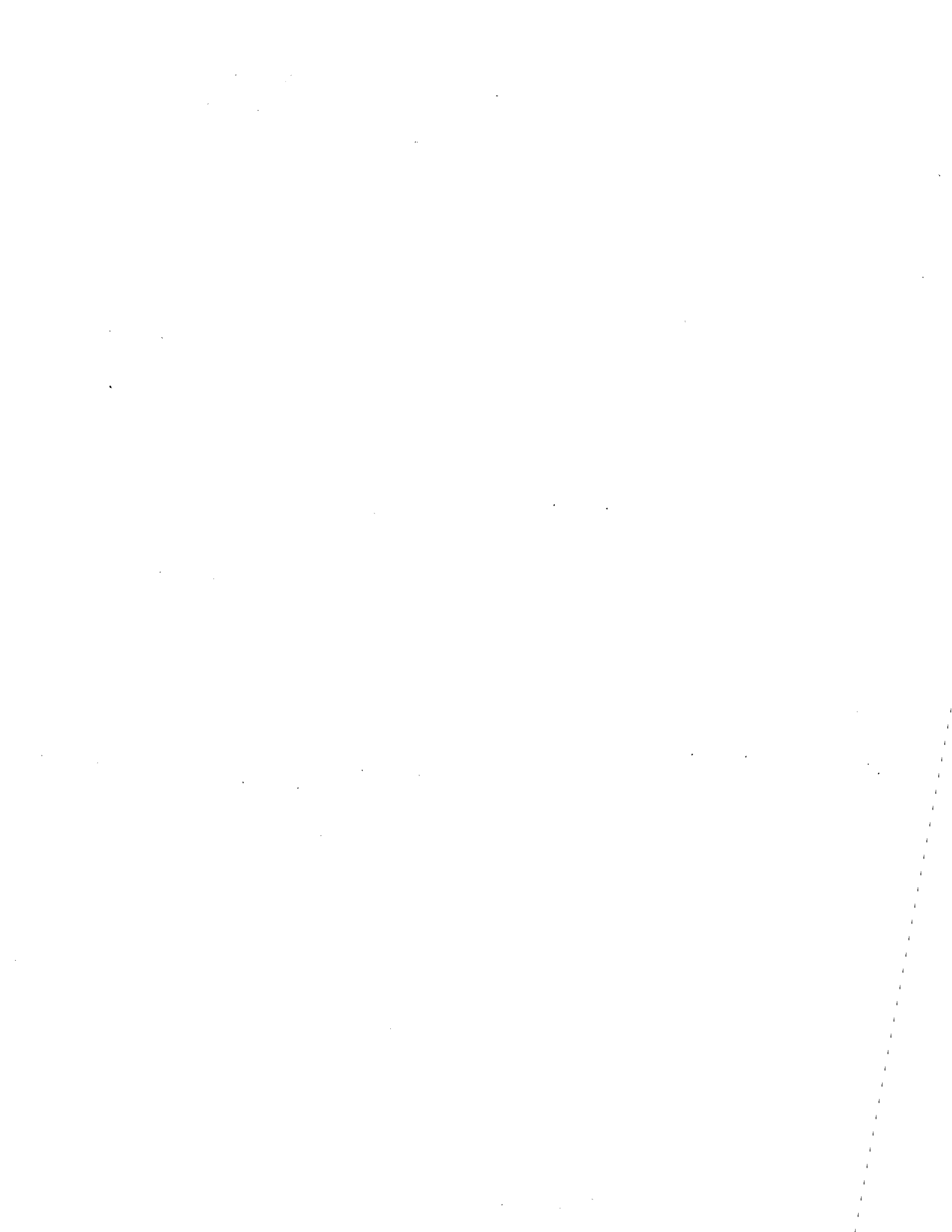
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Bonds issued under the program are backed by the "moral obligation" of the State of Maine. "Moral obligation" bonds are those which State law provides will be repaid from a General Fund appropriation in the event that the primary repayment source fails. Unlike general obligation bonds issued by the State of Maine which are backed by the "full faith and credit" of the State, including its taxing power, so-called "moral obligation" bonds are, technically speaking, not legal obligations of the State because one Legislature cannot constitutionally bind a future Legislature to honor the repayment obligation.

However, the nation's financial markets have historically regarded "moral obligation" debt as nearly the equivalent of full faith and credit obligations because the State's credit rating and ability to finance its operations would be damaged if a State ever reneged on a "moral obligation" pledge. The Finance Authority of Maine, Maine Municipal Bond Bank, Maine State Housing Authority, Maine Educational Loan Authority and Maine Health and Higher Education Facilities Authority are examples of State agencies that rely on the "moral obligation" of the State to conduct their financing activities and reduce borrowing costs.

The Electric Rate Stabilization Program did not contain any criteria for FAME to apply in considering applications for financing under the program other than receipt of a Certificate of Approval from the Maine Public Utilities Commission. Existing law requires the Finance Authority of Maine to assess the credit quality of borrowers benefitting from "moral obligation" bonds in order to seek maximum protection for the State's obligation.



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Central Maine Power Company & Fairfield Energy Venture

In June, 1994, shortly after enactment of the Electric Rate Stabilization Program, Central Maine Power Company announced that it had reached agreement with Fairfield Energy Venture to buyout a contract to purchase power produced by a 33 megawatt wood-fired facility in Fort Fairfield. The plant began supplying power to Central Maine Power Company in 1987 under a contract that extended to 2002. The cost per kilowatt hour of that power to Central Maine Power was among the highest of any of its non-utility generators. The agreement to terminate the Fairfield Energy Venture contract included a cash payment to the owners of the plant of \$81,428,960 and transfer ownership of the plant to a subsidiary of Central Maine Power.

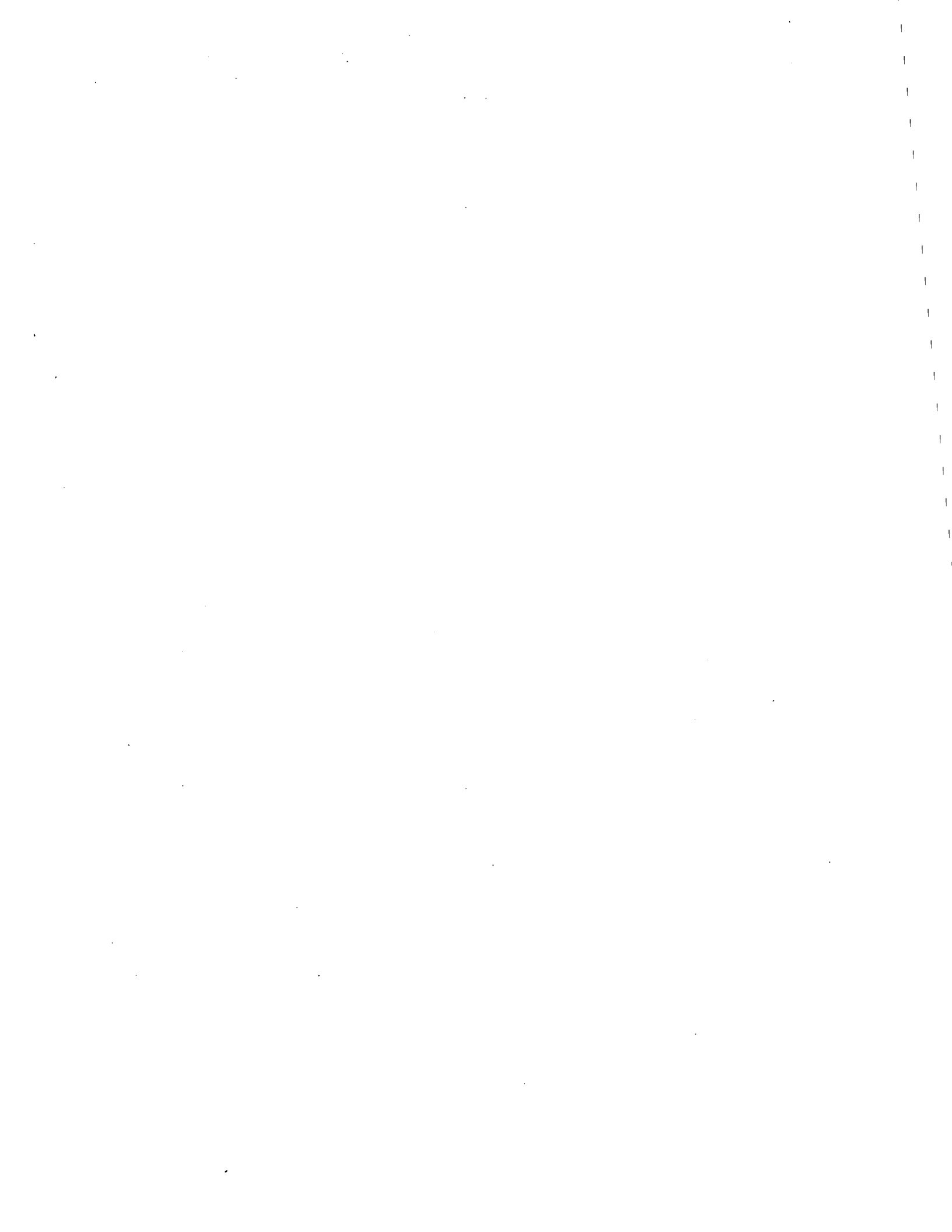
In early July, 1994, Central Maine Power Company submitted its application under the Electric Rate Stabilization Program to the Maine Public Utilities Commission. The application immediately provoked controversy because of the impact the closing of the Fort Fairfield plant would have on the local tax base, the jobs that would be lost at the plant itself and the impact the closing would have on the businesses that supported operation of the plant. In objecting to the proposed buyout, the Town of Fort Fairfield cited the fact that the community had already been significantly impacted by the closing of Loring Air Force Base and a damaging flood. The Town mobilized opposition to the closing of the plant, intervened in the Certificate of Approval proceedings before the Maine Public Utilities Commission and initiated discussions with Central Maine Power to keep the plant open.

In August, 1994, the Borrower and the Town of Fort Fairfield entered into a settlement agreement pursuant to which Aroostook Valley Electric Company, a subsidiary of Central Maine Power Company, would acquire and operate the plant for a minimum three year period, subject to the condition that an independent third party must make a determination within six months of the acquisition that the plant is capable of operating within certain specified operating parameters. The Town of Fort Fairfield retained the right to fund improvements to help the plant meet the operating parameters or to acquire the plant at liquidation value if the plant could not meet the stated parameters for operation.

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After considering the Central Maine Power Company application, the Maine Public Utilities Commission issued orders on August 5, 1994 and August 18, 1994 certifying approval of the project to terminate the Fairfield Energy Venture contract. Among other factors, the approval was based on the estimate that the project would provide a present value savings of approximately \$35,000,000 over the remaining life of the contract being terminated. After an appeal by an intervenor, the Maine Public Utilities Commission approval became final and non-appealable on October 21, 1994. As a result of the approval and the buyout financed under the new program, Central Maine Power Company implemented an electric rate decrease of approximately \$5,600,000 in December, 1994.



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FAME Issues Bonds Totalling \$79,300,000

Upon the approval by the Finance Authority of Maine Board of Directors of the Central Maine Power Company financing request, the Authority, its underwriters and Central Maine Power Company established a schedule for completing the financing and focused intensive efforts on structuring and documenting the transaction and selling the bonds at the lowest possible interest rate. Although an appeal was filed by the Independent Energy Consumer Group (IECG) of the action by the Maine Public Utilities Commission approving the project, financing activities continued as quickly as possible even though bonds could not be issued until the IECG appeal was actually resolved. When the appeal was withdrawn after agreement was reached between the Independent Energy Consumer Group and Central Maine Power, the FAME bonds were ready to be issued within eight days after the Commission's approval became final.

The sale of the revenue obligation securities and the closing of the loan to Central Maine Power Company took place on October 29, 1994. The major features of the financing were as follows:

- The principal amount of the bonds was \$79,300,000. Of this amount, \$64,067,824 was used to pay project costs of the termination of the Fairfield Energy Venture contract and acquisition of the plant. Central Maine Power Company contributed \$15,000,000, bringing the total project cost to \$79,067,824. Costs of issuance of the bonds, including the cost of the bond insurance described below, totaled \$2,361,136.

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- \$12,871,040 of bond proceeds were used to fund a Capital Reserve Fund. This amount equals the highest amount of principal and interest payments required in any one year of the financing. The funding of this reserve assures that there will be adequate cash on hand to pay bondholders for at least one year after a payment default by Central Maine Power Company. That one year time delay allows an opportunity to try to solve the problem that caused the default or, in a worst case, to seek an appropriation from the General Fund to make debt service payments on the bonds pursuant to the "moral obligation" of the State.
- After reviewing a variety of options for sale of the bonds, the sale was conducted in accordance with Rule 144A of the Securities Act of 1933. The bonds were not qualified under federal securities laws for sale to the general public. Rather, the Rule 144A offering permitted sale to qualified institutional buyers with limitations on resale other than to similarly qualified institutional buyers.
- In order to make the securities more recognizable to institutional buyers and to increase the rating on the bonds to the highest ratings available: *AAA* by Standard & Poor's Corporation and *Aaa* by Moody's Investors Services, the Finance Authority of Maine obtained a bond insurance policy from Financial Security Assurance. In exchange for an insurance premium paid to the insurer, the interest rate on the bonds was reduced as a result of the higher rating on the bonds. Bondholders can look to both Financial Security Assurance and the State of Maine for payment in the event that Central Maine Power is unable to pay the debt service on the loan.

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- The Taxable Electric Rate Stabilization Revenue Notes bear an interest rate of 8.16% fixed for 10 years. This interest rate is substantially below the rate that would have been available to Central Maine Power Company had the Company attempted to finance the Fairfield Energy Venture buyout on its own. The first two years of the loan will require payments of interest only; thereafter payments will amortize the principal balance over the remaining 8 years. A Market and Pricing Commentary prepared by Prudential Securities is included with this report.

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FAME's Program Implementation Process

The Finance Authority of Maine began the process of implementing the Electric Rate Stabilization Program when the legislation creating the program was signed into law. In order to acquaint the members of the Finance Authority of Maine Board of Directors with the background of the program and legislative intent, the Authority's Board convened a panel of knowledgeable speakers to testify at the Board's regular monthly meeting held on July 21, 1994 in Augusta. Those speakers included: State Senator John Cleveland, Senate Chair of the Utilities Committee; Representative Carol Kontos, member the Utilities Committee; Representative James Donnelly, member of the Utilities Committee; Stephen Ward, the Public Advocate; and Stephen Adams, Director of the State Planning Office.

In addition to providing the members of the FAME Board with an overview of the problem of high cost non-utility generator contracts, panel members also addressed FAME's role with regard to the controversy created by the Central Maine Power Company's proposal to close the Fairfield Energy Venture plant in Fort Fairfield. As an entity charged with encouraging economic development in Maine, the Board was troubled by the adverse economic impact the financing and subsequent buyout would have on the community of Fort Fairfield and the surrounding area.

However, the legislation establishing the Electric Rate Stabilization Program does not anticipate the Finance Authority of Maine weighing the "public benefits" to ratepayers against the adverse impact of a plant closing. Most of the panel speakers indicated that the Maine State Legislature and the Utilities Committee specifically *did not* intend the Finance Authority of Maine to undertake such an analysis. Rather, FAME board members were advised that the Utilities Committee and the Maine State Legislature recognized that in enacting legislation creating the Electric Rate Stabilization Program that efforts to reduce the high cost of non-utility generator power could have adverse localized impacts in the event of plant closings.

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State lawmakers attempted to address the "public benefit" issue by establishing a preference for buy downs instead of buyouts, and the legislation specifically prohibited buyouts of plants generating more than 50 megawatts. Further, the Electric Rate Stabilization legislation required the Maine Public Utilities Commission to make the public benefit analysis. The Finance Authority of Maine was to solely focus its efforts on implementing a prudent financing package if State guarantees were requested for a specific electric rate stabilization project.

At its July 21, 1994 meeting, the Finance Authority of Maine Board also considered a proposed new rule: Chapter 107, Electric Rate Stabilization Project Taxable Bond Program. The proposed rule established an application and loan approval process, criteria for approval, loan terms and conditions and a fee structure. The criteria for approval of loan applications under the Electric Rate Stabilization Program were limited to two.

First, an application would not be approved "unless the Authority determines that there is a strong likelihood that the loan will be repaid according to its terms." Second, FAME approval requires a determination that it would be prudent for the Authority to provide the assistance requested and to assume the liability. The members of the FAME Board approved the proposed rule for further consideration in accordance with the Administrative Procedures Act.

The Finance Authority of Maine scheduled a Public Hearing on the proposed rule in Presque Isle on August 17, 1994. Because the agreement between the Town of Fort Fairfield and Central Maine Power Company was consummated prior to the public meeting, the Town of Fort Fairfield supported the proposed rule and Central Maine Power Company's pending application. Because of the lack of significant opposition to FAME's proposed rule and the urgency of the Central Maine Power Company application for financing assistance, the members of the FAME Board adopted Chapter 107 on an emergency basis in accordance with the Administrative Procedures Act.

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FAME's Loan Application Process

Central Maine Power Company filed an application with the Finance Authority of Maine in early August, 1994. The Company requested prompt action by the Authority because of deadlines in its contract with Fairfield Energy Venture and because of the significant savings that would accrue upon termination of the contract. Accordingly, the Finance Authority of Maine scheduled a Special Board Meeting on August 29, 1994 at the Augusta Civic Center.

The two principal questions confronting the Authority's Board of Directors were whether Central Maine Power would be able to repay the proposed loan and whether it would be prudent for the Authority to commit the State's credit to the transaction. FAME staff prepared an extensive analysis of the Company's financial performance, the risks in the electric utility industry and the Company's prospects over the next few years. The primary risk factors were identified as the trend toward greater competition in the utility industry, regulatory actions that could hurt the Company's revenues, the cost and availability of electric power (including the risks associated with Maine Yankee's nuclear power), and the Company's ability to access debt and equity markets to fund capital expenditure needs over the term of the proposed loan.

The members of the Finance Authority of Maine Board present at the Special Board Meeting voted unanimously to support a staff recommendation to approve the proposed financing. Approval was based, in part, on the strong public interest in taking steps to stabilize electric rates, the approval of the Public Utilities Commission, and the judgment that Central Maine Power Company was a reasonably creditworthy business with a strong likelihood of generating the revenues necessary to repay the debt. While it is difficult to predict the future in such a volatile industry, Central Maine Power Company has the capacity to make the payments on the loan based on its performance over the past several years. The transaction strengthened the Company's future financial prospects and provided substantial benefits to ratepayers and the State's business climate.

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The Board also recognized its responsibility to require appropriate loan covenants and collateral that were deemed reasonable and necessary to protect the Authority and the State of Maine in the event of a loan default. The Authority conducted extensive negotiations with Central Maine Power Company to determine what collateral was available to secure the loan that might have value in the event of a default. Most of the Company's assets were pledged to existing creditors under agreements that limited to a maximum of \$15,000,000 the additional collateral that Central Maine Power Company could pledge to the Finance Authority of Maine.

Central Maine Power Company proposed that rather than pledging \$15,000,000 worth of assets, it would contribute that amount in cash to reduce the amount of the borrowing needed from the Finance Authority. This proposal was preferable to collateral for three reasons. First, it reduced the Authority's overall exposure on the loan. Second, it meant that in the event of a default the Authority would not have to take legal action to foreclose on specific assets that might not be worth \$15,000,000 in a forced liquidation. Third, the reduction of the loan request meant that \$15,000,000 in capacity would remain available for other electric rate stabilization projects.

Central Maine Power Company also agreed to pledge the Fairfield Energy Venture facility in Fort Fairfield as collateral for the loan. While the plant has low liquidation value, it could have a far more substantial value as a going concern and offers the potential of a significant collateral support.

Finally, Central Maine Power Company agreed to use bond proceeds to fund a Capital Reserve Fund in the amount of \$12,871,040. The availability of this fund assures that even if Central Maine Power Company is unable to make payments on the loan at some point in the future, there will be sufficient funds to pay bondholders for at least one year. This reserve fund allows the Company and the State time to attempt to solve the financial problems that caused the default or, in a worst case scenario, to seek an appropriation from the General Fund to continue paying debt service.

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In addition to FAME's collateral requirements and the reduction in the loan request, the Authority also required loan conditions and covenants to help provide protection to the Authority and State taxpayers. These covenants include regular reporting of the Company's financial results, projections and significant events, and any limitations on the Company's ability to sell its assets or merge with another corporation, among others.

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The Bangor Hydro-Electric Company Application

On March 31, 1995, Bangor Hydro-Electric Company filed an application with the Maine Public Utilities Commission seeking a Certificate of Approval for a buyout of its contract with Babcock-Ultrapower. Assuming the Public Utilities Commission deems the application complete and approves it in the 30 day period provided for in the Electric Rate Stabilization legislation, then the Certificate of Approval will be issued before the May 1, 1995 sunset provided in statute.

The Bangor Hydro-Electric Company application seeks approval for a \$160,000,000 buyout of two 30 year power purchase agreements pertaining to two 24 megawatt wood-fired power plants in West Enfield and Jonesboro. The contracts were entered into with two related joint ventures: Babcock-Ultrapower West Enfield and Babcock-Ultrapower Jonesboro. The application projected that the present value of the savings from the buyout would be approximately \$60,000,000 assuming an after tax cost of capital of 8.3%. While there are no firm plans to shut down the two power plants, Bangor Hydro-Electric Company does not intend to assume ownership of the plants, and it is uncertain whether the owners of the facilities will be able to find an alternative market for the power or whether the plants will be dismantled.

No formal application has been filed to date with the Finance Authority of Maine. However, the Company has verbally indicated an interest in financing \$100,000,000 of the project using the Electric Rate Stabilization Program. Using the proceeds of a Finance Authority of Maine bond issue rather than the high cost financing alternatives available to Bangor Hydro, we estimate the Company could save an additional 3% of the amount of the financing, or about \$3,000,000 per year for the term of the financing (likely 10 years).

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Because there is only \$33,571,040 in remaining capacity for project financing costs in the Electric Rate Stabilization Program, financing the Bangor Hydro-Electric Project would require action by the Legislature and the Governor to increase the amount of financing authorized for the program. Governor Angus S. King, Jr. has introduced legislation to increase the amount of bonds authorized from \$100,000,000 for projects to \$200,000,000. As of this date, the bill has not been printed or considered by the Legislature.

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Other Pending Projects

Other than the pending Bangor Hydro-Electric Company agreement, the Finance Authority of Maine is not aware of any pending agreements for potential electric rate stabilization projects. We have had informal discussions with Maine Public Service Company about the possibility of using the program for a buy down of a contract with a non-utility generator but, to the best of our knowledge, the parties have not yet reached an agreement. If the proposed legislation to increase the program capacity for Bangor Hydro-Electric Company is enacted including an extension of the sunset date, then Maine Public Service could potentially benefit from the program.

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Activity to Date

As of April 15, 1995, only one Certificate of Approval has been issued by the Maine Public Utilities Commission and only one loan has been approved and closed by the Finance Authority of Maine under the Electric Rate Stabilization Program. That loan was made to Central Maine Power Company on October 26, 1994 in the amount of \$66,428,960, leaving remaining capacity of \$33,571,040 for other projects.

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Program Sunset

In enacting the Electric Rate Stabilization Program, the Maine State Legislature included a sunset date providing that no Certificate of Approval could be issued by the Public Utilities Commission after May 1, 1995. This sunset was included for two reasons. First, the Legislature felt that providing a deadline would help to encourage utilities and non-utility generators to begin the negotiation process sooner than they otherwise might have. Second, the sunset provides an opportunity for the Legislature to reassess the program and to determine whether the program should be continued. Accordingly, both the Public Utilities Commission and the Finance Authority of Maine were directed to report to the Utilities & Energy Committee on the Electric Rate Stabilization Program by April 15, 1995.

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Recommendations

The Electric Rate Stabilization Program has effectively achieved the goal of helping to stabilize electric utility rates in Maine. The access to capital and interest rate savings provided by this program benefit ratepayers through stabilization of electric rates. Stabilizing rates is critically important to Maine's economic future because of the sensitivity of manufacturing and other industries to the cost of electricity. Enactment and implementation of this legislation helped to send a message that the State of Maine is working hard to improve the business climate and to keep electric rates competitive.

The following recommendations are based on the experience of the Finance Authority of Maine with the Electric Rate Stabilization Program to date.

1. **Extend the Program's Sunset Date.** The Maine State Legislature should extend the May 1, 1995 sunset date of the Electric Rate Stabilization Program. An extension will allow the unused capacity in the program to be applied to eligible projects. Extending the program to February 1996 would allow the Maine State Legislature and the Governor to consider whether a further extension is warranted at that time.
2. **Increase Guarantee Capacity.** The Maine State Legislature should increase the \$100,000,000 in loan guarantees currently authorized for electric rate stabilization projects to \$200,000,000. This increase will allow full consideration of the Bangor Hydro-Electric Company financing. While the Finance Authority of Maine has not reviewed the credit quality of the Bangor Hydro-Electric Company application and therefore reserves judgment on the prudence of the financing, it appears from information provided by the Company that the savings to ratepayers may be substantial, far surpassing the benefits of the Central Maine Power Company buyout of the Fairfield Energy Venture contract. The increase would also provide the opportunity for all three of the State's major electric utilities to benefit their ratepayers through the Electric Rate Stabilization Program.

FINANCE AUTHORITY OF MAINE
Electric Rate Stabilization Program

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3. **Public Benefit Criteria.** Current legislation addresses the public benefit of electric rate stabilization projects based on their effect on electric rates and by prohibiting buyouts resulting in the cessation of operation of plants of more than 50 megawatts capacity. A great deal of concern has been focused on the impact on the community in which a plant is located when that plant could be shut down. While these localized impacts may be substantial, they can be outweighed by the benefit to the ratepayers as a whole, particularly when non-utility generating facilities cannot be operated economically and must be subsidized by all ratepayers. Accordingly, any conditions to limit buyouts should be based on public benefit criteria that take the interests of *all* ratepayers and the overall health of the State's economy into account.

APPROVED

CHAPTER

APR 15 '94

712

BY GOVERNOR

PUBLIC LAW

STATE OF MAINE

IN THE YEAR OF OUR LORD
NINETEEN HUNDRED AND NINETY-FOUR

S.P. 774 - L.D. 1997

An Act to Encourage Electric Rate Stabilization

Be it enacted by the People of the State of Maine as follows:

Sec. 1. 10 MRSA §963-A, sub-§7-A is enacted to read:

7-A. Electric rate stabilization project. "Electric rate stabilization project" means an agreement by an electric utility with a qualifying facility, as defined in Title 35-A, section 3303, that will result in the reduction of costs to the electric utility and that has been certified by the Public Utilities Commission to meet the standards established under Title 35-A, section 3156.

Sec. 2. 10 MRSA §963-A, sub-§10, ¶L, as amended by PL 1991, c. 439, §3, is further amended to read:

L. Any hazardous waste or solid waste recycling or reduction project; or

Sec. 3. 10 MRSA §963-A, sub-§10, ¶M, as enacted by PL 1991, c. 439, §4, is amended to read:

M. Any aboveground oil replacement or upgrade project, including equipment installed to meet requirements for gasoline service station vapor control and petroleum liquids transfer vapor recovery; or

Sec. 4. 10 MRSA §963-A, sub-§10, ¶N is enacted to read:

N. Any electric rate stabilization project.

Sec. 5. 10 MRSA §1053, sub-§6, as amended by PL 1993, c. 460, §8, is further amended to read:

6. **Securities outstanding.** The authority may not have at any one time outstanding revenue obligation securities to which subsection 5 is stated in the trust agreement or other document to apply in principal amount exceeding an amount equal to \$150,000,000 less the aggregate outstanding balance of mortgage loans secured by capital reserve funds pursuant to section 1032. Notwithstanding any other provision of this subsection, the authority may additionally have outstanding at any one time up to \$120,000,000 of bonds under this subchapter relating to loans for electric rate stabilization projects consisting of not more than \$100,000,000 for loans and up to \$20,000,000 for use of bond proceeds to fund capital reserve funds. The amount of revenue obligation securities issued to refund securities previously issued may not be taken into account in determining the principal amount of securities outstanding, provided that proceeds of the refunding securities are applied as promptly as possible to the refunding of the previously issued securities. In computing the total amount of revenue obligation securities of the authority that may at any time be outstanding for any purpose, the amounts of the outstanding revenue obligation securities that have been issued as capital appreciation bonds or as similar instruments are valued as of any date of calculation at their then current accreted value rather than their face value.

Sec. 6. 35-A MRSA §3156 is enacted to read:

§3156. Certificates of approval

The commission may issue a certificate of approval for an electric rate stabilization agreement, following submission to it of an application for approval, in the form and with any supporting data as the commission may require. The commission shall issue or deny the certification within 30 days of receipt of an application.

The commission may not, in any rate proceeding or other context, disallow or otherwise prevent the recovery of costs incurred by the electric utility under the terms of an agreement certified under this section based solely on the execution of the certified agreement.

The commission shall issue a certificate upon application by a utility pursuant to this section only if it finds that:

1. **Benefits.** The agreement, and any assistance in financing the agreement to be provided by the Finance Authority

of Maine, will provide near-term benefits to ratepayers of the utility that will be reflected in rates paid by the electric utility's customers;

2. Rate impacts. Potential future adverse rate impacts associated with the agreement are not likely to be disproportionate to near-term gains;

3. Protection of certain facilities. The agreement does not have as a necessary or probable consequence the permanent cessation of operations of a qualifying facility with a capacity of more than 50 megawatts;

4. Consistent with energy policy. The agreement is consistent with section 3191; and

5. Protection of energy resources. The agreement will not adversely impact the availability of a diverse and reliable mix of electric energy resources and will not significantly reduce the long-term electric energy or capacity resources available to the electric utility and needed to meet future electric demand. To the extent consistent with the long-term interests of ratepayers, an agreement resulting in a modification of an existing contract and that preserves electric energy or capacity resources is preferred over an agreement that results in the permanent cessation of operations of a qualifying facility.

For purposes of this section, the term "qualifying facility" has the same meaning as in section 3303. For purposes of this section, the term "electric rate stabilization agreement" means any agreement by an electric utility with a qualifying facility that will result in the reduction of costs to the electric utility and includes, but is not limited to, agreements proposed to be supported with financing made available under Title 10, chapter 110, subchapter III.

A certificate may not be issued under this section after May 1, 1995.

Sec. 7. 35-A MRSA §3309 is enacted to read:

§3309. Performance of contracts; commercially reasonable business practices

In the performance or enforcement of any contract for the purchase of energy resources by an electric utility, all parties shall act in good faith and observe reasonable commercial standards of fair dealing. Conformance to this standard does not constitute imprudent utility behavior.

Sec. 8. Loans authorized. The Finance Authority of Maine may make loans to electric utilities for electric rate stabilization projects, as defined in the Maine Revised Statutes, Title 10, section 963-A from up to \$100,000,000 of the proceeds of revenue obligation securities secured by capital reserve funds pursuant to Title 10, section 1053. Notwithstanding any provision of Title 10, chapter 110, loans may aggregate up to \$100,000,000 plus an amount determined by the Finance Authority of Maine of up to an additional aggregate of \$20,000,000 to fund any capital reserve fund established by the authority for these loans. Revenue obligation securities secured by capital reserve funds pursuant to Title 10, section 1053 relating to such loans may not be issued for an electric rate stabilization agreement, as defined in Title 35-A, section 3156, executed after May 1, 1995. Any revenue obligation securities issued for electric rate stabilization projects secured by capital reserve funds pursuant to Title 10, section 1053 are limited obligations of the Finance Authority of Maine payable from revenues from borrowers and any capital reserve funds pledged for those securities as those funds are administered under Title 10, chapter 110, subchapter III and are not payable from any other assets or funds of the Finance Authority of Maine.

Sec. 9. Reports. The Finance Authority of Maine shall report by April 15, 1995 to the joint standing committee of the Legislature having jurisdiction over utilities matters on all loans made to electric utilities for electric rate stabilization projects, as defined in the Maine Revised Statutes, Title 10, section 963-A. The report must identify each loan made, to whom the loan was made, the amount of the loan and the general description of the electric rate stabilization project for which the loan was made. The report may include recommendations for extending the period during which loans to electric utilities may be made or any other suggestions for changes to the provisions of this Act. The Public Utilities Commission shall report by April 15, 1995 to the joint standing committee of the Legislature having jurisdiction over utilities matters on all electric rate stabilization agreements for which an application for a certificate of approval has been processed pursuant to Title 35-A, section 3156. The report must identify the number of applications received by the commission, the identity of the applicants, a general description of each application and, for each application, whether the application was approved or denied. The report may include recommendations for extending the period during which certificates of approval may be issued to electric utilities or any other suggestions for changes to the provisions of this Act.

FINANCE AUTHORITY OF MAINE
Chapter 107
Electric Rate Stabilization Project Taxable Bond Program

SUMMARY: This rule establishes the procedures, standards and fees applicable to borrowers applying for and benefiting from the Authority's program for issuance and sale of Authority bonds secured by loans benefiting from a capital reserve fund contract with respect to an Electric Rate Stabilization Project.

1. **DEFINITIONS**

A. **Reference to Act Definitions.** Certain terms used in this rule, which are defined in the Finance Authority of Maine Act, 10 M.R.S.A. §961 and following (the Act), shall have the meanings set forth in the Act, unless clearly specified otherwise or unless the context clearly indicates otherwise.

B. **Defined Terms.**

1. "Bond" means a revenue obligation security (as defined in the Act), and includes a certificate of participation or other evidence of indebtedness representing an interest in one or more loans benefiting from capital reserve fund security under this program.
2. "Borrower" includes a prospective borrower where the context requires.
3. "Capital Reserve Contract" means an agreement pursuant to which the Authority establishes a capital reserve fund to back a bond and/or to benefit a loan.
4. "Capital reserve fund" means a capital reserve fund established pursuant to 10 M.R.S.A. §1053.
5. "Cash equivalents" means deposits of money, certificates of deposit or other cash equivalents, irrevocable letters of credit issued by financial institutions acceptable to the Authority or loan guarantees from insurance companies or other institutions satisfactory to the Authority.
6. "Certificate of Approval" means a certificate issued by the Maine Public Utilities Commission (MPUC) upon application of an electric utility with respect to an electric rate stabilization agreement pursuant to 35-A MRSA Section 3156.
7. "Chief Executive Officer" means the Authority's chief executive officer or a person acting under the supervisory control of the chief executive officer.
8. "Electric Rate Stabilization Project" means an agreement by an electric

utility with a qualifying facility as defined in 35-A MRSA Section 3303, that will result in the reduction in costs to the electric utility and that has been certified by the MPUC to meet the standards established under 35-A MRSA Section 3156.

9. "Eligible enterprise" means an Electric Rate Stabilization Project.
10. "Financing commitment" means, for purposes of this rule, a letter from the chief executive officer agreeing to include a loan in the program to be funded from the proceeds of bonds backed by a capital reserve fund, on the terms and conditions and subject to the requirements stated therein.
11. "Members" means the members of the Authority as provided for in the Act.
12. "Program" means the Electric Rate Stabilization Project Taxable Bond Program of the Authority established pursuant to the Act.
13. "State" means the State of Maine.
14. "Trustee" means a financial institution acting as trustee for holders of bonds issued and sold pursuant to this rule and the Act.
15. "Underwriter" means a qualified entity capable of buying and/or marketing the bonds.

2. APPLICATION PROCEDURES

A. The borrower shall submit an application, which complies with the requirements of this rule on such forms and in such numbers as may be specified with such supporting information as shall be required by this rule and such additional information as may be requested by the chief executive officer.

B. The chief executive officer shall be responsible for making application forms available and assisting borrowers in preparing applications.

C. No application will be considered complete unless all questions are answered, and all supporting information is provided in form and substance satisfactory to the chief executive officer.

3. PRIORITY

The Authority will review only complete applications. An application will not be complete without a Certificate of Approval from the Maine Public Utilities Commission. Once a complete application is received it will be reviewed in the normal course of the Authority's business and voted upon by the Board. Following approval by the Board, a financing commitment will be issued and must be executed by the applicant within the time provided for therein, which may not

exceed sixty days. In the event that aggregate applications are received in excess of the dollar amount of bonding authority available, then applications will be considered on a "first come, first served" basis based on the date and time a complete application is received by the Authority. The Authority will document the date and time of receipt of a complete application. If an incomplete application is received at the Authority, documentation of that incompleteness will be explicit, written notice thereof will be given to the applicant, and subsequent completion of the application will be explicitly documented. No application will be deemed received for purposes of establishing priority until the application is complete as determined by the chief executive officer. If an applicant does not execute a financing commitment and pay all fees required to be paid within the time provided in the financing commitment, the application shall be deemed withdrawn and the next project for which the Authority has received a complete application will be entitled to first priority.

4. APPLICATION CONTENTS

A. **Project Information.** There shall be submitted with each application such general information identifying and describing the borrower, the proposed project, and the proposed financing of the project as specified in the application form and as otherwise requested by the chief executive officer, and shall include evidence of management and planning capability of the borrower, evidence pertaining to the project's proposed plan of financing, pro forma financial statements, historical financial statements and such other evidence or information as the chief executive officer or the application form may require.

B. **Certificate of Approval.** No application is complete without an accompanying Certificate of Approval.

5. CRITERIA AND CONSIDERATIONS

A. An application will not be approved unless the Authority determines that there is a strong likelihood that the loan will be repaid according to its terms.

B. An application will only be approved to the extent, in terms of the assistance requested and the liability assumed by the Authority, that it is prudent for the Authority to provide such assistance and assume such liability.

6. LOAN, COLLATERAL, INSURANCE AND TERM STANDARDS

A. **Collateral.** The Authority may require such collateral as it deems necessary to secure a loan.

B. **Maximum Capital Reserve.** Without limiting the generality of any other provisions of this rule or the Act, in the case of an electric rate stabilization project the Authority may secure up to 100% of the revenue obligation securities by and with a capital reserve fund up to the maximum dollar amount allowed by the Act.

C. **Term.** The maximum term of loans under the program will be determined by the

Authority on a case-by-case basis. The Authority may approve such amortization schedules, including balloon payments, that it deems to be prudent.

7. COMMITMENT OR REJECTION

A. Upon approval of an application by the Authority, a financing commitment shall be issued setting forth the terms and conditions under which a loan will be included in the program. The financing commitment may specify special requirements applicable to the project and requiring the submission in final form within a time specified of all appropriate documents, drawings, plans, specifications, appraisals, environmental site assessments, bonds, guarantees, permits, approvals, surveys, title insurance, opinions, financial statements, cost and other certifications and other instruments evidencing full compliance with Authority requirements and in form and content satisfactory to the Authority.

B. No financing commitment shall become effective until the borrower has signed it and the borrower has paid to the Authority the commitment fee as specified in the financing commitment, and other applicable fees due pursuant to Section 11 herein.

C. If, upon examination of the application and supporting information, the Authority rejects such application, the borrower shall be informed in writing of the rejection and the reasons therefor.

8. LOAN TERMS AND CONDITIONS

A. **Mandatory Covenants.** Any loan approved for the provision of capital reserve fund security under the program shall include covenants requiring the borrower to:

1. Make periodic payments of principal and interest;
2. Pay any taxes and governmental charges assessed against the borrower or any collateral;
3. Comply with all applicable federal, state and local laws, regulations and ordinances;
4. Obtain, maintain and pay for any insurance required as a condition of the financing commitment against damage to or loss of any collateral;
5. Maintain and repair any collateral;
6. Permit the Authority to inspect any collateral and to inspect and copy the borrower's books and records at any reasonable time;
7. Provide to the Authority periodic financial reports in form and content, at times and for periods acceptable to the Authority and prepared by persons acceptable to the Authority and also provide to the Authority, when

specifically requested, annual income tax returns;

8. Refrain from transferring any interest in the collateral, if any, without the Authority's prior written consent;
9. Repay any advances necessary to protect the collateral, if any, or enforce the rights of the trustee or the Authority;
11. Execute such further assurances as may be reasonably required; and
12. Keep the collateral, if any, free from liens and encumbrances not approved in advance in writing by the Authority.

B. **Optional Covenants.** In addition, the Authority may impose such other terms and conditions as it may deem prudent or desirable to assure the sale of bonds at reasonable rates, completion and continuation of the project, preservation of collateral, if any, and repayment of the loan benefitting from a capital reserve fund.

9. RIGHTS AND RESPONSIBILITIES OF THE AUTHORITY

A. The Authority's obligation to arrange or to replenish a capital reserve fund will be evidenced by a capital reserve contract or other documentation in form satisfactory to the Authority.

B. The Authority may impose such conditions, provisions and obligations in any capital reserve contract, loan documents, bond documents, or other documentation used to evidence a transaction pursuant to this Program as it may deem necessary or prudent for the effective servicing and monitoring of any loan made under this Program.

10. CAPITAL RESERVE FUND OPTIONS

Pursuant to the capital reserve contract or other documentation, the Authority will require the trustee to notify the Authority of any default by the borrower. After passage of a period of time specified in the capital reserve contract or other documentation and upon performance of such obligations by the trustee as the Authority may by contract require, the Authority may require that it have the following options:

- A. Cure one or more defaults up to a stated limit;
- B. Purchase the entire loan on the terms specified in the contract and call the applicable bonds;
- C. Arrange for payment of the remaining balance of the capital reserve fund liability, either in one lump sum or over the original term of the defaulted loan;
- D. Such other options as the contract or documentation may provide.

11. **PREMIUMS, FEES AND OTHER CHARGES**

A. The Authority will be paid a commitment fee in accordance with the following schedule:

LOAN AMOUNT	FEE
Up to \$7,000,000	1% of the loan benefitting from capital reserve fund security
Greater than \$7,000,000 and less than \$10,000,000	1% of the first \$7,000,000 of the loan benefitting from the capital reserve fund security, plus up to 1% of the portion of the loan above \$7,000,000
\$10,000,000 or more	1% of the first \$7,000,000 of the loan benefitting from the capital reserve fund security, plus up to .5% of the portion of the loan above \$7,000,000

The Authority may, in its discretion, provide that a portion of the commitment fee is due upon execution of the financing commitment with the remainder due at a later date specified in the financing commitment, any such later date shall not be later than the date of issue of the bonds. Upon funding of the loan benefitting from capital reserve fund security, the commitment fee may in the discretion of the Authority, be applied in whole or in part to the first year's capital reserve fund premium. In the event that the borrower elects not to participate in the program for reasons other than the Authority's breach of the financing commitment, the full amount of the fee may be retained by the Authority as liquidated damages and/or for payment of the Authority's time and expenses unless otherwise provided in the financing commitment.

B. The Authority shall be paid an annual capital reserve fund premium not to exceed 2%, as determined by the Authority, of the outstanding balance of the portion of each loan benefitting from a capital reserve fund at the closing of the loan and on each anniversary date of the loan or such other date specified in the contract. The premium shall be paid in advance for such period as is specified in the contract or other documentation. In the case of a loan in excess of \$10,000,000, the annual premium shall not exceed 1/2 of 1%, as determined by the Authority.

C. The Authority may provide that it shall receive in lieu of annual capital reserve fund premium payments a one time payment upon execution of the capital reserve fund contract equal to the estimated present value of premiums scheduled to be due over the anticipated term of the loan.

D. In the event that bonds are issued for the program prior to the execution of the capital reserve contract, the Authority may require borrowers to pay the interest rate differential between the rate paid on the bonds and the rate achieved by investment of bond proceeds prior to the funding of the loan from bond proceeds.

E. A borrower shall reimburse the Authority for its out-of-pocket expenses in connection with processing an application for capital reserve fund security or with the capital reserve fund, including any fee payable in connection with servicing the loan, and all expenses in connection with the bond issue, including without limitation charges of counsel and costs of sale of bonds, copying, mailing, phone calls, advertising and travel.

F. Where application is made after issuance to obtain the Authority's and/or trustee's consent to transfer of collateral, if any, alteration of rights or other matters, the Authority may charge the borrower for the cost of the Authority's staff and trustee's staff utilized to review the application and for the Authority's and trustee's out-of-pocket expenses in connection with the application, including without limitation, charges of counsel.

12. CREDIT ENHANCEMENT

The Authority may select an insurer or letter of credit issuer to provide credit enhancement for a bond issue, with or without the backing of the Authority's authority under 10 M.R.S.A. §1053. Borrowers shall be required to pay any fees and expenses charged by the provider of credit enhancement.

13. DEBT MANAGEMENT TRANSACTIONS

In exercising the debt management powers of the Authority, the chief executive officer of the Authority shall be authorized to commit the Authority to enter into transactions or agreements in the form of interest rate swaps, rate exchanges, and such other such transactions or agreements as are necessary or desirable, in the opinion of the chief executive officer of the Authority, to reduce financing costs or to reduce the risk of price changes or interest rate fluctuations, including, but not limited to the purchase of financial futures contracts, options or other transactions which constitute offsetting positions with respect to such interest rate swaps or rate exchanges, all as shall not be inconsistent with the purposes of the Act.

14. WAIVER OF RULE

The members or the chief executive officer may waive any requirement of this rule, except to the extent that the requirement is mandated by the Act, in cases where deviation from the rule is insubstantial or not materially adverse to the interests of the Authority.

15. MISCELLANEOUS

Any approvals, reviews, determinations or findings of the Authority related to any plans, specifications, contracts, applications or other documents required or contemplated by this rule or the Act are solely for the benefit of the Authority and shall not in any way constitute any approval of the adequacy of such documents or of the project.

ORIGINAL RULE

Basis Statement: This rule is intended to implement the Authority's program for providing financing for electric rate stabilization projects and sale of Authority bonds secured by eligible loans. Through use of capital reserve funds, credits are enhanced to allow for long term loans at reasonable interest rates.

This rule is based on the following:

1. The Finance Authority of Maine Act, 10 M.R.S.A. Chapter 110, and particularly §§ 969-A, 1053 and 1054, and subchapters II and III, and Chapter 712 of the Public Laws of 1994 whereby the Authority was given the authority to issue \$100,000,000 in revenue obligation securities for the purposes of making loans for electric rate stabilization projects and an additional \$20,000,000 in revenue obligation securities for the purposes of funding capital reserve funds for electric rate stabilization projects.
2. Underwriting standards of other public and private sector lenders and loan insurers.
3. The expertise and experience of the members and employees of the Authority who represent a broad and diverse background in business, finance and government.
4. Advice and opinions of professionals in the underwriting community, lenders and counsel.

BASIS STATEMENT - PUBLIC COMMENTS

GENERAL COMMENTS - PUBLIC BENEFIT

Comment

¹ **Central Maine Power Company ("CMP")** submitted written comments on Chapter 107 which registered agreement with the Rule's not requiring the Members to make a public benefit determination, stating CMP's belief that this is "consistent with the legislative intent reflected in the Statute."

NO RESPONSE REQUIRED

² At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Catherine Lee, Esq., Bernstein, Shur, Sawyer & Nelson,**

representing the Town of Fort Fairfield submitted oral comments on Chapter 107.

Ms. Lee stated that the Town of Fort Fairfield agreed to support Central Maine Power in its effort to obtain support for its approval of the Fort Fairfield Venture buyout. She added that the town would submit written comments. She stated that since the PUC has evaluated the public benefit and made a finding that the project provides public benefit, it is not necessary for FAME to make the same evaluation. She added that it is still appropriate for FAME to look for the economic impact and suggests that FAME consider the economic impact in evaluating future projects.

NO RESPONSE REQUIRED

³ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **John Reebee**, a forester submitted oral comments.

Mr. Reebee's comments regarded the difficulty in stabilizing electric rates. Mr. Reebee stated that he thought it was presumptuous to assume that we can do that. He further added that in the long-term interest of the State and the economy, the effect on Northern Maine should be carefully considered. He further stated that when the pendulum swung the other way on what to do about energy, the State would find that the expense of reestablishing Fort Fairfield is great.

RESPONSE

The Legislature considered the public policy and long-term interests of the State and the economy. Issues were addressed by the Legislature when the enabling legislation was passed, and therefore the Members felt it was not the Authority's responsibility to deal with those issues.

⁴ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Caroline Mahaney**, Easton, candidate for Senate, submitted oral comments.

Ms. Mahaney encouraged the Authority to do the best thing for all of the interested involved.

NO RESPONSE REQUIRED

GENERAL COMMENT - CONSTITUTIONALITY

⁵ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Martha Grant, Esq.**, Fort Fairfield, candidate for Maine House submitted oral comments.

She is not satisfied with the constitutionality of the proposal. She stated that she feels the proposal violates the prohibitions against using the State's credit without a State-wide referendum. In her opinion, this is an indirect loan of the State's credit.

RESPONSE

The Members felt that the constitutionality of the law was something with which the Legislature and the Attorney General's office had already dealt and it was not the Authority's responsibility to deal with that issue.

GENERAL COMMENT

⁶ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, Martha Grant, Esq., Fort Fairfield, candidate for Maine House submitted oral comments on Chapter 107.

She believes that there should be a showing that the project will not adversely affect the State's credit rating.

RESPONSE

The Members felt that the effect the law could have was something with which the Legislature already dealt and was not a specific issue with which it was the Authority's responsibility to deal directly.

SPECIFIC COMMENT - Chapter 107, Section 3. PRIORITY

⁷ **Central Maine Power Company (CMP)** submitted written comments regarding that part of the Rule establishing a priority protocol and questioning whether priority should be established on the basis of a completed application. CMP registered the thought that "the priority should be based upon receipt of the Certificate of Approval from the PUC along with a completed application form rather than upon the receipt of every last bit of detailed information which the FAME staff may request following the initial submission."

RESPONSE

The Members felt that a completed application was important, otherwise the priority would be established merely by filing a piece of paper purporting to be an application, and agreed with the staff's belief that the application requirements and the requirements of the Rule are clear enough so that anyone applying for benefits under the program should be able to put together a correct, completed application. Therefore, no change was made to the Rule as a result of CMP's request. In this regard, it should be noted that CMP also commented that "the Rule could provide that no application will be accepted unless accompanied by the PUC Certificate of Approval," but indeed to the contrary the Members found that staff has spent substantial time in advance of that Certificate of Approval on one project, at the behest of CMP.

SPECIFIC COMMENT - Chapter 107, Section 5. CRITERIA AND CONSIDERATIONS

⁸ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Martha Grant, Esq., Fort Fairfield**, candidate for Maine House submitted oral comments.

She felt that the Rule includes too few standards to make an adequate determination of the viability of a project. She indicated that with no standards in the Rule, it is difficult for those who might be on FAME Board or Staff in the future to know what to do. She suggested that the Authority consider using the standards used for bond rating of public utilities.

RESPONSE

The Members felt that the standards set by the Rule provide flexibility to the staff while at the same time, giving the staff standards which have been and are presently being applied in other loan programs. The Members, therefore, did not feel that any changes were needed.

SPECIFIC COMMENT - Chapter 107, Section 6. LOAN, COLLATERAL, INSURANCE AND TERM STANDARDS, A. COLLATERAL

⁹ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Martha Grant, Esq., Fort Fairfield**, candidate for Maine House submitted oral comments.

She stated that she was concerned that the project should have sufficient collateral to secure a loan. She suggested a minimum standard of a first mortgage on any property purchased with bond proceeds.

RESPONSE

The Members felt that a determination of the requirement for collateral, if any, was a decision which the staff and the Members would make based on all financial information provided during the application and approval process. The Members felt that the Rule, as drafted, sufficiently addressed these elements and that no further amendment was required.

¹⁰ At the Public Hearing on Chapters 107 and 202 (Amendment 12) held in Presque Isle, Maine on August 17, 1994, **Jim Donnelly**, State Representative submitted oral comments.

Mr. Donnelly stated that he felt the Rule language regarding collateral is sufficient because it allows the Board to consider each project on its own merits.

NO RESPONSE REQUIRED

SPECIFIC COMMENT - Chapter 107, Section 11. PREMIUMS, FEES AND OTHER CHARGES

¹¹ Central Maine Power filed written comments stating that it "believes that the fees established by the Rule are unreasonably high."

RESPONSE

The Rule fairly reflects the risks taken by the Authority and the work performed by the Authority, and in any event is subject to modification using the Waiver provision of Section 14 of the Rule, thereby providing the flexibility to deal with specific instances where adjustment of the fee is justified.

The Members believe that the rule will benefit the citizens of Maine by providing the criteria for issuing bonds for electric rate stabilization projects as permitted by PL 1994, c. 712. The Members feel that any costs associated with establishing these criteria is outweighed by the benefits. There do not appear to be any alternatives which would be less costly to society. The rule is designed to encourage and assist businesses, including small businesses, by allowing the use of bonds for electric rate stabilization projects and thereby stabilizing electricity rates.

Economic Impact Analysis Statement/ Fiscal Impact Note:

A. This rule will have no cost to the Authority other than costs which can be absorbed within allocated appropriations.

B. Public utilities which may use the program and nonutility generators which may have contracts renegotiated as a result of a loan made under the Program may be affected by the Rule.

C. The rule will have no effect on competition. It is expected the rule will help improve businesses by assisting public utilities to lower costs, and thus rates, by using bonds for electric rate stabilization projects.

D. The above statements are made based on existing demands on the program and analysis conducted at the time the underlying legislation was enacted.

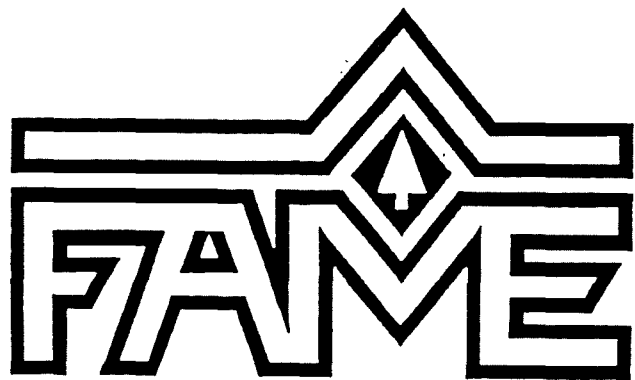
The proposed rule will not impose any costs on municipalities or counties.

Effective Date: Original Rule: October 29, 1994

Authority: 10 M.R.S.A. § 963-A et seq., § 969-A, Subchapter III of Chapter 110, including §§1053 and 1054; Chapter 712 of the Public Laws of 1994.

FINANCE AUTHORITY OF MAINE

*\$79,300,000 Final Pricing Information for the
Finance Authority of Maine
Taxable Electric Rate Stabilization Revenue Notes
Series 1994A (Central Maine Power Company)*



November 9, 1994

Prudential Securities



MARKET AND PRICING COMMENTARY

FINANCE AUTHORITY OF MAINE Taxable Electric Rate Stabilization Revenue Notes Series 1994A (Central Maine Power Company)

On Tuesday, October 18, 1994 the Finance Authority of Maine ("FAME") issued \$79,300,000 of fixed rate taxable bonds to be sold to qualified institutional buyers in the private placement market pursuant to Rule 144A. The net proceeds of the financing were loaned to Central Maine Power Company ("CMP") to finance the termination of a power purchase agreement between CMP and Fairfield Energy Venture, the owner of a 33-megawatt wood-fired electric generating plant which was then acquired by a subsidiary of CMP. Proceeds were also used to fund the Capital Reserve Fund as part of this financing program. CMP estimated that the savings from the "buy out" of the contract will result in present value savings to Maine's ratepayers of \$35 million. This financing was the first issue under this program, which was authorized by the State Legislature this year.

Prudential Securities monitored taxable and Treasury market conditions during the weeks prior to setting the spread for the financing in order to advise FAME and CMP of the appropriate time to market and price the Electric Rate Stabilization financing. Prior to pricing, many market commentators believed that the market had absorbed much of the inflationary data which had caused the market to sell off and had caused the 30-Year Treasury rate to rise 1.25% in eight months. However, while many taxable bonds had settled into a trading range for some time, it was clear that the interest rate cycle was still focused on rising rates. Nevertheless, many analysts believed that the long bond would top 8% by the end of the year and that the Fed would tighten at least once more in 1994. As a result, while the market was relatively calm for several weeks prior to pricing, Prudential Securities advised both FAME and CMP that underlying market jitters continued and that it still remained a buyer's market. Therefore, having a flexible marketing and pricing timetable was essential to catching the market in the event of a temporary movement toward lower rates.

The initial price talk for the financing began on Tuesday morning at a spread of 65 basis points to be priced off of the average life of the financing which was calculated to be 6.70 years. The maturity of the comparable Treasury was the August 15, 2001 (7 7/8%) Treasury which was trading at 7.43% at the open of the market. By noon, Prudential Securities had received initial feedback from a number of potential investors who indicated that they were interested in the financing, but would not circle inside of a 70 basis point spread. By the same time, we had only received firm orders of \$9 million at a spread of 65 basis points, but had received strong indications of interest from investors at a spread of 70 basis points. Because of the turbulence of the market and due to the strong interest from several large institutional buyers at the spread of 70 basis points, Prudential Securities recommended to FAME and CMP that the financing be repriced at the spread of 70 basis points, which both FAME and CMP agreed to.

Within a very short time period, Prudential Securities had received firm circles for \$83 million, slightly more than the par amount of bonds, at a spread of 70 basis points. We then advised both FAME and CMP to close the order period. During this time period, the yield of the August 2001 Treasury had begun to slide somewhat and was yielding a 7.46%. Because the market was expecting a Trade Balance Report on Wednesday of the week and a Jobless Claims Report and Housing Starts Report on Thursday, Prudential Securities believed that the market would only deteriorate and advised FAME and CMP to lock in the spread to the Treasury. At 4 p.m., FAME, CMP and Prudential Securities locked in the coupon for the financing at 8.16% which represented the spread of 70 basis points over the August 2001 (7 7/8%) Treasury, trading at 7.46% at that time.

The market timing of the Finance Authority of Maine - Central Maine Power financing could not have been more fortuitous. Indeed, the Housing Starts Report issued on Thursday, October 19th, detailed stronger than expected housing starts which signaled a strong indication to the market that the economy and inflation was more robust than previously thought. As a result, the 30-Year Treasury, which closed at 7.86% on the day of the FAME pricing, closed at 7.996% only two days later and broke the 8% barrier the following week. In addition, by Thursday, October 20th, two days after pricing, the yield of the August 15, 2001 Treasury had increased by 17 basis points

and has continued to increase since that time.

When compared with comparable issues in the market for the same time period and as demonstrated by initial feedback from the market that a 65 basis point spread was too aggressive, the final spread on the FAME financing was considered extremely tight to the market. This phenomenon is particularly noteworthy since **taxable moral obligation bonds had never been sold** in the 144A Private Placement market. One week prior to the sale, the County of Los Angeles sold a taxable pension obligation financing in the *public* market with a comparable maturity to the FAME financing's average life. The Los Angeles debt was AMBAC insured, exempt from California income taxes, and was priced in the public market at a spread of 50 basis points over the comparable Treasury for a coupon of 8.00%; however, by the week of the FAME pricing, the issue was trading in the secondary market at a spread of 70 basis points to the Treasury. Also in the public market that week, two utility financings rated "AAA" priced at spreads between 70 and 85 basis points. In the 144A market and Private (Regulation D) Market, during the same week, several large financings with final maturities in 2003 were priced with spreads in excess of 80 basis points over the comparable Treasury.



Comparable Issues

**Finance Authority of Maine
Taxable Electric Rate Stabilization Revenue Notes
Series 1994 A
(Central Maine Power Company)**

Rating	Par Amount (\$ mils)	Issue	Average Life	Guarantor	Offering Type	Approx. Spread
Aaa/AAA	79.30	Finance Authority of Maine 8.16% 1/1/05	6.71 years	FSA	144A	+70
Aaa/AAA	43.00	Philadelphia Electric 7.125% 8/15/23	28 years	MBIA	Public	+85
Aaa/AAA	3.00	Duquesne Light 6.625% 6/15/04	NA	MBIA	Public	+70
Aaa/AAA	90.25	Los Angeles Pension Obligations 8.00% 6/30/01	7 years	AMBAC	Public	+50
Aa3/AA	400.00	Met Life 6.3% 11/01/03	NA	NA	144A	+85
A1/AA-	300.00	Prudential Capital 6.875% 4/15/03	NA	NA	144A	+95
A1/AA-	100.00	VW Credit 6.5% 11/15/03	NA	NA	144A	+80
AAA	50.00	Champion 2025 Loan Bckd	3.8 years	CAPMAC	144A	+120
Aaa/AAA	20.00	Genstar 6% 12/30/07	7.66 years	General Electric	Private	+95
Aaa/AAA	20.00	Continental Airlines Lev. Lease	10.5 years	General Electric	Private	+95
AAA	40.00	First City Lease Bckd	2 years	NA	Private	+90
AAA	110.00	Trailer Train Pass Thru	7 years	NA	Private	+70





WTVL
6/29

Our View

NUG buy-out has unintended result

The small Aroostook County town of Fort Fairfield finds itself in a dilemma.

The area has been whacked by the closure of Loring Air Force Base. The town was swamped by an overflowing Aroostook River. There have been two bad years for the potato crop.

But what really galls townspeople is the use of state-backed dollars, in the words of one community advocate, "to destroy the town."

The conflict results from the legislation engineered by Central Maine Power, which allows funds guaranteed by the Financial Authority of Maine to buy out or buy down expensive electrical contracts involving non-utility generators (NUGs) that sell power to CMP.

The compromise reached last spring was hailed as a way for the utility to escape from decade-old contracts that locked in the price of electricity at a cost far higher than the going rate. CMP would obviously benefit and so, it was presumed, would its ratepayers.

Fairfield Energy Venture is a 32-megawatt privately owned small power producer utilizing biomass fuels to generate electricity. It provides 30-33 percent of the Fort Fairfield tax base, 38 well-paying jobs and an additional 100 jobs for suppliers, and with a \$1.5 million payroll is one of the top two or three local employers.

CMP would buy the plant from its out-of-state owners. By thus eliminating its need to purchase expensive power, CMP would be able to effect a modest rate reduction to its southern and central Maine customers.

And indeed, that was the intent of the NUG buy-out legislation.

But Fort Fairfield officials see it differently, arguing that the FAME money is being used to benefit CMP by eliminating one of the town's largest employers and taxpayers.

A hearing before the Public Utilities Commission is scheduled this week and we would hope a solution could be found to preclude the dire straits predicted by townspeople.

The scheme devised to buy out NUG contracts was supposed to create rate reductions that ultimately would be passed along to customers.

It was not supposed to create additional hardships for isolated Maine communities already suffering from economic reversals over which there was no control.

Bangor Daily News

A. Mark Woodward, Editorial Page Editor
Todd Benoit, Assistant Editor
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60N
6/30/94

P.O. Box 1329, Bangor, Maine, 04402-1329 Tel. (207) 990-8000

Fort Fairfield buyout

The state of Maine is about to get a lesson in the high human cost of public policy gone awry.

The classroom is Fort Fairfield, a community of 3,900 people, with a local economy historically grounded in natural-resource-based industries, timber and potatoes and, most recently, the production of biomass electrical energy from burning wood and waste fiber at the Fairfield Energy Ventures plant.

The problem is high electric rates statewide, driven to a significant degree by public policy developed in the early 1980s that encouraged the construction of alternative energy plants such as the one in Fort Fairfield (12.74 cents per kilowatt hour).

The objective was to wean the region off its dependence on imported oil, which was projected to cost \$50 per barrel in the 1990s. It now is selling for \$12. The power companies are burning far less oil. However, they are locked in these expensive contracts well into the next century. Spot-market electricity can be bought today for less than 5 cents per KWH, the expected cost of long-term supplies of new wind-powered generators.

The issue is whether the public should continue to subsidize this policy through higher power rates and jobs that won't be created in a costly energy environment. During the period of high alternative energy costs, Maine has foregone, by one estimate, 3,000 to 4,000 jobs.

A law that becomes effective July 14, provides Central Maine Power Co. with access to a \$100 million pool of financing to buy down or rid itself of these costly alternative power contracts. It has chosen to buy out the Fairfield contract and the plant for \$78 million, at a projected savings to its ratepayers of \$35 million over what would have been the remaining seven-year life of that deal. It is equivalent to a 1 percent impact on CMP's rates.

The bottom line in this scenario is that public policymakers, in Washington and Augusta, in creating a system of subsidies have created dependence and the likelihood that people will be hurt. Whether public money is used to build a military base or a welfare system, when the day comes to dismantle the enterprise, there is pain.

In the past six years, Fort Fairfield has come to rely on Fairfield Energy Ventures for one-third of its municipal tax base (\$189,000, or 7 percent of its school budget), more than 30 high-paying jobs and another 100 jobs in the woods and the commercial sector. The plant is a solid public citizen. Put in perspective, it would be like Bangor gaining and losing 300 to 400 Defense Finance Accounting Service (DFAS) jobs in the span of six or seven years.

During the past three years, however, Central Maine Power Co. has lopped 500 jobs off its payroll. Electric rates paid their salaries, too, in places like Jackman, Portland, Dover and Augusta.

When the PUC hears testimony tonight in Fort Fairfield, it will get a clear picture of the human cost of rectifying a government policy that was well-intentioned, partially successful but which long ago was overtaken by events.

The community will point out the unfairness of the buyout, which in its view mugs an Aroostook County town in order to save \$6 a year on the light bill of a Scarborough resident. It will point out an irony: Fort Fairfield sent lobbyists to Augusta to argue for the legislation that now may devastate its economy. The town expected the bill to result in a buy-down of the cost of the contract, not a buy-out and closure of the plant. The community says it is prepared to sacrifice to produce lower electric rates, but is unwilling to be sacrificed itself.

The CMP-Fairfield Energy Ventures buyout is the first to come before the commission under the new law, which places a greater share of the responsibility for this issue where it properly belongs, on state government.

The power companies are obliged to take the initiative in making deals to buy down or buy out expensive contracts. CMP has done this.

The state, through the PUC and the Finance Authority of Maine, now must make choices that have the effect of indemnifying the power companies politically and economically. In the process, new policy will be created.

The state's mission this time is to take a long view, however painful that may be in the present, and not create another class of victims.

Maine Sunday Telegram

Bruce J. Gensmer, *President*
Louis A. Ureneck, *Editor and Vice President*

George Neavoll,
Editorial Page Editor

Warren E. Watson,
Managing Editor/Operations

Jeannine Guttman,
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FAIRFIELD ENERGY VENTURE

PUC should approve CMP plant buy-out

● Nobody wants to hurt a small town, but spiraling power costs hurt Maine's overall economy.

Mainers' concern for one another transcends county lines and municipal boundaries. Even so, difficult decisions sometimes involve a careful weighing of local damage against a broader public good. Such a decision awaits the Public Utilities Commission and the Finance Authority of Maine this summer.

It is the proposal by Central Maine Power Co. to buy out a private wood-fired generating plant in Fort Fairfield, using \$78 million in FAME loans.

Residents of Fort Fairfield (pop. 3,998) argue convincingly that closing the Fairfield Energy Venture plant would severely damage their local economy. It's already depressed by poor potato harvests, the closing of Loring Air Force Base in Limestone and recent flooding. The plant provides 38 well-paying jobs and helps sustain 100 more.

Those jobs for Fort Fairfield, however, come at considerable cost to other Mainers: namely CMP rate-payers. CMP is seven years into a 15-year contract with Fairfield Energy Venture, one of its major power suppliers. The price of FEV power runs 12.75 cents a kilowatt hour. Ratepayers last year paid \$29 million

for power from the Fort Fairfield plant that CMP contends was available for only \$6 million on the open market.

Cost differentials like that spurred legislative passage of the Electric Rate Stabilization Act earlier this year. It allows the utility to seek low-interest FAME funding it will later repay to buy down or buy out costly private power contracts. That's been the plan since the legislation was enacted April 15.

A CMP buy-out of the Fort Fairfield plant will save ratepayers an estimated \$44 million during the eight years remaining in the contract. It will take the utility 20 percent of the way toward its goal of reducing annual fuel costs by \$55 million. Meeting that goal, in turn, should hold CMP rate increases to the level of inflation.

That's a saving for 80 percent of Maine's population that public officials cannot afford to ignore. Nor should they ignore painful economic losses for Fort Fairfield. If CMP buys out the plant, it should make every effort to keep it operating. Failing that, public support for job creation in Fort Fairfield should be openly financed through economic development legislation, not through ratepayers' electric bills.

High-priced power from private generators is costing CMP customers millions of dollars a year they shouldn't be paying. It is also costing Maine jobs.

The power cost spiral must stop.

Editorials

Reality factor in energy buyouts

CS
7/11

A little over two months ago, a low-interest loan fund to encourage buyouts of costly electricity contracts passed the Legislature by acclamation.

Maine's rising retail electric rates demanded that something be done, and the Legislature did what it could without raising or enacting new taxes.

Last month, Central Maine Power announced a major deal — a \$78 million buyout of a Fort Fairfield wood-burning plant producing 13 cent per kilowatt hour electricity, among CMP's most costly suppliers.

But shutting down the plant, as appeared likely, would damage the economy of a region already hard hit by the impending closing of Loring Air Force Base.

Suddenly legislators from Aroostook County were singing a different tune. CMP's proposal would misuse the loan fund, it was charged. The law authorized "buy downs," keeping plants running, but not buyouts. The plan wasn't what lawmakers intended.

The answers are simple: no, no and no.

What happened was that reality set in. The idea of saving money for ratepayers — which people liked — ran head on into the reality that someone (the Fort Fairfield area, in this case) benefits from producing high-priced electricity. The argument against the CMP plan amounts to a version of "not in my back yard."

The uproar has had some effect, though: the Public Utilities Commission hustled up north for an unusual field hearing, and heard what it might have expected — Fort Fairfield doesn't want to lose a major employer. What it did not hear was how CMP is ever going to save money on purchased power contracts if it is forced to operate (or buy from) producers whose electricity costs more than twice the going rate.

None of this brings us nearer a solution. Despite the clamor for contract renegotiation, CMP has little room for maneuver. Buying out hydro contracts would make little sense; the investment in plant and equipment has already been made, and the fuel cost — for running water — is essential zero, so shutting down the generator doesn't save money. So CMP concentrated on plants like the wood-burning operation in Fort Fairfield. Whoever is bought out, it will hurt someone's local economy. Merely finding a different plant to buy won't affect the overall result.

The best outcome would be for CMP to continue operating the plant at a reduced cost. If the wood suppliers and farmers who take ash for their potato fields are willing to accept lower prices, and plant workers lower wages, there's a possibility of gaining savings comparable to a shutdown.

In the wake of public reaction, CMP is going to the bargaining table, said spokesman Mark Ishkanian, to see if such a deal can be worked out.

But everyone ought to recognize that economic reality can't be ignored. We didn't much like it when OPEC held us to ransom, and the cartel failed when the market produced lower-cost alternatives.

Similarly, we can't keep plants like Fort Fairfield's in business to produce energy no one can afford.

CMP slammed for buyout plan

WTVL
7/1/11

Associated Press

FORT FAIRFIELD — Acknowledging northern Maine concerns, Central Maine Power Co. is exploring ways to continue the operation of an Aroostook County wood-fired power plant that it is proposing to buy for \$78 million, according to company officials.

But CMP spokesman Mark Ishkanian reiterated Friday that the current economics of the Fairfield Energy Venture plant work against that prospect.

At a PUC public hearing Thursday night, about 450 people applauded speakers who objected to the proposed buyout, which would be financed through a low-interest loan from the Finance Authority of Maine.

Critics say the buyout would result in closing the 33-megawatt plant, costing nearly 40 jobs there and about 100 others in related businesses, and that a closing would also upset the town's tax structure.

They also complain that a closing would reduce revenue to the local utility, Maine Public Service Co., by more than \$440,000 annually and likely prompt rate increases in Aroostook County.

"We face the possibility of losing one of the few remaining vital contributors to our economy, one-third of our tax dollars, the source of funding in part for our schools, our library, our fire department, our police department, our security," said Fort Fairfield Town Manager Scott Seabury. "You are talking about our survival."

Area lawmakers have charged that the proposed buyout violates the intent of the new state law that made \$100 million in FAME financing available to utilities seeking to reduce the costs of their contracts with non-utility power generators.

The new law takes effect July 14 and a PUC decision is required by mid-August.

Rep. John L. Martin, the former House speaker from Eagle Lake, said if the PUC approved the proposal, the governor should call a special session of the Legislature to change the law.

Fort Fairfield pulls McKernan invitation

Associated Press

AUGUSTA — A Fort Fairfield business group has canceled Gov. John McKernan's invitation to be the featured speaker at an industry dinner during the upcoming Maine Potato Blossom Festival, accusing him of "an obvious lack of support" for opponents of a controversial utility buyout.

McKernan responded by telling the group he had received no request for a statement of support, but that he had directed state officials to monitor the case and seek ways to ease the impact of a buyout on the town.

The Fort Fairfield Chamber of Commerce "respectfully" issued its cancellation to McKernan in a letter dated June 29. The group said it acted in response to McKernan's "recent decision not to furnish a public statement" on the intent of a new law that authorizes low-interest, state-backed loans for utilities.

Portland Press Herald

Bruce J. Gensmer, *President*
Louis A. Ureneck, *Editor and Vice President*

George Nevoll,
Editorial Page Editor

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Jeannine Guttman,
Managing Editor/Reporting

CMP BUYOUT

PUC and FAME have separate roles to play

● FAME recognizes that in a rule proposed this week.

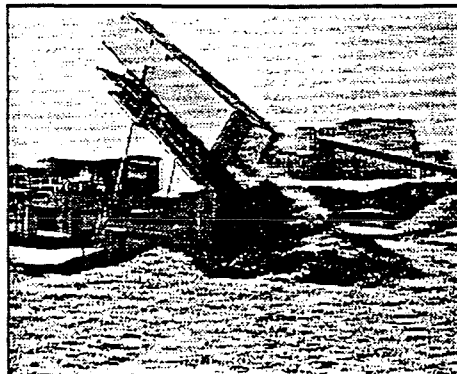
Two state agencies are deeply involved in Central Maine Power Co.'s request to use \$78 million in low-interest loans from the Finance Authority of Maine to buy out a wood-burning power plant in Fort Fairfield.

The Maine Public Utilities Commission and FAME can serve the state best by confining themselves to their very different roles.

The FAME board recognizes that in proposing a rule limiting it to judging the financial soundness of CMP's loan request. It should hold to that rule despite pressure to expand it, sure to come at an Aug. 17 public hearing in Presque Isle.

Maine has entrusted responsibility for regulating public utilities to the Public Utilities Commission. It's the proper authority to approve or reject CMP's request to buy out the Fairfield Energy Venture generating plant.

The commission should approve the buyout. It carries a projected savings of \$35 million to CMP ratepayers over six



File photo

Wood chips to power in Fort Fairfield.

years. FAME, in turn, should authorize the low-interest loan. CMP's borrowing options are limited by its junk-bond credit rating.

Even with a buyout, every effort should be made to continue operating the private Fort Fairfield plant. The economy of the town benefits from its 38 jobs and those in supporting services.

The buyout decision and the low-interest loan for CMP are important decisions waiting to be made. They can be made best by agencies that stick to their clear and separate roles.

Bangor Daily News

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FAME: a good call

Residents of the Fort Fairfield area failed to deter the Finance Authority of Maine from approving draft rules that ratify what it was intended to have: an important but narrow focus in eliminating expensive alternative energy contracts that have driven up electric rates and cost this state jobs.

The controversial buy-out of Fairfield Energy Venture by Central Maine Power Co. put FAME in the hot seat Thursday. To its credit, the agency resisted the lobby that wanted it to overextend its jurisdiction, which in this matter is responsibly handling a \$78 million loan.

The people from the County who were bused down to Augusta this week are correct in thinking there is room for compromise and interpretation on issues relating to the Fort Fairfield plant and its employees.

CMP may succeed in finding a way to keep the plant operating. Perhaps it can land a role in the larger context of whole-

sale or retail wheeling of electrical energy.

The Public Utilities Commission has the flexibility to interject ideas and concepts of its own. The PUC will serve majority ratepayer interests by eliminating Fairfield's 13-cent electricity on the state grid. It may be able to contribute to actions that will preserve Aroostook County jobs while addressing the larger issue of policy in future contract buy-downs and plant buy-outs.

But the finance agency's role is limited. As FAME's Charles Mercer accurately pointed out at Thursday's meeting, it was not dealt into the process as a political player, but as a financial agent. It has an important function in establishing underwriting standards, analyzing credit and managing the program's money.

The Finance Authority of Maine is wise to leave the politics and energy issues where they belong, with the Legislature and the PUC.

FAME and CMP

BDN 8-17-94

Like any nervous loan applicant, Central Maine Power Co. is waiting for a decision from the Finance Authority of Maine (FAME), the agency empowered by the Legislature to handle the utility's request for a \$78 million loan to buy a wood-fired power plant in the Fort Fairfield area.

CMP needs the loan — the largest in Maine history — to get expensive generating capacity off its books. FAME says it wants to lend the money, which would be borrowed in the form of a moral obligation bond of the state, but it has hit a snag on the issue of collateral. There doesn't seem to be any.

FAME's problem is that unlike other loans in Maine's \$3.2 billion in outstanding moral obligation debt — Maine State Housing, student loans and municipal bonds — the power-plant-purchase program hastily assembled by the Legislature provides no cushion between bond holders and the state treasury.

This will be a single loan to a troubled company. If the payments aren't made, there are no homes or buildings to reposses, nothing comparable to the huge pool of college debt to absorb a default and no taxing authority (except that of the state), on which to fall back. When FAME floats the bonds, both the general

fund and the agency's credibility will be hanging on CMP's capacity to meet its obligations, and FAME doesn't take lightly the challenge this loan presents to its own track record: \$1 billion loaned out since 1983. Some sour deals. But because they were built with backstops, the agency has never gone to the Legislature for a bailout.

With \$78 million on the line, and some risk (the value of CMP's stock has declined and it already has \$450 million in secured debt and nearly \$250 million in unsecured debt), a FAME spokesman explains that this isn't "slam-dunk credit."

According to the finance authority's Charles Mercer, "If anything bad happened on this deal, and the state's credit were called upon, it would be hell to pay for everyone." Creditors would head for the deep pocket of the general fund, and the ground would tremble under the \$3.2 billion in outstanding debt.

Although FAME may be flexing a bit in this situation — sending a message that it is an important player in Maine lending circles and unwilling to rubber stamp a high-profile agreement, even one for which the Legislature prepared the rough draft — its concerns are practical. The manner in which they are resolved are of great interest to the people of this state.

The first deal

B2N 8-17-94

The CMP buyout of Fairfield Energy Venture is the first deal of its kind under a new law. It should be done right, not only to buffer the state's credit rating from a financial melt-down at CMP, but also to protect what may prove a valuable tool in controlling the rising cost of electrical energy.

Legislators involved in making the law that resulted in the Fort Fairfield buy out say the collateral issue never was specifically addressed. No surprise there. The bill was conceived, drafted, negotiated and squeezed through under time and financial pressure.

One moment there was nothing but high rates from non-utility generators, a sick power company and a frustrated public. The next, everyone wanted to claim responsibility for a creative compromise that offered a way out. It was a package of loose ends.

The basic arrangement is a good one, but it came quickly, announced by the power company even before the law took effect. It caught the public and lending and regulatory agencies by surprise.

Expensive power has been subsidizing jobs in Aroostook County even as it has been discouraging development in CMP's territory. The lost employment and impact

on the community became instant concerns, as did the fact that the power company was buying the plant, rather than using a loan to buy down the cost of the Fairfield plant's energy.

The negative reaction does not diminish the positives of purchasing Fairfield Energy Venture. The utility gains control of nearly 20 percent of the \$55 million in expensive-fuel projects from which it has been obliged to buy power. The criticism, however, has caused CMP to step up its efforts to find alternative markets for the power. That's positive, too.

Similarly, FAME is feeling its way along in coming up with acceptable standards for putting these financial packages together. The FAME board is scheduled to meet today in Presque Isle to finalize its rules. It is justified in taking its time.

The solution, as all parties have been aware from the beginning, lies in patience and cooperation. The objective is to stabilize or lower the cost of electrical energy in Maine without creating new victims of public policy.

This buy out and the bonding that will make it possible are new experiences for everyone. The priority is to get them right, the first time.

Secretary of Defense Les Aspin, the Pentagon conducted a "Bottom-Up Review" - a thoroughgoing analysis of the nation's military measured against the new administration's concept of its mission: to fight two "regional wars" - of Desert Storm size - at one time.

Why two? Because if we are fully engaged in one war, dictators elsewhere might find the temptation to grab a neighboring nation irresistible.

The Bottom-Up Review concluded that to implement a "two-war" strategy, we needed 15 active divisions, 20 tactical air wings, 12 carriers in a 346-ship Navy, and 174,000 Marines.

However, according to a number of sources, the Clinton administration is at least \$150 billion short of that commitment over the next five years.

Our defense spending has dropped 40 percent in inflation-adjusted dollars since 1986, from 6.5 percent of our gross domestic product to 4 percent, and is on its way to 3 percent. In 1992 dollars, we have gone from \$330 billion to \$265 billion, with further cuts pending.

Our budget is enough, says Larry

tilt-rotor transport for the Marines (their current helicopters flew in Vietnam).

That's where BIW comes in: The Navy's professional journal, "Proceedings," recently noted that present shipbuilding levels are heading us toward a 180-ship Navy. Deutch's memo, if implemented, would mean only one shipyard of the current two would survive.

Making the Navy choose between BIW and the Ingalls shipyard in Mississippi wouldn't be a choice at all, according to DiRita: Ingalls builds more ships, and more kinds of ships, than BIW.

That concern, as large as it looms in Maine's economy, shrinks when compared to our strategic situation: We cannot fulfill our national defense plan.

What can we do? Either adjust our strategy to what we can do - funding it fully, without shortcuts in training, supplies, pay or weapons; or commit to funding a "two-war" military to match our professed "two-war" strategy.

The current policy - telling the American people the administration has a plan to defend them that it cannot implement - does no one any good.

and can't provide the support that the children and foster parents need, and then there are shutdown days.

These children need to be provided with adequate care, which costs money.

Are budget cuts in the foster care program worth it when it comes to providing for these children?

The state of Maine needs more foster parents. Although it is a frustrating system, I encourage people to get involved for the sake of the children. With some love and security these children can grow up to be healthy and responsible adults.

Andrew Berenson
York Beach

Emissions testing plan spewing out problems

Am I understanding correctly the information being printed in the newspapers about the emissions tests?

Only those cars registered in several counties in southern Maine are to be tested. Cars which fail are to be adjusted at the owner's cost. Should this result in a reduction in the pollution, factories in Maine could receive "credits" permitting them to pollute more, adding back in some of the pollution that was extracted in the emissions testing program.

Cars from the other counties of Maine and from any other state traveling here, the many buses and trucks emitting their clouds of black exhausts into the atmosphere and old autos are all exempt.

FINANCE AUTHORITY OF MAINE

FAME should approve loan for CMP power deal today

• Fairfield Energy Venture purchase can help lower rates.

The Finance Authority of Maine will make a major decision today. The 15-member board will decide whether to grant a \$78 million low-interest loan to Central Maine Power Co. to buy a wood-fired power plant in Fort Fairfield.

The board should approve the project. "We are working very hard to get this deal done," Charles Mercer, spokesman for FAME, said after disagreement arose over collateral earlier this month. "It's not what either of us wanted, but we're moving in the right direction."

Enabling CMP to purchase the Fairfield Energy Venture plant is more than the right direction for FAME, it's the right direction for Maine.



File photo

Wood chips to energy in Fort Fairfield.

It would mark CMP's first major purchase of a private power plant since lawmakers authorized low-interest loans for that purpose earlier this year. Ratepayers should benefit. So should Fort Fairfield, which is working with CMP to keep the plant open. Will it happen?

Today it's up to FAME.

ABSOLUTE VALUES

The Bible off

There is a document that challenges the conclusion of a recent letter stating, "Claims of knowledge of absolute right and wrong are dangerous and fallacious."

The Bible is "inspired" (literally God-breathed): It represents an autograph of God's will upon the writings of 40 individuals over a 1,600-year period with God's best plan for our lives in the setting of absolute values.

As an illustration of Biblical teaching in the context of the prior letter, God is involved in our lives before conception: "Before I formed you in the womb, I knew you. Before you were born, I set you apart" (Jeremiah 1:15).

In fetal development, God directs the steps, "For you created my innermost being; you knit me together in my mother's womb" (Psalms 139:13).

FAME OKs loan for plant buyout

Journal Tribune 8/30

AUGUSTA (AP) — The Finance Authority of Maine has approved a \$64 million loan to Central Maine Power to buyout a Fort Fairfield power plant.

The loan falls \$15 million short of the \$79 million CMP had requested, FAME spokesman Charles Mercer said Monday.

The additional financing for the buyout will come from CMP, which, in turn, will leave more money available for other electric rate stabilization projects, he said.

Under the plan, CMP will buy out Fairfield Energy Venture and operate the wood-burning plant for at least three years.

Mercer said that the deal, unanimously approved at a board meeting Monday afternoon, will help stabilize CMP and increase electric rate stability over the long term.

CMP customers will save \$30 million in energy savings cost from

the buyout, which without it, would be lost in the eight remaining years of the contract between CMP and Fairfield Energy, according to Mercer.

Approval of the loan "says a lot about the state's commitment to the high-cost NUG (non-utility generator) problem," said CMP spokesman Mark Ishkanian.

"We have a lot of work ahead of us. This is a very significant step in the right direction. We hope more contract holders will step forward to voluntarily renegotiate their contract," he said.

CMP has sought to get out of contracts because they were negotiated when power costs were much higher. It was required by law to sign the contracts in the 1980s.

FAME's Chief Executive Officer Timothy P. Agnew said the agency negotiated the best possible loan.

FAIRFIELD ENERGY VENTURE

FAME okays \$64 million for major CMP buyout

● Utility's ratepayers will benefit. So, with luck, should Fort Fairfield.

The Finance Authority of Maine met the demands of a tight schedule and tough questions this week. The authority unanimously approved a \$64 million low-interest loan for Central Maine Power Co. to buy out one of its costlier non-utility power producers.

CMP will apply the loan toward purchase of the Fairfield Energy Venture biomass plant in Fort Fairfield. The utility has had a contractual agreement with the plant to purchase power at a rate well above that on the current surplus energy market.

Total cost of the buyout is placed at \$79 million. Savings from it are projected to reach \$30 million in energy costs for CMP customers. That makes the purchase, scheduled for completion Oct. 1,

an important step toward rate stabilization for CMP consumers.

Meanwhile, the utility is working with the town of Fort Fairfield to keep the wood-fueled plant operating. It's important to the local economy. The benefits, a labor reduction and negotiations with wood suppliers all are aimed at bringing the plant's power costs down. CMP will operate the plant for a time, see if it can become competitive.

The utility had asked FAME to provide the full \$79 million purchase price in low-interest loans. The authority declined. Instead, it insisted that CMP also invest money of its own. That's a prudent requirement. Moreover, it leaves a useful \$15 million in low-interest loans unspent. That money can be put to good use, buying out or buying down other costly non-utility power producers.

Stretching the FAME loan fund as far as possible makes sense. CMP consumers — industrial, commercial and residential — need every break in power rates they can get.

PPH 8-31-94

Ratepayers wait for buy-out benefit

The serialized saga of an Aroostook County power generating plant whose expensive electrical contract Central Maine Power Co. is seeking to buy out continues with yet another installment.

Agreements reached by CMP and Fairfield Energy Venture, blessed by the Public Utilities Commission and bankrolled by the Financial Authority of Maine, have been challenged in court by a special interest group of large Maine power users, the Industrial Energy Consumer Group. Members include paper mills and other large manufacturing plants such as Keyes Fibre.

Under the Fairfield Energy contract buy-out, up to \$30 million in reduced energy costs was expected to be saved by CMP over the next three years. The presumption was those savings would be passed along to consumers, although the average residential customer would see a negligible lowering in the monthly electric bill.

But the big energy consumers claim the PUC is allowing a pass-through of savings of only \$4 million in December of this year.

CMP, meanwhile, has warned that the group's appeal to the Maine Supreme Court will delay the \$4 million rate cut due in December.

This seemingly straight-forward and well-intentioned initiative keeps getting bogged down in intricacies.

Lawyers are making a bundle on this dispute while ratepayers have yet to see a break. If the Supreme Court justices do rule on the case, let's hope they resolve it once and for all.

WTUL 9-12

FINANCE AUTHORITY OF MAINE

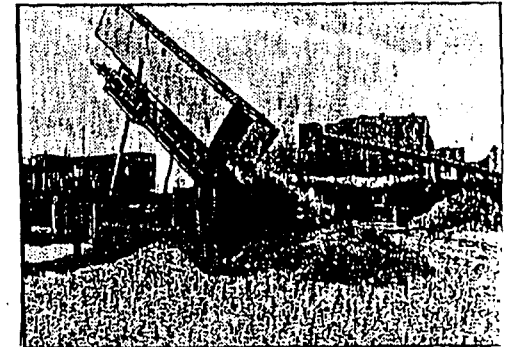
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File photo

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8/25/84
P P 17

Editorials

CMP contract buyout beneficial

9/2

With approval by the Financial Authority of Maine for a \$64 million loan to Central Maine Power Co. earlier this week, the somewhat harrowing process of buying out an expensive electricity-producing contract has apparently been accomplished successfully.

Not to be smug, but we knew it could be done.

At issue was the Fairfield Energy Venture power plant in Fort Fairfield, targeted by CMP as the stereotypical high-cost producer of electricity to which the utility was bound as a result of now-onerous contracts negotiated a decade ago.

The Legislature last spring approved FAME financing of such buyouts and CMP went after the Aroostook County plant. But Fort Fairfield officials raised the specter of economic devastation to their town, as a third of the tax base would wither and up to three-dozen well-paying jobs would be lost.

There had to be a better way and negotiations found one: CMP would use the FAME-guaranteed money to buy out the non-utility generator but operate it for up to three years. Hopefully it could then continue to operate as it was made more economical. The deal got a blessing from the Public Utilities Commission.

But FAME officials balked at lending the full \$79 million to buy the plant without some form of collateral to cushion the risk of default. CMP maintained its assets were already tied up or otherwise restricted from further commitments.

Once again, there had to be a better way and once again negotiations found one: FAME guaranteed \$64 million in loans and CMP agreed to put up \$15 million in additional borrowing to buy out the plant.

There are some small savings for CMP's ratepayers, for in fact it is they whom the entire exercise ultimately benefits. At least \$30 million in energy costs are projected to be saved over three years as CMP won't be purchasing power at rates well above those available elsewhere in the current surplus energy market.

There are also guarantees required by FAME for involvement in or approval of any future capital expenditures or the purchase or sale of assets by CMP and assurances that the loan payments are made first before dividends are paid to stockholders.

In short, the deal appears to benefit everyone — CMP and the people of Fort Fairfield. And the utility's consumers get a break too, more symbolic than financial, but just as important.

of liberal arts. Still, complexity is an excuse. As was true last year, the latest NCAA infraction underscores the

vital monitors. Equally important, students should monitor themselves.

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Stretching the FAME loan fund as far as possible makes sense. CMP consumers - industrial, commercial and residential - need every break on power rates they can get.

YOUNG CONSERVATIONIST'S PLEA

Sand dollars should be left alone; their home is in sea

● Once common, they now have been decimated in Maine.

Good for Leigh-Ann Esty. The Gorham 8-year-old, writer of today's lead letter in the Voice of the



living things, we can and bring them home.

If people keep taking there will be none. The sea would not be the creatures that

Anyway, how would they were taken away?

I just wanted to see if I could put it in the hands of the people to read.

Rep. Snow for this M

It would seem Snow's sole mission is the promotion of the interests of the New and American Y the insurance car

Where the fund is a real campaign mystery, where victory will come

Her appeal leaves little doubt. She does not sta

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Hats off to Society and the O'Brien for a f

FAME, CMP and public policy

The loan package to unburden Central Maine Power Co. of an expensive purchased-electricity contract was delivered Monday by the Finance Authority of Maine, but it would be a mistake for lawmakers, power generators or customers to relax. The state's utilities remain snarled in a web of public policy issues that are in direct conflict with the desire for cheaper electricity.

Comfortable with arrangements for collateral, FAME Monday approved the \$77 million loan CMP will use to buy out the Fairfield Energy Venture plant in Fort Fairfield. The facility has been burning wood to generate electricity that costs CMP customers more than four times as much as power available elsewhere. That's a direct result of state policy adopted in the 1980s.

The collateral issue was a late snarl in a financial leverage process hastily assembled last spring by the governor's office, legislative leadership, the power company and representatives of the state's non-utility generators (NUGs). The process worked because key participants, including FAME and the Public Utilities Commission, recognized the seriousness of the situation and handled their obligations with speed and thoroughness.

Although there was some drama to the FAME decision, it was never the agency's intention to obstruct the deal. It only wanted reasonable demands met to reduce its exposure if the power company had trouble repaying the bonds. Those conditions are in the state's interest.

The buyout should be good for CMP's customers, which could save more than \$30 million as a result of the deal. It also will improve the state's appeal to cost-conscious companies seeking to invest and do business here. It should make economic life more tolerable for indigenous companies still struggling out of recession.

The deal should improve the health of CMP, which in a single stroke lops off 20 percent of \$55 million in high-fuel-cost power it must jettison to get rates under control. Combined with 26 other contract renegotiations completed this year and last, the company's expensive power load is down now to around \$15 million.

But like losing weight, that last 10 or 15 comes off the toughest. As the Fairfield Energy Venture buyout illustrated, when public policy drives business decisions, a layer of subsidy, economic fat, becomes embedded in the economy. That's true down in Westbrook, where CMP pays the largest single amount to any NUG, \$45 million a year (10.5 cents per kilowatt-hour). When that deal is up in 1997, it is not automatic that a lower negotiated price for CMP will follow.

The sale of energy by the aging Scott paper mill there is not gravy, but part of the main course that sustains a business with more than 1,000 workers — 10 times the magnitude of the problem in Fort Fairfield. Because the mill may not be able to sell power at a lower price and stay in business as a papermaker, the community is considering municipalizing its electric system, maintaining the subsidy within the local economy.

If Westbrook moves in this direction, as other communities also think they want to do, it will force issues of stranded power-company investments and the rippling impact on customers throughout utility service areas. Lawmakers buried a low-income subsidy in power rates. If Westbrook and other communities split off their systems, who will legislators tap to pay make up the difference?

This buyout is important, but it is only a first step into what will be a period of transition for the utilities, their customers and regulators. The Legislature should be on alert. Its work reshaping public policy has only begun.

Fairfield loan deadlock

BDW
9-20

It appears complicated — thick with the alphabet soup of a utility, a biomass operator, a state regulatory agency, public policy, and an industry group whose interests straddle the others — but the issue is very basic. It's about money.

Millions of electrical energy dollars are at stake in the act of legal brinkmanship by the Industrial Energy Consumers Group (IECG), which has appealed the Public Utilities Commission (PUC) order allowing purchase of the Fairfield Energy Venture (FEV) plant.

- Central Maine Power Co. believes it can save \$32 million in high energy costs by purchasing the plant. In central and southern Maine, electricity consumers are waiting for a \$4 million cut in power bills scheduled for December — a direct consequence of the buyout.

- The IECG says the commission didn't do its job, in that only \$4 million of what it estimates as \$36 million in savings from the buyout will flow directly to ratepayers. It is also concerned about precedent. The way the savings are handled in this case may influence another utility proceeding on a separate track, the development of CMP's alternative rate plan.

- The Finance Authority of Maine (FAME) at this moment is putting the wrapping and ribbon on the \$78 million loan package for the purchase of FEV. FAME is proceeding full-speed-ahead for an October closing. It finds comfort in the fact that the issues between CMP, the IECG and the PUC are resolvable.

- In Fort Fairfield there is anxiety about the future of the biomass plant, and local jobs. CMP, which at first intended to close the plant, has pledged to run it for up to three years if operating and fuel costs can be brought down.

IECG's appeal imperils the loan and is a threat to Fort Fairfield. Given CMP's condition, FAME can't borrow a dime if the revenue stream from the savings is backed up in court. Fort Fairfield, meanwhile, will dangle on the end of the grid while the

future of a major taxpayer and employer is argued, deliberated and remanded back to the PUC by the court. Every month that the closing on the FAME loan is delayed reduces savings to ratepayers by \$2 million. No buyout. No savings.

This is hardball utility politics. The IECG is taking the wrong approach.

The fact that only \$4 million of the savings is directly identified for return to ratepayers is not a revelation. There's a reason for it. Back in the mid-'80s when the NUGs and their expensive electricity were coming on line, the PUC recognized that ratepayers were in for price shock. The commission attempted a "smoothing" of the rate increases by slowing the pace at which some of that high-priced power would be reflected in consumers' bills. The NUGs had to be paid. CMP borrowed the money, approximately \$60 million.

The plan now is to pay off that debt, gradually, but keep rates stable by offsetting this fuel balance (which otherwise would have to be covered by ratepayers), with the additional savings of the Fort Fairfield buyout.

This commission, contrary to IECG criticism, is not being bamboozled in the FEV deal. The PUC is aware of the issues. It has squeezed CMP physically and financially the past year and a half. It criticized the power company's early failure to buy down NUG contracts, and punished them for it. The PUC has things under control. In addition, with the FAME loan, the state becomes CMP's largest unsecured creditor. The power company will have plenty of supervision.

Although there is virtue in a group watchdogging state energy policy, it appears that in this case, the IECG wants its cake (the \$4 million rate reduction in December), wants to eat it, too (forcing CMP to absorb loans taken out to pay NUGs, including IECG members, for expensive power), and wants to take home the knife and the platter by establishing a precedent, unacceptable to nearly every other party at the table.

Power postscripts

Two decisions late last week — one in Augusta and the other in Washington — have cleared the air, temporarily, on important issues relating to electrical energy production in Maine. However, there was a message in each for key players:

- The \$78 million deal is on for the purchase of the Fort Fairfield biomass plant by Central Maine Power Co., courtesy of a last-minute concession by CMP to the Industrial Energy Consumers Group (IECG), which threatened to delay the buyout by appealing how more than \$30 million in savings would be distributed.

The appeal had virtually no chance to succeed, but because it threatened to delay the buyout for a month — a net loss to all CMP customers of \$2 million — the IECG managed to squeeze an additional \$1.6 million in immediate rate reductions out of the arrangement.

Credibility in the public arena is a valuable, but fragile commodity. The IECG squandered much of its cache by holding up the power company for a big pay day. In the process, the group damaged its relations with the Public Utilities Commission, the Finance Authority of Maine, the residents of Fort Fairfield and consumers in CMP's service area.

The IECG, which at one time was able to pose as a champion for ratepayers on issues of principle, now has been revealed for what it is — a collection of self-interests, some of whom both buy and sell power, that is more interested in a fast fix for the bottom line than in fashioning responsible energy policy. The appeal, which "I personally thought had essentially no chance of prevailing," PUC Chairman Thomas Welch observed last Monday, risked "the compromise of ratepayer interest in a rather serious and I think unfortunate way." Well stated.

The IECG may be back for another go on a different issue, but it won't be afforded the same respect in the process.

- The Penobscot Indian Nation didn't get its amendment to federal legislation that would have given it access to the revenue stream from Milford Dam on the Penobscot River.

Sen. George Mitchell and Sen. William Cohen interceded when the bill came to

their chamber because the ramifications of the amendment, in the context of the very complicated legal situation that exists under the terms of the Maine Indian Claims Settlement Act and the Federal Power Act, had not been examined. The amendment was being rushed through, causing concern among Penobscot watershed landowners and dam operators, including Bowater and Bangor Hydro-Electric Co.

The best solution was to wait. Congress will.

Hearings can be held next year — they should be conducted in the area that will be affected, not only in Washington — before bringing the issue to a vote. In the long term, however, the best approach for Maine's federally recognized tribes, the Penobscot and Passamaquoddy, is negotiation: talk directly with the people who produce power.

The two Indian nations have a history of placing a priority on preserving the environment, but they also have a land base, tremendous legal clout, political leverage and a keen understanding of business and investment.

The Penobscots were looking at the value of power at Milford. Maine's working rivers historically have been a source of fishing, recreation and income. Power production is part of that mix.

In the intervention on Basin Mills, in the Milford case and in its other involvement on hydro-power issues, the nation does not conduct itself as if it has a firm notion of its own expectations, intentions and long-term objectives.

Indian tribes in other regions of the United States have adopted a policy of working with the flow of hydro development, becoming participants, when it makes environmental and economic sense.

These are investments in the future, which offer economic dividends to tribes that get involved, but most of all, they give Indian people control over the manner in which projects are developed, protecting their economic stake and environmental turf.

What works for these tribes would work equally well for the Penobscot and Passamaquoddy nations.

Town vows to oppose CMP plan for buyout

By Debra Sund
Of the NEWS Staff

FORT FAIRFIELD — Local officials, eager to keep the noisy turbines of Fairfield Energy Ventures producing electricity, are gearing up to fight the closing of the facility that has a \$10 million impact on the local economy.

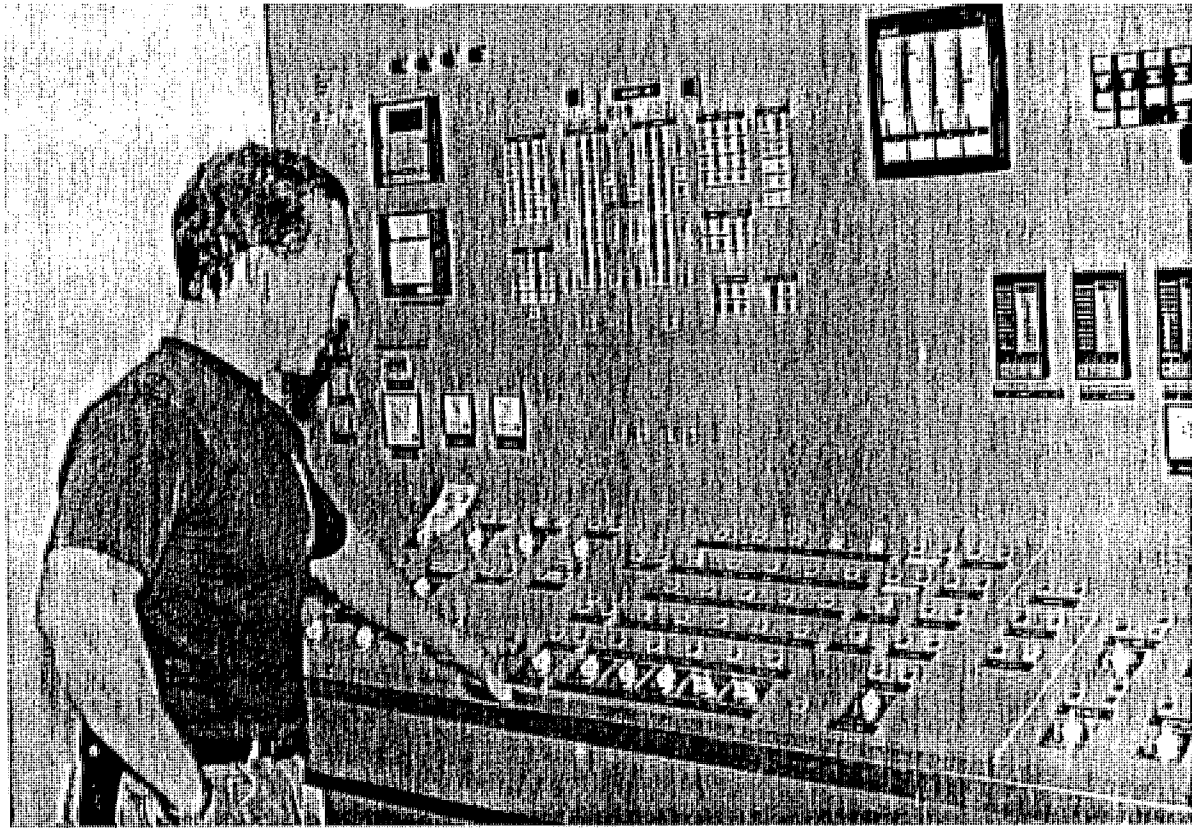
Central Maine Power Co., with 500,000 customers in southern Maine, has proposed a buyout of the 6-year-old plant. Fairfield Energy, fueled by waste wood, sells 33 megawatts of electricity to CMP. The plan is expected to save CMP ratepayers \$35 million.

If approved by state regulators and funded by the Finance Authority of Maine, the buyout would add 125 people to the ranks of the unemployed in northern Maine. After buying out the contract with Fairfield Energy, CMP plans to mothball the plant.

Recent legislation authorized FAME to issue up to \$100 million in bonds for Maine utilities wanting to change their contracts with non-utility generators. CMP's plan would cost \$78 million, including \$2 million to purchase the plant.

Local officials are working to convince FAME and the Maine Public Utilities Commission that the plan should not be approved, according to Anna Watt, director of the Fort Fairfield Chamber of Commerce. In addition, the County's legislative delegation has offered their assistance in working with the town to fight the buyout proposal.

The delegation's interpretation of the legislation, passed last ses-



A shift engineer, David Corey, checks screens and gauges at the Fairfield Energy Venture in Fort Fairfield, the object of a \$78 million buyout attempt by Central Maine Power Co. (NEWS Photo by Debra Sund)

sion, was that the bill would allow utilities to renegotiate contracts. The intent of the law was not to close down plants and put people out of work, Watt said Tuesday.

The chamber is coordinating a campaign urging local officials to write letters to the PUC, FAME and legislators asking for their support in keeping Fairfield Energy Venture open.

On Monday, the Presque Isle City Council approved a letter to be sent to state officials.

Watt said that if neither the PUC nor FAME can be persuaded to deny approval of the deal, new legislation could be written.

Meanwhile, the PUC is formulating procedures on how to deal with proposed buyouts under the newly enacted Act to Encourage Electric

Rate Stabilization. The CMP proposal has been the only one filed under the act, according to PUC officials.

At the same time, some industry observers said that only \$22 million would be left from the authorized \$100 million if the CMP proposal were to be approved.

The PUC staff is meeting today in Augusta to determine how to proceed with the case. According to the law, which takes effect July 14, a decision must be rendered within 30 days.

On Thursday, June 30, PUC Chairman Thomas E. Welch will preside over a public hearing in Fort Fairfield on the issue.

"We're trying to make people aware of what the impact could be," said Watt. "There's a faction

out there who believe it's a Fort Fairfield problem."

A fact sheet that details the economic impact of the plant closing is being distributed by the chamber. In addition to the loss of jobs, the area would also lose property tax revenue and \$7 million paid annually to waste wood suppliers. The sheet also points out that northern Maine electric rate payers could end up with higher rates because Maine Public Service Co., which transmits the Fairfield electricity to CMP, would need to recoup some of the money it would lose in the proposed deal.

"We're cutting our own throats," said Watt. "We're paying for this 10 times over (when the economic impact, tax-supported FAME and MPS rates are considered.)"

Critics take aim at CMP buyout plan

Lawmakers, town officials say Fairfield Energy purchase will lead to shutdown

By Francis X. Quinn

AUGUSTA (AP) — Aroostook County lawmakers are lining up with other critics of the proposed \$78 million buyout of a Fort Fairfield power plant by Central Maine Power Co., saying the deal would misuse a low-interest loan fund set up by the Legislature.

As the Public Utilities Commission begins its review of the CMP plan, legislators who joined their colleagues in April to approve the state-backed borrowing mechanism have filed formal petitions to intervene in the case.

A number of the lawmakers, as well as municipal officials from the County, are expected to express their views at a PUC public hearing Thursday night in Fort Fairfield.

At issue is CMP's proposal to tap a \$100 million Finance Authority of Maine fund to not only buy out the utility's power-supply contract with Fairfield Energy Venture, but also acquire the wood-burning facility itself.

CMP says the buyout would save its customers nearly \$36 million over the eight years left of what was originally a 15-year contract. The company also says it will try to keep the plant open but can make no guarantee because its power costs nearly 13 cents per kilowatt-hour — well above current market prices.

Critics say the buyout will result in a shutdown, costing nearly 40 full-time jobs at the plant, threatening about 100 jobs in related businesses, undermining Fort Fairfield's tax structure and cutting revenue to Maine Public Service Co.

"The proposed buyout would add one more problem to the already weakened economy of the central Aroostook County area," Easton Town Manager Jackalene Bradley wrote to the PUC last week.

"We firmly believe that the intent of the Legislature was to allow electric companies to borrow low-interest money from FAME

"The proposed buyout would add one more problem to the already weakened economy of the central Aroostook County area."

— Easton Town Manager
Jackalene Bradley

to renegotiate contracts. We vigorously protest any use of state money to buy out and close Fairfield Energy Venture.

"At a time when Aroostook County has to face the closing of Loring Air Force Base and on the heels of the devastating flood in Fort Fairfield, this buyout should not be allowed," Bradley wrote.

The Easton official's concerns have been echoed by legislators.

"This plant was built with private funds," wrote Sen. Margaret Ludwig, R-Houlton. "In addition to those directly employed by the plant, dozens of individuals invested in expensive equipment so that they could acquire and deliver fuel to the plant. They planned to pay for this equipment over the course of the contract.

"The compromise bill passed last session was meant to allow utilities to renegotiate contracts — to buy down, but not to buy out, their competitors. This legislation was not designed to put people out of work overnight or to pull the economic rug out from under a large portion of northern Maine," Ludwig wrote.

Presque Isle-based Maine Public Service, not Augusta-based CMP, serves most of the Aroostook area — Bangor Hydro-Electric Co. also serves a small portion of the county — and critics of the buyout say the local utility could be forced to raise rates in the wake of a Fort Fairfield project shutdown.

According to Fairfield municipal officials, Fairfield Energy Venture pays more than \$1.1 million annually to Maine and New Brunswick utilities, including more than \$340,000 to Maine Public Service, for transmission capacity.

The 33-megawatt facility also pays Maine Public Service more than \$100,000 annually for backup and maintenance power, town officials say.

A Maine Public Service spokesman confirmed the general range of those numbers.

CMP officials say they are sympathetic to northern Maine concerns, but are following prudent business policy and legislative urgings by trying to reduce the cost of contracts with nonutility generators.

In a statement issued to the media, the company maintains, "the 80 percent of Maine people who live in CMP's service area can't afford to go on paying uncompetitive prices for electricity, whether from Fort Fairfield or any other source."

CMP officials also note that buyouts and renegotiations were undertaken prior to the establishment of the FAME fund, which does not actually become effective until next month.

The company bought out a wood-burning facility in Lewiston in 1992 and a plant in Topsham that was still on the drawing board earlier this year. It has also revised nearly a dozen small hydroelectric contracts this year.

This week's public hearing comes less than three months after lawmakers enthusiastically authorized low-interest loans for utilities seeking to reduce purchased-power costs.

The legislation was approved in response to complaints by CMP and others that expensive, long-term power-supply contracts were driving electric rates steeply upward.

Enactment came without recorded opposition in either the House or Senate after an initial skirmish between Senate President Dennis Dutremble and Gov. John McKernan over the bill's shape and authorship was resolved.



Shifting public policy takes on a human face in northern Maine

Fort Fairfield fears the economic loss from the proposed closing of a power plant. CMP says the shutdown is needed to help stabilize electric rates.

by TUX TURKEL
Staff Writer

FORT FAIRFIELD - Safety posters at the Fairfield Energy Venture power plant remind workers to protect their eyes and heads, but

there's no warning telling them how to save their jobs. What they need is a flashing, neon sign: "Caution, watch for shifting public policy."

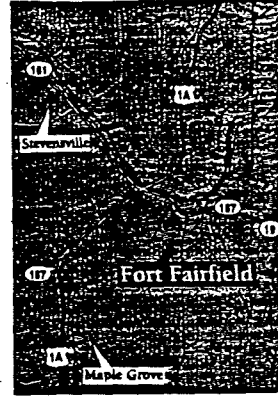
State policy in the 1980s replaced foreign oil with 100 small power plants that run on wood, water and

trash. Electric rates soared, but the policy brought energy independence and thousands of jobs, a good tradeoff at the time.

Times change. Now state loans may help close some of the same plants, and throw people out of work.

This potato farming town of 4,000 people is set to suffer the first hit. Up here, the shifting outline of

Please see CMP, Page 14A



Staff art



No secret they want to turn Bangor north into a wildlife area," says Scott Haggerty, right, a plant operator with a wife and infant son. "You just don't put something like this on line and then shut it down," says Hugh Gilley, left. They are joined by Sheldon Keiser, another plant worker.

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Earlan Turner's Exxon station sees a handful of chip trucks bound for the Fairfield Energy Venture power plant stop each day for fuel.

Illette, owner of Lenny's Family Restaurant, says the power closing will be a bigger blow than April's flood. "It's go to affect everybody ... it's going to hurt for years."

CMP

Continued from Page 1A

Public policy is about to take on a human face.

Just eight years ago an out-of-state partnership came here to the Canadian border and sank \$60 million into a giant wood-chip and oil-waste burner. It cranks out enough electricity for Central Maine Power Co. to run 9,000 homes downstate. Back then, clean-burning, home-fueled power was patriotic and the plants were heroes.

But many of the plants got bad names when demand fell and bills soared to pay for all the new, unneeded power. With customers in revolt, CMP went to its highest-cost plants and asked for new deals. Most refused.

So last spring CMP went to the Legislature. Down in Augusta, CMP aimed the power plants for rate hikes and sought a controversial fix. As a compromise, lawmakers approved \$100 million in state-backed funds to help refinance costly contracts, or buy them out.

Folks here knew their plant was costly, almost double today's going rate. They figured CMP would use the money to negotiate a lower contract. So they were shocked three weeks ago to learn that CMP wanted \$78 million of the bond money to buy the plant, and shut it down.

The deal will save CMP customers \$35 million over the next eight years. Put another way, the average homeowner will pay 50 cents less on a monthly bill.

But for a customer in Portland to save \$6 a year, people in Aroostook County will bear a high cost.

The plant contributes one-third of Fort Fairfield's taxes. It employs 37 workers who earn an average of \$12.50 an hour, good money in the county. Loggers, truckers and sawmills send 355,000 tons of biomass a year in the front end. Farmers get leftover ash out the back door to fertilize their soil. Almost everyone gets a meal in town or tops up a gas tank.

In eight years, Fairfield Energy Venture has become more than just good corporate neighbor. It's a little-hot light in a darkening local economy.

Residents have struggled the past two years with a potato blight that has ravaged the crop. They watched millions of dollars fly out of the county when the last bomber took off from Loring Air Force Base.

They're still cleaning up from the flood, when the fickle Aroostook River reared up and spread icy havoc along Main Street. Now this.

Bitter over policy change

Two weeks ago, a group of plant operators sat nervously in the control room and talked about the gathering doom. These are young men with families, mortgages and car payments, bitter about a policy change they couldn't see coming, and don't understand.

"It's no secret they want to turn Bangor north into a wildlife area," says Scott Haggerty, a plant operator with a wife and infant son.

"We'll all be park rangers," a colleague adds.

"No, guides," shouts another.

Everyone laughs. Gallows humor.

Then they get serious. They can't believe they're being sold out, with state backing, so southern Mainers can save \$6 a year.

CMP says there's another side to the story.

Its 500,000 customers are the real victims, the company says. They've been subsidizing unneeded or overpriced power plants for years. Why should electric customers support what amounts to a jobs program?

Paying too much for power also costs jobs in southern and central Maine, CMP says. An economist estimates the financial impact of excess power payments for independent energy at about \$200 million, the equivalent of roughly 4,000 potential jobs.

Now the debate over the future of this isolated power plant in Aroostook County is expanding into a high-stakes battle with statewide implications.

CMP fears that if opposition derails the deal, it will set a precedent that will deter other private power plants from renegotiating. That would handcuff CMP's attempts to stabilize rates.

Lawmakers and local officials with high-cost private power plants in their communities worry about the future of those facilities.

The buyout must be approved by the Maine Public Utilities Commission. The PUC will decide over the next several weeks on the rate-saving merits of the deal. The town, northern Maine lawmakers and other intervenors will argue against approval.

The law allowing the use of public funds takes effect mid-month.

If the deal makes it through the PUC, state loans must then be approved by the Finance Authority of Maine. If both agencies sign off, CMP plans to close the plant at the end of September.

An idyllic place

Aroostook's remote farm country is an idyllic place in summer. Perhaps it's payback for long, subzero winters.

Gentle hills roll to the horizon, where they meet into the biggest sky in Maine. The land is a tapestry of green hayfields and plowed brown rectangles of potatoes and row crops. From a rise outside town, the blue steel building and silver stack of Fairfield Energy Venture form a high-tech, industrial backdrop for this bucolic scene.

Every 10 minutes, a tractor-trailer pulls up to the site and tips 30 tons of wood chips into a pile. The trucks converge from up to 50 miles away.

Inside, workers keep the machinery roaring, but their minds spin like the turbines they watch over.

Some grew up in the county. They went to school and came back to run the plant. Operators figured they were set until 2002, when the 15-year contract expired. Many bought homes or started families and settled down. Now what?

The men say it's all politics. South

Page 2 of 3

vs. north. Haves vs. have-nots.

"You just don't put something like this on line and then shut it down," says Hugh Gilley of Limestone.

"It's not going to cost any jobs in the southern part of the state," Haggerty says.

"Ask CMP if they want to take over my 15-year mortgage," says Dale Daigle, a shift engineer.

Venture benefits farmers

Frustration has blanketed Fort Fairfield like a late-spring snow.

In the countryside, John Durepo works in his barn on the family farm. He just put 200 acres of potatoes in the ground and the green vines have begun to emerge. Alfalfa, barley and oats alternate on the rest of his land.

For farmers, the power plant is a perfect fit. It's a new source of income from their woodlots. It's free fertilizer, a renewable resource that can save \$190 a ton on potash. And since farmers are the biggest landowners in town, they know just how much the plant has kept their taxes

FAIRFIELD ENERGY

Vital statistics:

Owner: Limited Partnership, U.S. Energy of Washington and HYDRA-CO Enterprises Inc. of Syracuse, N.Y., a subsidiary of Niagara Mohawk Power Corp.

Capacity: 32 megawatts
Fuel: wood chips, sawdust, slash and bark (355,000 tons annually)

Contract term: 15 years (1987-2002)

Revenue from electric sales: 1992: \$28.2 million

Economic impact:

Direct employment: 37 workers

Average wage: \$12.50/hour
Construction spending, 1987: \$60 million

Annual spending: \$9.3 million (includes biomass fuel, salaries, taxes and transmission costs)

Source: Mainewatch Institute

CMP is trying to renegotiate all its high-rate contracts, but some deals would have more impact than others. The following plants are among those with the highest kilowatt-hour rates and power costs to CMP. The first number is how much each producer received from CMP in 1992; the second is the cost per kilowatt. Those exempted aren't eligible for public buyout or buy-down money.

- Exempt: Scott, Westbrook, wood cogeneration, \$46.8 million, 9 cents
- Fairfield Energy, Fort Fairfield, wood, \$29 million, 13 cents
- SEA, Stratton, wood, \$27.5 million, 9 cents
- Exempt: Maine Energy, Biddeford, waste, \$24 million, 14 cents
- Scott, Winslow, wood cogeneration, \$15.8 million, 9 cents
- Greenville Steam, Greenville, wood, \$8.8 million, 11 cents
- Miller-Worumbo, Lisbon Falls, hydro, \$7.9 million, 12 cents
- Hydro-Kennebec, Winslow, hydro, \$7 million, 9 cents
- Abenaki, Madison, hydro, \$6.6 million, 10 cents
- Pejepscot, Topsham, hydro, \$6.4 million, 11 cents
- Exempt: Regional Waste Systems, Portland, waste, \$6 million, 8 cents
- Lockwood, Waterville, hydro, \$5 million, 15 cents

Source: CMP

down.

Farmers here expect to cope with changing weather and markets. They didn't expect to lose their power plant, and they are angry.

"We were just beginning to get things in place and find some solutions," Durepo says. "This is a complete waste. Our state isn't thinking long-term. They're doing everything on emotion, politics and the dollar."

Frustration and determination mix along Main Street.

At Earlan Turner's Exxon station, where a handful of plant-bound chip trucks stop each day for fuel, a sign reads: "If you can't see the bright side - polish the dull side."

Workers are rebuilding a wall on the flood-damaged pharmacy. Some storefronts remain empty and unglazed, ripped apart by April's powerful ice and water.

A poster on the window of the vacant Nipper's Restaurant proclaims the recovery effort and shows a frog being half-swallowed

by a heron. The frog has managed to get its front legs out and is choking the heron's neck. "Never give up!" the caption reads.

A short distance away, Lenny Willette hasn't given up. He had 69 inches of water in Lenny's Family Restaurant, but he's back at the grill for the lunch crowd. He thinks the power plant closing will be a bigger blow.

"It's going to affect everybody, not just the low-lying areas on Main Street," he says. "The flood is a one-shot deal. You crawl out and pick up the pieces. This is long-range. It's going to hurt for years."

Willette sees the familiar faces of plant workers at his tables. Night-shift workers order pizza. Truck drivers grab a meal on their way to the mill.

"I need the business climate we presently have, if not more, to keep this thing going," he says.

Scott Seabury can take the pulse of Main Street from his second-floor window at Town Hall. The town's

manager, he was already swamped trying to speed federal relief to help offset the \$100 million worth of damage caused by the flood. Now he's also trying to build a legal and political defense machine to go against CMP and state policy makers.

Seabury is plenty frustrated. He was quoted in the Bangor Daily News saying the new policy is to "satisfy the desires of our yuppie friends to the south." Now he says the reporter must have misunderstood him about "yuppie." What he really said involved profanity.

Seabury depends on the plant's \$60 million valuation to help run the town. CMP now says that, minus the power contract, the 7-year-old facility is worth only \$2 million, the value of the machinery. That could mean cutting the town staff, laying off half the five-person police force, closing the library and ending the recreation program.

Local residents got a chance late last week to tell the PUC how much the closing would hurt their town. More than 400 people came to a public hearing, including northern Maine lawmakers who said the governor should call a special legislative session to change the law.

Seabury and other locals say they thought the state financing would help CMP focus on renegotiating rates, or buying out unbuilt facilities - not shutting down existing plants.

"We knew the game was going to change with the legislation," Seabury says. "But we never expected this."

Big plants exempt

Down in Augusta, officials say the law is doing what it was supposed to do.

The new law exempts plants with a capacity above 50 megawatts. Lawmakers feared that closing large cogeneration plants in a paper mill, for example, could affect thousands of manufacturing jobs. The language they finally drafted favors buy-downs for other plants, but it doesn't forbid buyouts, like the one proposed in Fort Fairfield.

Unless you close some big, expensive plants, policy makers say, the law won't have much impact on rates. And when you do close a big plant, some people lose their jobs.

Fairfield is 33 megawatts and has a contract price of 13 cents a kilowatt-hour. The buyout will cost \$78 million, but avoid future operating costs of \$113 million. The tradeoff is 37 jobs, and an economic blow to a small town.

"I'm not being insensitive to the impact," says Sen. John Cleveland, D-Auburn, a member of the Legislature's Utilities Committee. "But there isn't a magic bullet to solve the problem without pain to some folks."

The growing controversy has put CMP in a tough position.

The power company has contracts with 86 private plants. Roughly 25 with above-market rates are targeted for renegotiation or buyouts. Almost all are in CMP's service area.

"Politically, there's going to be fallout in northern Maine on this," says Mark Ishkanian, a CMP spokesman. "But our customers are 80 percent of the state's population, and for years they've paid higher-than-market rates for that power. Any benefits that come to them are long overdue."

In a campaign to head off growing opposition to the deal, CMP took out newspaper ads last week to explain that the buyout was important to its goal of minimizing rate increases. Its officers also visited newspaper editorial boards to explain the company's position.

Alternative sought

CMP says it will continue looking this summer for ways to keep the plant operating. Another utility could buy it. Perhaps it can be mothballed, for a time when the region's power appetite returns. Maybe it can be run as a wholesale generator by some future subsidiary of CMP, to sell power out of state.

But the most likely outlook now is also the most bleak: This modern, reliable source of renewable energy and economic vitality may be dismantled and sold for salvage.

Fort Fairfield will survive without its power plant. But for residents who have watched the unit rise against the rural landscape, and have quickly come to depend on it, the closing is part of a grim continuum that is pulling the vitality from their community. It's not a pile of steel that's at risk, not even a bunch of jobs, really. It's a way of life.

Lenny Willette says he can keep cleaning his restaurant when the river goes wild, but as he stands by the fryer as the lunch crowd leaves, his thoughts turn to his three grown children. Two live out of state. A third is headed south.

"I'd love to have my grandchildren nearby so I can visit them," he says. "We're losing everything for our children here. It's really discouraging."

Aroostook County exerts a strong pull on the people who make it their home. But they know they can't exist on dreams alone.

"We're fighters up here," Willette says. "We want to stay in business. But things like this, we just can't withstand it."

Power deal good news for lawyers

The savings Central Maine Power Co. ratepayers would get from the Fort Fairfield deal is also good news for a Portland law firm, which will be paid nearly \$1 million for helping arrange the buyout.

Frustrated by years of slow progress in renegotiating private power contracts, CMP put out bids for assistance last year and hired Curtis, Thaxter, Stevens, Broder & Micoleau.

CMP agreed to pay the firm on a contingent fee basis, meaning it didn't get paid unless it could pull together a deal that saved customers money. The fee, which totaled \$975,000, was based on a percentage of the savings, in this case \$35 million.

CMP says it couldn't have negotiated Fort Fairfield alone.

"Their help was immeasurable," says Frederick Woodruff, CMP's power supply director. "There is a basic level of distrust between private power plants and ourselves. They could open doors, because of their

experience."

Some of the firm's lawyers have broad experience and involvement with the industry. Prior to taking this case, Charles Micoleau served as the lawyer representing the lobbying group for many private power plants. He is also counsel and a director of Consolidated Hydro Inc., which operates 13 private power plants in Maine.

Curtis Thaxter also hired out-of-state financial and investment consultants to help in their efforts. And while the fee may seem high, Woodruff notes that CMP persuaded Curtis Thaxter to lower his fee in exchange for future work. And he says customers will get a substantial benefit for the \$975,000 fee.

"This is one of the best deals with the greatest savings that is going to come along," Woodruff says.

PPH 7/13/91 - Tuz Turkel

CMP, McKernan take heat over buyout

FORT FAIRFIELD — Acknowledging northern Maine concerns, Central Maine Power Co. is exploring ways to continue the operation of an Aroostook County wood-fired power plant that it is proposing to buy for \$78 million, according to company officials.

Maine Gov. John R. McKernan also came under fire from a Fort Fairfield business group for his perceived stance supporting the CMP buyout. McKernan said he has never issued a formal statement of support.

CMP spokesman Mark Ishkanian reiterated Friday that the current economics of the Fairfield Energy Venture plant work against the prospect of continued operation of the power plant.

At a PUC public hearing Thursday night, about 450 people applauded speakers who objected to the proposed buyout, which would be financed through a low-interest loan from the Finance Authority of

Maine.

Critics say the buyout would result in closing the 33-megawatt plant, costing nearly 40 jobs there and about 100 others in related businesses, and that a closing would also upset the town's tax structure.

They also complain that a closing would reduce revenue to the local utility, Maine Public Service Co., by more than \$440,000 annually and likely prompt rate increases in Aroostook County.

"We face the possibility of losing one of the few remaining vital contributors to our economy, one-third of our tax dollars, the source of funding in part for our schools, our library, our fire department, our police department, our security," said Fort Fairfield Town Manager Scott Seabury. "You are talking about our survival."

Area lawmakers have charged that the proposed buyout violates the intent of the new state law that made \$100 million in FAME financing available to utilities seek-



McKERNAN

ing to reduce the costs of their contracts with non-utility power generators.

The new law takes effect July 14 and a PUC decision is required by mid-August.

Rep. John L. Martin, the former House speaker from Eagle Lake, said if the PUC approved the proposal, the governor should call a special session of the Legislature to change the law.

Among those urging a different approach to keep the plant operating was independent gubernatorial candidate Angus King.

"There are two parties at the table playing poker with our money," King said. "There has to be a way to get back to the table and help keep the plant working."

"This is the first case under this law," he said. "You have the responsibility to ensure all citizens of the state are considered in this matter."

The plant is owned by the U.S. Energy Corp. of Bethesda, Md., and HYDRACO of Syracuse, N.Y.

Meanwhile, the Fort Fairfield Chamber of Commerce canceled McKernan's invitation to be the featured speaker at an industry dinner during the upcoming Maine Potato Blossom Festival, accusing him of "an obvious lack of support" for opponents of a controversial utility buyout.

McKernan responded by telling the group he had received no request for a statement of support, but that he had directed state officials to monitor the case and seek ways to ease the impact of a buyout on the town.

In its letter to McKernan, the Fort Fairfield chamber said the lack of a statement on the matter by McKernan

"really leaves us with no alternative but to cancel the invitation" to speak at the July dinner.

In a letter written Friday, McKernan responded by saying he was unaware of contact with his office by town or chamber officials.

McKernan said he had established a task force involving the State Planning Office and the Department of Economic and Community Development "to explore options for keeping the Ft. Fairfield Energy Venture facility operating, should a buyout be completed."

On that score, McKernan said, a combination of reduced operating costs and alternative uses for the energy plant could provide an avenue for its continued operation.

As to the intent of the legislation enacted in April, McKernan said it "allowed so much flexibility to facilitate the buy-out of a buy-down of power purchase agreement."

KS 7/7/94

PUC to vote on go-ahead for CMP to form a subsidiary to sell power

By GARY J. REMAL
Staff Writer

AUGUSTA — The Public Utilities Commission Friday is expected to approve a plan by the state's largest electric utility to set up a \$30 million unregulated subsidiary to provide power to other companies.

The plan has been worked out between Central Maine Power Co., which originally had applied for authority to create a \$70 million subsidiary, the commission's staff, the Maine public advocate and several ratepayer organizations.

Company officials describe the venture as a relatively small experiment when compared to CMP's \$900 million annual sales of electricity, and critics say there are enough safeguards built into the agreement to prevent the venture from having a major negative impact on the financial health of the company even if it were to fail.

CMP spokesman Clark Irwin said a new competitive power generation market has developed in which utilities such as CMP are at a disadvantage because they must seek approval for any business venture, and that frequently takes much longer than the opportunity to do it.

"We have opportunities under study but we do not have any projects ready to run," Irwin said. "But there's a competitive market and offers can be made and

withdrawn very quickly. We wanted an organization ready so if we got an opportunity in which we wanted to participate we had a way to do it without going through a complete litigated proceeding before the commission."

Other electric utilities have diversified into fields apart from power production, many of them unsuccessful, he said.

The company had originally asked to invest up to \$70 million in its unregulated subsidiary. But consumer groups, including those representing large commercial customers, objected. They said large losses from failed investments by the subsidiary could harm CMP's credit rating and ability to borrow money, forcing Maine ratepayers to pick up even higher costs.



WARD

The agreement before the commission Friday, in addition to limiting the amount of money that can be invested in the subsidiary to \$30 million, calls for a review by the state public utilities commissioners after three years, sooner if necessary, limits investments to stockholders' money and puts controls on company cash flow to prevent exorbitant amounts of money

flowing from CMP to the subsidiary.

Perhaps the biggest restriction is a request for the requirement that the company seek approval by the Public Utilities Commission anytime a CMP subsidiary invests in a New England or New York project.

That provision was included to prevent CMP from allowing the unregulated subsidiary to take advantage of either sales or purchases of power or other resources that could have reduced the utility's costs and benefited its ratepayers.

Public Advocate Stephen Ward said his office originally opposed the proposal. But he said he was convinced that with proper safeguards the idea might have some marginal advantages.

Ward said the idea of having unregulated subsidiaries is popular with Wall Street investors, which might give CMP's beleaguered stock a boost while at the same time providing an incentive for many of the company's most talented employees to stay on. He said in recent months many of CMP's best workers have left.

"I see this opportunity as fairly small and with some potential risk associated with it, so early on we focused on minimizing the risk rather than maximizing the opportunities. We don't think there will be many opportunities there," Ward said.

Fort Fairfield's problems tied to high cost of NUG energy

It's easy to sympathize with the 300-plus people who turned out at Fort Fairfield June 30 to protest the loss of jobs and tax revenues that would hit the Aroostook County town if the owners of the Fairfield Energy Venture shut the power plant down.

That could happen if the Maine Public Utilities Commission approves a buy-out agreement between the FEV plant's owners and Central Maine Power Company, and the local impact would be heavy. The townspeople's concern is understandable.

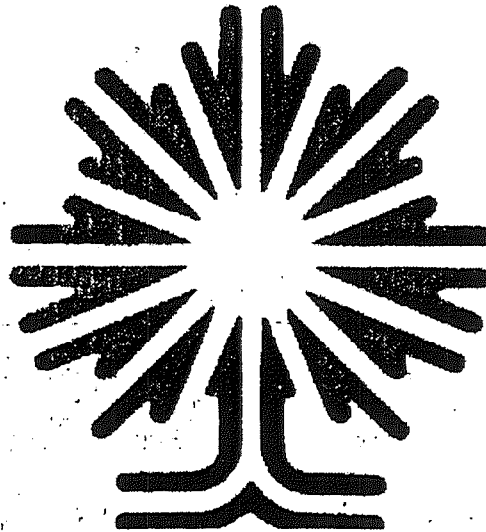
Some speakers' charges that the negative local impacts of the buy-out constitute a "subsidy" to people in southern Maine, on the other hand, betray a complete misunderstanding of the economics of this contract.

Subsidies have been flowing for eight years, but northward, to the FEV plant and its out-of-state owners, in the form of inflated energy prices. CMP customers bought \$29 million of electricity from FEV last year at an average cost of 12 cents a kilowatt-hour.

That's more than double the competitive price for wholesale power, and 33 percent above the already-too-high average wholesale price for all NUG energy being sold into the CMP system. It gets worse: For 1994, the FEV contract requires paying nearly 13 cents per kwh.

FEV energy is so over-priced that even after paying the out-of-state owners \$78 million to surrender their contract, CMP customers can still save about \$44 million over the seven remaining years it would otherwise run. Keeping over-priced FEV energy flowing onto the CMP grid when it's surplus and when much cheaper alternatives are available might preserve jobs in Fort Fairfield, but only at the cost of continued multi-million subsidies billed to the 80 percent of Maine people that CMP serves.

Cutting the costs of NUG energy is vital to easing the burden on our customers, and to CMP's goal of holding future price changes below the rate



David Flanagan Guest opinion

of inflation. NUG costs totaled \$361 million last year, or nearly \$1 million a day. That's 40 percent of all the revenue we collect from CMP customers, up from less than 1 percent in 1980.

Since January 1988, the cost of making state-mandated purchases of NUG energy have accounted for more than 70 percent of the rate hikes that people keep telling us, correctly, are bad for our business and for Maine's economy.

CMP has cut budgets and laid off more than 240 people itself this year, but considered where the big-ticket costs are, nothing we can do can produce anything near the savings possible from stopping the flow of customers' dollars to over-priced NUG units.

The FEV buy-out would be just one more step,

though a big one, in a CMP effort that has bought out, bought down to a lower price, or restructured two dozen NUG contracts since 1988.

On that point, people in Fort Fairfield asked, why not buy down the FEV contract to keep the plant running at a lower price and those jobs alive? It's a good question with a simple answer: The costs of a buy-down would be much higher than a buy-out, and would produce only one-third the savings for electric customers.

The logic is simple. In a buy-down, the owners would have to go on paying FEV's relatively high operating costs, in addition to satisfying their profitability requirements.

CMP is working to develop or locate a buyer for the FEV plant or for its energy. As corporate citizens and as fellow human beings, we'd prefer to see the plant continue operating as long as we can deliver the savings our customers demand and our state government expects.

Fort Fairfield indeed has problems, but so do CMP's customers, who are paying at least \$100 million a year above competitive levels for NUG energy and may have lost 4,000 to 5,000 job opportunities because of it. The Fort Fairfield NUG is a big part of that problem, being one of the most expensive contracts we have.

But Fort Fairfield's problem isn't CMP. It's the cost of FEV energy. If it were competitively priced, there'd be no way to design a buy-out that produced big savings for customers, and no need for the current anxiety in Fort Fairfield. Attacking CMP for seeking savings for its customers is far less constructive than investigating ways in which the FEV plant might be made competitive.

Until and unless that happens, CMP's duty to its 505,000 customers is to look for ways to ease the pressure on electric rates. And NUGs like the FEV plant remain the biggest source of that pressure. CMP must continue working to reduce the costs of these expensive NUG contracts.

David T. Flanagan is president
of Central Maine Power Company.

Buyout crucial for CMP

Official says power plant too costly for customers

By JENNIFER SULLIVAN
Sun-Journal Staff Writer

LEWISTON — If Central Maine Power Co. fails to buy out a Fort Fairfield power plant — a move that would save statewide customers millions but is hotly opposed in Aroostook County — the results could prove devastating, the head of CMP said Wednesday.

The company is banking on the proposed \$78 million buyout of Fairfield Energy Venture to break a "log-jam" and begin renegotiating power contracts with other such non-utility generators, including a plant in Eustis, Chief Executive Officer David Flanagan said.

The buyout is part of CMP's efforts to keep rate increases below the

pace of inflation, he said, but the collapse of the Fort Fairfield deal would be "so catastrophic that we'd have to reassess our strategy."

The northern Maine plant now costs CMP ratepayers \$2 million a month, he added.

Flanagan spoke with the Sun-Journal's editorial board in an effort to drum up support for the buyout. CMP, which plans to finance the deal with a low-interest loan from the Finance Authority of Maine, says the buyout would save its customers more than \$44 million over the eight years remaining in the Fairfield con-

tract.

But Aroostook County residents charge that it would result in the closing of the 33-megawatt plant, costing 37 jobs there and about 100 others in related businesses. It would also eliminate one-third of Fort Fairfield's tax base.

Flanagan said he recognizes the "anguish" that Aroostook County has suffered as its economy has declined. But CMP must weigh the possible loss of 37 jobs to the costs faced by the utility's customers.

See CMP, page 8

"The vast majority of Maine's people and Maine's prospects for economic development will benefit from this kind of transaction," he said.

CMP is exploring ways to keep the wood-fired Fairfield plant open if possible, he said, adding that "more than one" other company has expressed interest in running it.

"It's our position that if we can run the plant economically, we'd be glad to do it," he said. "But it is severely uneconomic right now, and they know it."

CMP pays 12.75 cents per kilowatt hour for power generated at Fairfield — a bill that added up to more than \$29 million for CMP customers last year. That same energy could have been bought on the open market for \$8 million, Flanagan said, adding that even if Fairfield were closed, CMP has a power surplus expected to last for years. The Fairfield Energy Venture contract is one of CMP's most expensive and requires new price increases in each of the next eight years.

He maintained that the expensive contracts CMP was told to negotiate with NUGs, or non-utility generators — such as paper companies that generate power as a byproduct, for example, or trash-to-energy plants — are the result of policy decisions made by the Public Utilities Commission in the 1980s.

"We have a responsibility to our customers to make every effort we can to reduce the costs of NUGs," Flanagan said.

"It is severely uneconomic right now, and they know it."
— David Flanagan

The Fairfield plant is owned by U.S. Energy Corp. of Bethesda, Md., and HYDRACO of Syracuse, N.Y. The latter company is also part owner of the Stratton Energy Associates plant in Eustis. CMP is talking with the owners of that Franklin County plant, Flanagan said, declining to discuss the nature of their negotiations.

CMP owes \$60 million for energy produced by NUGs. That debt must be paid down without subjecting customers to "rate shock," he said.

FAME answers a reader's concerns

By Timothy P. Agnew

Should Maine support efforts of its electric utilities to stabilize electric rates for the benefit of ratepayers?

That question had a prominent role during the recently concluded legislative session. After hearing from consumer and commercial ratepayers alike, the Legislature and Gov. McKernan answered yes. In doing so, they established a program that allows the state's electric utilities to access financing at terms that make electric rate stabilization projects feasible and possible.

Now that the Electric Rate Stabilization Program has become law and we have heard about potential impacts of the program, the debate about whether Maine should be involved in such projects has begun anew. In that discussion, some have negatively characterized the actions of different organizations involved in this program. That is certainly true for the Finance Authority of Maine.

A guest column by Martha Grant that appeared in the Bangor Daily News on July 25 goes so far as to criticize FAME because the rule the authority has drafted for the Electric Rate Stabilization Program isn't similar to rules the authority has for other programs it administers. While I appreciate the concerns raised by Ms. Grant, I believe those concerns to be unfounded. FAME is implementing this program mindful of the rule that we were intended to have when this legislation was enacted. No more. No less.

In drafting a rule for the program, FAME did what we always do. We reviewed the law. We reviewed the legislative history. We spoke with people involved in drafting the legislation. As a result, the draft rule FAME has proposed meets the parameters set forth in the law that created this program. The reason this rule is not similar to other FAME rules is really quite simple: the program is different.

For example, the Legislature did not stipulate a term for these loans because it was successfully argued by proponents of the bill that depending on what size these loans are, terms will vary significantly. There was no maximum loan size put in statute because lawmakers were told that electric rate stabilization projects could range in size from several millions of dollars to tens of millions of dollars. The percentage guarantee on these loans was not limited, as it is for some FAME programs, because legislators wanted to secure the best possible rates and terms for projects financed under the program.

Finally, FAME has been criticized by some because the authority's proposed rule does not include a "public benefit" aspect. The fact is, in implementing the Electric Rate Stabilization Program the Legislature saw the need for two agencies to make decisions on electric rate stabilization projects. As such, the law contains two major components: a Public Utilities Commission approval process and a FAME financing process.

The PUC is required to look at each project to determine whether

it results in the public benefit defined in the new law. The PUC has 30 days after receipt of an application to issue a Certificate of Approval or to deny a project application. If a Certificate of Approval is issued, then the cost of financing the project is treated as an allowable expense for rate-making purposes in the future, so that the utility can recover the cost of buying out or buying down the non-utility generator contracts.

Because Maine utilities have not performed well financially in recent years, and because of the negative outlook for the utility industry in general, borrowing to pay the costs of an Energy Rate Stabilization Project may be very difficult and costly. Since ratepayers are paying the costs of these contracts, the Legislature determined it to be in the public interest to provide assistance in the financing of buying out or buy-

Administering a program to benefit ratepayers

ing down these projects in order to reduce the future cost to ratepayers. Accordingly, the Finance Authority of Maine was authorized to issue bonds backed by the state's moral obligation in an effort to help the utilities finance electric rate stabilization projects at the lowest possible cost. The legislation mandates that the benefits of these lower rates be passed on to ratepayers.

As a final note, I want to touch on a final point made by Martha Grant in her column. The staff and board of FAME have worked diligently over the years to manage our portfolio and resources in a manner that allows us to assist businesses access capital while simultaneously protecting the state's limited financial resources. During this period, FAME has helped thousands of firms to access more than \$1 billion in financing.

Significantly, the authority has never had to call upon taxpayers to pay out on any FAME-guaranteed loan. To be sure, we have projects that have not succeeded, but because we have structured and managed these loans appropriately, FAME has always made good on its obligations without calling on the state treasury. As FAME undertakes this new program, that standard remains our guide.

Contrary to the assertions made by Ms. Grant in her column, FAME's draft rule for the Electric Rate Stabilization Program was not hastily conceived or ill thought out. And this program, like all programs FAME administers, will be handled in the most prudent, professional and fair way possible. After all, that's our job.

Timothy P. Agnew is the chief executive officer of the Finance Authority of Maine, the state's business and higher education finance agency.

County

All eyes on FAME rule review

Power contract buyouts crux of draft proposal

By Debra Sund
Of the NEWS Staff

PRESQUE ISLE — A new rule, written especially to handle the financing of nonutility generator contract buyouts, will be reviewed Thursday by the Finance Authority of Maine.

The eyes of both northern and southern Maine will watch to see how FAME will treat the rule's first draft, the initial test of which is the proposed buyout of a Fort Fairfield electricity plant by Central Maine Power Co.

FAME is the state agency that would guarantee a loan of \$78 million for CMP to buy out its contract with Fairfield Energy Venture. CMP announced last month that part of the loan would be used to purchase the plant and that it would likely be mothballed after the deal is completed.

Shutting down Energy Venture would eliminate about 100 jobs in northern Maine and mean a drastic loss in property tax revenue in Fort Fairfield. However, CMP contends that the plan would result in lower electric rates for its 500,000 customers.

On Monday, a CMP spokesman said that the company was working "very hard" to find a way to keep the Fort Fairfield plant open, either through the company's own operations or through a separate sale.

However, changes of fuel prices and labor costs may be needed, as well as a reduction in the plant's valuation for property tax purposes, the spokesman said.

The buyout plan needs approval by the Maine Public Utilities Commission first and by the financing agency next.

The FAME rule was necessitated by recent legislation that authorized the agency to issue up to \$100 million in bonds for Maine utilities wanting to change their contract with nonutility generators. The legislation, L.D. 1897, became law last week.

At first, FAME officials believed they could handle CMP's proposal using an existing rule that dealt with a federal tax exempt bond program. However, even after attempts at amending the rule, the agency's staff determined a new rule was needed, according to Charles Mercer of FAME.

One of the topics to be discussed at the morning portion of Thursday's FAME meeting in Augusta is whether FAME must consider the "public benefit" of such a move. While the PUC must consider it, Mercer said, the legislation was not clear on whether it should be part of FAME's criteria.

"It's difficult to determine the public benefit of shutting plants down," Mercer said. "We know how to put bonds in place."

The draft rule will be presented during the afternoon session, when agency members could amend the staff's proposal on the rule.

About 45 people from northern Maine are expected to charter a bus to attend the FAME meeting in hopes of offering comment on the new ruling. The bus will leave at 7 a.m. Thursday from the town office building, according to Tony Levesque of the community development office.

A public hearing on the rule also has been scheduled for 7:30 p.m. Wednesday, Aug. 17, at the University of Maine at Presque Isle.

FAME will make a final decision on the rule shortly after a subsequent 10-day comment period ends.

Meanwhile, the PUC will hold a prehearing conference on the buyout proposal July 27 in Augusta to talk about a public hearing on the measure July 29. The commission has tentatively set aside Aug. 3 to deliberate on the CMP proposal.

By law, the PUC must render a decision 30 days after the proposal has been filed. In this case a decision must be issued by Aug. 15.

Fort Fairfield Town Manager Scott Seabury started a vacation Monday and was not available to comment on the proposed FAME rule. A Portland attorney, retained to help in the town's fight against the shutdown, did not return calls Monday.

However, a local attorney and legislative candidate, Martha Grant, said the new rule was vague and appeared not as restrictive as other rules governing FAME.

"It's messing with our money, a lot of money," Grant said, who practices law in Fort Fairfield.

FAME Board meets on draft rule

The Finance Authority of Maine (FAME) met at the Augusta Day's Inn on Thursday, July 21, opening their meeting to testimony from interested parties regarding their draft rule dealing with electric rate stabilization projects.

The FAME board voted to adopt the draft rule at the conclusion of their meeting.

FAME board members were allowed to consider only elements directly related to the proposed rule. FAME was established to provide funding for businesses in Maine at a reasonable rate of interest. Many of the businesses that approach FAME for funding are unable to find suitable financial backing elsewhere.

FAME's proposed rule does not address economic impact.

Central Maine Power will require \$78 million to buy out FEV's contract. The legislation enacted in L.D. 1997, permitting buy-out and buy-down of non-utility generator (NUG) contract by electric utilities, includes language enabling FAME to provide the funding for these transactions. The bill does not require FAME to provide funding, but states that the agency "may" do so.

Fort Fairfield town government officials and citizens traveled to

Augusta on Thursday to provide reasons for the FAME board to alter their rule in the hope that a changed rule would deny funding to CMP for their proposed buy-out of Fairfield Energy Venture. Among the points presented for consideration to the FAME board

What bothers me most is government is doing this.

-Samuel Shapiro, State Treasurer

was the issue, raised by state senatorial candidate Carolyn Mahany, that the legislation does not require FAME to be a conduit for funding for CMP. Section 8 of the legislation states that FAME "may" (not "shall" or "must") make loans. Mahany said that CMP's proposal "certainly does not help" job creation and economic development, two of FAME's primary directives. She said, "A responsive government always makes exceptions for municipalities already devastated."

The first to testify before the FAME board was CMP President David Flanagan. He said that CMP serves 80% of Maine's people. FAME's capability, he said, was "critical to the ability of CMP to buy out and buy down." He added, "We need to find a way to run these (alternate energy sources) economically ourselves. If we can't, we're

prepared to sell them. We would be willing to sell to someone who would compete with us."

Ray Hewes, of FAME's board, asked if CMP would be willing to allow the plant to stay open, and Flanagan repeated that the company would be willing.

Samuel Shapiro, another FAME board member and State Treasurer, remarked, "It doesn't seem right to put one person out of work. What bothers me most is government is doing this. I don't think government should be involved in private enterprise."

Flanagan responded, saying that "This buy out is the most benevolent way (to implement the energy policy for the state).

Shapiro said, "It boils down to, if CMP decided, if they had the money, to go buy out, I wouldn't have a word to say. But government didn't do it."

Flanagan said, "The first people to be hit are our stockholders. Their dividend has already been cut 42%."

Shapiro responded, "I bought CMP once — not to be of benefit to the state of Maine but to make money. A deal was done with the owners, very acceptable to them and you. I would like to have more

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FAME

shaping of the final deal. You won't have to ask for a rate increase because you just got one. The big factors are people who will lose jobs and rates that have to go down, not stay the same."

Another board member made an inaudible remark, to which Flanagan responded, "No one will negotiate with us in the future if this is not done. The state will have no credibility."

Norman Hamphill, retired vice president of CMP, said that as he traveled around, his connection with CMP often came up. "I always have to defend CMP,"

he complained. "The state forced these contracts on CMP. A strong electric utility is necessary to the life of the state. Fort Fairfield is a nice community. But 80% of Maine people should not continue to subsidize. The greatest good for the greatest number should prevail."

Senator Leo Kieffer, called to testify, said that in the interest of protecting taxpayers in the state, the rule should specify a first mortgage of some type of readily saleable property, and specify exactly what the collateral regulation would be.

Shapiro responded, saying that this issue had been discussed with underwriters. "If we (FAME) have collateral, the state will be fighting in bankruptcy court with other creditors." Rep. Jim Donnelly wanted to add terms and conditions to the FAME rule regarding collateral, making sure that any

collateral is saleable. "As Flanagan said in his testimony," Donnelly pointed out, "CMP is in junk bond rating."

Rep. Richard Kneeland questioned whether the FAME rule enabling the buy out funding would be "enhancing jobs or deleting jobs," thereby fulfilling FAME's directive or contrary to it.

The town's attorney, Catherine Lee, testified, saying, "We believe that Chapter 107 (the new rule) proposed by the Authority staff is legally deficient because it ignores a number of statutory requirements." She said that the rule does not require an electric utility borrower to demonstrate that the project will contribute to the economic growth of the State and region, that it will enlarge opportunities for gainful employment to the people of the State and region, or that it will generally better the general health, safety, and welfare of the State or its inhabitants. She said, "Indeed, the proposed rule does not require that the electric utility borrower demonstrate compliance with any public policy criteria." She added that state agencies, by definition, "must act in the public interest."

Lee also pointed out that nowhere in the proposed rule are stipulations imposed on FAME in its creation addressed. The Authority must consider the state economic development strategy and the policies and activities of the Department of Economic and Community Development.

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"Because the proposed rule ignores these statutory requirements, we believe that it is open to legal challenge."

Cheryl Russell, of Hannington Brothers, a logging company, stated that FAME's vision statement says it should discourage a short-term fix for a long-term problem. She read a statement from H. C. Haines, who pointed out that when he was in trouble financially in the 1980's, no one loaned him money. HIE suggested that CMP take care of its own financial problem. Russell said that CMP pays \$31 million per year for projects never completed, projects that produce no power at all, and that CMP's own plants, built in the same time period as FEV, have higher contract costs than Fairfield Energy.

Carolyn Mahany said that FAME should not be dealing with the "greatest good for the greatest number," but with the common welfare of all the people. "For FAME to become part of an operation that will further devastate a town declared a Federal Disaster Area is contrary to common understanding of FAME's role in the Maine economy."

Howard Miller of Waterville, an electrical contractor, said that people complain to him about high light bills. "CMP," he said, "is paying 15 cents for 4 cent power."

Bill Flagg, of Cary Medical Center, pointed out that every member of the Arrostook delegation had declared that a buy-out

had not been the intent of the legislation. He remarked that this was a "risky venture financially" and that the "implications of CMP do not suggest a good investment." He said that the rule should set a limit on the amount of money available to anyone and to force an applicant to match funds. CMP's plan was not in harmony, he said, with the state Economic Development Plan.

Roger Harriman of Manchester asked what would happen to the structure of electric costs for CMP if the company were not granted the loan.

Don Fenchen of Fort Fairfield testified that CMP is not a good risk for state money, but "one of the most mismanaged disasters in the country."

Roy Peaseley, a CMP employee, felt that CMP was trying to help consumers in the state, but he was troubled by potential job loss in Fort Fairfield. He said that the state should work with CMP to keep FEV open and operating.

William Nail, of the Forest Resources group, said that a goal of the rule should ask FAME to insure that a project will contribute to the economic growth of the state and, if a proposal results in closure, that a loan application demonstrates practicable alternatives.

Ken Feller, a member of Fort Fairfield's town council, said that FAME should consider economic impact.

At the end of all testimony, Ray Hewes said that the board had received letters from Senator Margaret Ludwig and others, and a letter from the town of Yarmouth.

Following the meeting, Catherine Lee remarked that the town must fight the proposal "as it stands, every way we can." Council member Howard Higgins said that he felt optimistic because he saw an attitude change in Flanagan's remarks. "At least we've come to the point of talking," he said.

A Public Utilities Commission hearing will be held in Augusta on July 29.

FAME will hold a public hearing on August 31 at the University of Maine at Presque Isle.

Statement of the Executive Session
 Monday, July 21, 1997
 The following is a summary of the executive session of the Finance Authority of Maine held on Monday, July 21, 1997, at the Augusta Day's Inn. The session was held in accordance with the provisions of the Freedom of Access to Clinic Entrances Act (FACED) and the Freedom of Information Act (FOIA). The session was held in the presence of the following individuals: [List of names]

Article regarding FAME amendment draws attention

In the issue of the Fort Fairfield Review dated July 13, 1994, a front-page article discussed a proposed amendment to the Finance Authority of Maine (FAME) rules for the Electric Rate Stabilization Program. That article drew the attention of Charles Mercer, of FAME, who called to state that it was an inaccurate portrayal of FAME's role in the proceedings regarding the Electric Rate Stabilization Program and FAME's proposed rule. He said, "I believe your story last week is very unfair to FAME and it is not an accurate assessment of the situation."

In 1986, a federal program was established for tax exempt financing. This allowed certain financing programs to be exempt from federal taxes. FAME bonds can be exempt from taxes, making them a good deal for investors. A FAME rule was at that time created to deal with the regulations for that program.

This spring, L.D. 1997 was passed, creating the process under which Central Maine Power, or

another electric utility, could purchase contracts (buy-out) with non-utility generators, such as CMP plans to do with Fairfield Energy.

FAME is involved in the process because the legislation provides for a state guarantee of loans obtained by an electric utility to purchase a contract.

FAME, said Mercer, had no knowledge of the CMP deal prior to the commencement of its rule-making process. FAME was an active participant in the drafting of the bill's sections dealing with guaranteed loans because, according to Mercer, "Governor McKernan and the Maine Legislature wanted to make sure that the State's credit was handled in a prudent manner. FAME knows how to structure complex financial transactions while simultaneously protecting the State's valuable financial resources. That's what we are supposed to do in this program."

The generally-held misunderstanding in Fort Fairfield is that FAME will be using state funds to

lend money to CMP for the buy-out. This issue was addressed several times in the PUC public hearing. According to Mercer, CMP will not be receiving funds from FAME or from the state of Maine. He said that FAME's only responsibility is to provide credit in a prudent and responsible manner. It is not clear at this time just how CMP will obtain the money from the sale of FAME's bonds.

FAME will sell bonds on the stock market and those bonds will be guaranteed by the state through FAME. This is very similar to the mid-80's deal whereby the federal government backed Chrysler's loans. Without FAME's backing, it is doubtful that CMP would be able to sell \$78 to \$100 million in bonds on the stock market, but Mercer

stressed that FAME is simply following legislative guidelines established in the legislation and is completely unbiased regarding the FEV buy-out. The legislation, he said, required that FAME provide a guarantee if the Authority decides that CMP is a prudent credit risk. The state has a moral, not a legal, obligation to cover the pay back. If CMP defaults, the state has no legal obligation to take on the loans. However, if the state refused to make payment, it would be difficult, if not impossible, to sell future state bonds.

As to the FAME amendment discussed in last week's issue of the Review, Mercer said that the Authority had been required by the legislation of L. D. 1997 to revamp

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their regulations to suit the large amount of money being guaranteed.

In looking over their regulations, the board decided that the rule dealing with tax-exempt financing was close to the new requirements for the bill. In a desire to implement the new regulations quickly, the Authority decided to amend that existing rule. Each insert of the phrase, "except for electric rate stabilizations projects," according to Mercer, was required by the legislation and was not inserted as a favor to CMP after CMP's plans regarding FEV became known or any other utility. "Moreover," said Mercer, "the rule amendment was not drafted with any specific project in mind. When FAME started drafting its program rule, we had no knowledge of the CMP/Fairfield Energy Venture (deal)." According to Mercer, "the story that appeared in last week's

edition of the Review certainly implies that FAME was trying to accommodate CMP. Rather, what FAME is trying to do is to get a program online.

That is what we are required to do by State law." Mercer did not address the issue of collateral, a subject not covered in the legislation. FAME, under section 6. B. of the discarded amendment, states that "The foregoing provisions shall not apply in the case of an electric rate stabilization project, in which case the Authority may require and accept such collateral as is deemed prudent." Collateral is not addressed at all in L.D. 1997.

The Authority has drafted a new rule, dealing specifically with electric rate stabilization projects. This new rule will go to the FAME board on Thursday, July 21. A public hearing on the rule will be heard by the FAME Board in Presque Isle on August 26.

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CMP's venture

By David J. Cashman

Central Maine Power Co.'s proposed buyout of Fairfield Energy Venture appears to do a superb job of manipulating the facts to regain the monopoly status that CMP once enjoyed.

For several years now CMP has very effectively shifted the blame of higher electrical rates to Non Utility Generators (NUGs) and Maine's state energy policy. I would like to share another viewpoint with you.

Maine's energy policy has had some very important long-term goals for the state. One was to reduce our dependence on resources outside of the state, such as foreign oil, and to use efficient local renewable resources in their place. Another goal was to end the utilities' monopoly on energy production and place the burden of risk on private developers and not the ratepayers.

Maine's dependence on oil and other nonrenewable resources has been significantly reduced under this policy. Oil now accounts for only 16 percent of our electric generating capacity. The energy industry created by the state's energy policy today sustains an estimated 6,000 jobs with wages totaling more than \$23 million. While this industry was growing Maine's other industries lost more than 25,000 jobs. This industry also pays property taxes to the local communities where plants like FEV are located.

Another great advantage that we all enjoy from this energy policy is the end of the utilities' monopoly on energy production. If a plant has cost overruns the burden falls on the NUG and not on the ratepayer, as was the traditional practice. The property taxes I mentioned are paid by the plant owner and not the ratepayer. If those taxes go up the NUG has to absorb this and any other cost increases within the contract price. A NUG cannot go to the PUC for a rate increase; it must live within the contract rate.

With that very brief overview of Maine's energy policy, I would like to address some of the specific issues raised by the proposed buyout. CMP wants to replace Fairfield Energy Venture's Output with its own oil-burning Wyman station. Not only is this a step backward in reducing our dependence on oil, but the price CMP is showing for Wyman does not take into account the millions of dollars needed to retrofit the plant to comply with the Clean Air Act. All of those costs will be passed on to the ratepayers for CMP's plants.

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Another issue that seems to be omitted by CMP is that the cost for energy produced in plants built by CMP in the 1980s, when the NUG plants were built, is higher than the average NUG contract price. If you add to that the cost of projects that CMP either pulled out of or never completed, that figure would be more than double the average NUG contract price! If a NUG failed to complete a plant or pulled out of the contract with CMP, the NUG would have to pay CMP liquidated damages and the ratepayers would not be charged a cent. The current cost to CMP ratepayers for plants that CMP canceled is approximately \$31 million a year.

The state Legislature studied many bills this session that would have devastated the long-term benefits of our state's energy policies for little or no short-term gain. The legislation that allows for the Finance Authority of Maine guarantee that CMP is using to shut down Fairfield Energy Venture was never intended to be used for such a devastating purpose. I served on the Legislature's Utilities Committee and know first hand that the committee members stated this time and time again. I offered an amendment that was adopted and is now part of that law that clearly states that the FAME guarantee should be used to buy down contract rates and preserve the long-term benefits that have been realized by our energy policy. It was made very clear in the committee work session that the amendment was being added to prevent just the type of action that CMP is attempting with Fairfield Energy Venture.

I feel confident that when the Public Utilities Commission compares the long-term detriment of the buyout to the overstated short-term benefit, the commission will rule that the buyout does not meet the requirements of this legislation.

David J. Cashman of Old Town is the representative for District 131 and is a member of the Joint Standing Committee on Utilities.

CMP spinoff plan appears before state regulators

By Francis X. Quinn

AUGUSTA (AP) — State utility regulators Friday took up a new plea by Central Maine Power Co. for authorization to set up an unregulated subsidiary and affiliates that would operate outside the region.

But actual deliberations by the Public Utilities Commission were put off.

CMP, which originally proposed investing up to \$70 million in new entities, has won support from the PUC staff and the office of Maine's public advocate for a scaled-down plan that envisions an initial investment of up to \$30 million.

The utility proposal, however, has come under sharp attack by a group of CMP customers organized as the Industrial Energy Consumer Group. IECG representatives urged regulators Friday to turn down the proposed agreement.

The critics argued that the plan does not contain enough protections to guarantee that company customers would not be harmed by the formation of an "exempt wholesale generator" — the type of unregulated energy entity that CMP has described.

Meanwhile, CMP, the public advocate and the PUC staff have filed another proposed agreement with the PUC that would reduce the company's pending \$29 million rate-hike request to \$23.3 million.

A hearing on that proposal is expected to be held next week.

The pending rate hike would come in the form of an annual fuel-cost adjustment designed to cover CMP's fuel-related expenses.

CMP said Friday its willingness to lower its fuel-clause request resulted in part from the future savings it expects to net from the proposed buyout of the Fairfield Energy Venture power contract and plant in Aroostook County.

The buyout, which has been criticized by northern Mainers who warn of its potentially detrimental impact on the already troubled Aroostook economy, is also under PUC review.

CMP said the lower fuel-clause request, if approved in full, would raise company revenue by less than 2.8 percent.

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Regulators weigh plan to save plant

● Stephen Ward, who represents ratepayers in utility matters, says the plan has short- and long-term benefits.

By TUX TURKEL
Staff Writer

Central Maine Power Co. customers would see their bills drop by one-half percent in December as part of a new proposal to keep a wood-fired power plant open in Fort Fairfield.

But a group of large industrial customers says the savings should be greater. The group argues that the settlement violates the intent of a new state law designed to lower electric rates.

The Public Utilities Commission is scheduled to weigh each side's arguments at a hearing today in Augusta.

The deal could also give CMP a foothold into the business of unregulated power generation.

The plant, now owned by an independent company, would be operated by a regulated subsidiary of CMP. But CMP would have the

option to convert it to an exempt generator that could sell electricity to factories or utilities.

The action stems from CMP's efforts to buy out the high-cost contract and close the plant. To finance the buyout, CMP has applied to the state for a \$78 million loan, part of a new law designed to help utilities buy out or modify costly contracts with private power plants.

But the plan stunned northern Maine residents, who were upset that state backing would be used to shut down a major employer. That set the stage last week for talks leading to Tuesday's compromise.

Under the original buyout deal, CMP said customers would save \$35 million over eight years. Put another way, an average home customer with a \$58 monthly bill would have saved about 50 cents.

The new proposal would cut annual electric rates by \$4 million beginning this December. That would save an average home customer about 30 cents a month.

But a sticking point is how and when additional savings are realized.

The savings may be harder to calculate in the future because the PUC is considering a different method of setting utility rates. It is



“Supporters say it would be nice to have the plant around and that it would be good for us. . . . But we do know there are very specific savings that would result from a buyout over the next few years. And the legislative intent is for us to receive those benefits.”

Tony Buxton, industry lawyer

also possible that an unregulated arm of CMP could buy the power plant, or sell it to another entity, at a greater future value. That would increase future benefits for CMP's 500,000 ratepayers.

“Over the life of the contract,” said Arthur Adelberg, a CMP vice president, “we expect customers to achieve the same level of benefits, or slightly more.”

CMP was initially opposed to keeping the plant open because the contract cost was too high and the power unneeded. But it will try to

lower operating costs by negotiating lower fuel-wood prices and gaining tax concessions from the town, for example.

Industrial customers, however, are pushing for the original buyout plan.

The Industrial Energy Consumer Group comprises 12 companies that include paper mills and large factories. Together they use about 10 percent of CMP's power supply.

“Supporters say it would be nice to have the plant around and that it

would be good for us,” said Tony Buxton, a lawyer representing the industrial group. “No one knows that for sure. But we do know there are very specific savings that would result from a buyout over the next few years. And the legislative intent is for us to receive those benefits.”

The immediate difference between the buyout and settlement savings is perhaps a few dollars yearly for a homeowner. But for large businesses, it could add up to thousands of dollars, Buxton said.

But a leading ratepayer representative said the settlement is a good deal for most ratepayers.

The compromise has gained the support of Stephen Ward, the state's public advocate. Ward, who represents ratepayers in utility matters, said the deal would have both short- and long-term benefits. Customers will see bills drop in December, and Maine will retain a competitive source of power for the future.

“I think it's desirable for ratepayers to receive an immediate rate reduction,” Ward said. “But I also think the facility will have value in the 21st century. It would be a shame to dismantle it and truck it off for salvage.”

MAINE

FAME seeks reduced role

Agency's request deals blow to critics of CMP buyout

AUGUSTA (AP) — To the dismay of opponents of a controversial utility buyout plan in Aroostook County, the Finance Authority of Maine board Thursday proposed a rule limiting its oversight role in the dispute.

FAME board members accepted the urging of agency analysts to leave broader questions about the public benefits of a Central Maine Power Co. plan to buy out the Fairfield Energy Venture plant in Fort Fairfield up to the Public Utilities Commission.

FAME's role, according to the agency staff, should be merely to judge the financial soundness of CMP's application for a \$78 million low-interest loan to pay for the buyout.

The board handed a procedural defeat — although a preliminary one — to buyout critics by issuing the proposed rule for public comment.

Critics, who want both FAME and the PUC to assess the potential economic impact of a buyout on Aroostook County, worry that neither will. However, they will get another chance to argue for a broader rule at a public hearing in Presque Isle on August 17.

Before reaching its decision, the board heard from two executive branch agencies and several legislators who helped develop a new electric rate stabilization program that gives utilities access to low-interest financing to help them buy down or buy out contracts with non-utility generators.

All of the witnesses but one, Republican Rep. James Donnelly of Presque Isle, agreed that the Legislature

intended to have the PUC make the broader judgment on the merits of a utility's application, with FAME ruling only on its financial feasibility.

"Public benefit is always something that FAME should consider," he said.

Those arguing that the PUC alone should decide included the commission, Public Advocate Stephen Ward and the head of the State Planning Office,

“Public benefit is always something that FAME should consider.”

Rep. James Donnelly,
R-Presque Isle

Stephen Adams.

Northern Maine critics of the buyout warn that it will likely result in a shutdown of the wood-burning plant at a cost of at least several dozen jobs. They also complain that modest savings for CMP customers resulting from the buyout will be coupled with rate increases in the Aroostook County area served by another utility.

The CMP application, if approved by the PUC and FAME, would drain more than three-quarters of the

\$100 million loan fund authorized by the Legislature and Gov. John McKernan.

That factor, as well as the fact that CMP customers stand to benefit at the expense of another part of the state, made a political battle over the buyout proposal inevitable, said Democratic Rep. Carol Kontos of Windham.

"It's regrettable . . . that this first deal which comes before us takes so much of the allocated money . . . (and) that the particular negotiation takes place outside CMP's service territory," Kontos said.

Meanwhile, Adams told the board he saw a likelihood that further negotiations could keep the plant open to some extent, even if the buyout proceeds.

"I am confident . . . there is a solution to keep the plant operating at some level," Adams said, "as well as receiving the rate benefit of the buyout."

CMP has said the buyout could save its customers around \$35 million over six years, because the company would be able to replace expensive power it is under contract to get from the Fairfield facility with cheaper sources.

However, a lawyer for the town of Fort Fairfield, Catherine Lee, said CMP's estimates were open to challenge.

And one board member, state Treasurer Samuel Shapiro, pressed CMP President David Flanagan on why the utility, even with a junk-bond credit rating, couldn't absorb a \$2 million annual cost to borrow money for a buyout on the open market.

MAINE

FAME may limit utility-buyout role

● The agency may leave questions about the public benefits of a CMP plan to buy out a Fort Fairfield plant up to the Public Utilities Commission.

By FRANCIS X. QUINN
Associated Press

AUGUSTA — The Finance Authority of Maine board Thursday proposed a rule limiting its oversight role in an Aroostook County utility buyout.

FAME board members accepted the urging of agency analysts to leave broader questions about the public benefits of a Central Maine Power Co. plan to buy out the Fairfield Energy Venture plant in Fort Fairfield up to the Public Utilities Commission.

FAME's role, according to the agency staff, should be merely to judge the financial soundness of CMP's application for a \$78 million low-interest loan to pay for the buyout.

The board handed a procedural defeat — although a preliminary one — to buyout critics by issuing the proposed rule for public comment.

But critics, who want both FAME and the PUC to assess the potential economic impact of a buyout on

"I am confident . . . there is a solution to keep the plant operating at some level, as well as receiving the rate benefit of the buyout."

Stephen Adams, State Planning Office

Aroostook County, will have another chance to argue for a broader rule at a public hearing in Presque Isle on Aug. 17.

Before reaching its decision, the board heard from two executive branch agencies and several legislators who helped develop a new electric rate stabilization program that gives utilities access to low-interest financing to help them buy down or buy out contracts with non-utility generators.

All of the witnesses but one, Republican Rep. James Donnelly of Presque Isle, agreed that the Legislature intended to have the PUC make the broader judgment on the merits of a utility's application, with FAME ruling only on its financial feasibility.

"Public benefit is always something that FAME should consider," he said.

Those arguing that the PUC alone should decide included the commission, Public Advocate Stephen Ward and the head of the State Planning Office, Stephen Adams.

Northern Maine critics of the

buyout warn that it will likely result in a shutdown of the wood-burning plant at a cost of at least several dozen jobs. They also complain that modest savings for CMP customers resulting from the buyout will be coupled with rate increases in the Aroostook County area served by another utility.

The CMP application, if approved by the PUC and FAME, would drain more than three-quarters of the \$100 million loan fund authorized by the Legislature and Gov. John McKernan.

That factor, as well as the fact that CMP customers stand to benefit at the expense of another part of the state, made a political battle over the buyout proposal inevitable, said Democratic Rep. Carol Kontos of Windham.

Meanwhile, Adams told the board he saw a likelihood that further negotiations could keep the plant open to some extent, even if the buyout proceeds.

"I am confident . . . there is a solution to keep the plant operating at some level," Adams said, "as well

as receiving the rate benefit of the buyout."

CMP has said the buyout could save its customers around \$35 million over six years, because the company would be able to replace expensive power it is under contract to get from the Fairfield facility with cheaper sources.

However, a lawyer for the town of Fort Fairfield, Catherine Lee, said CMP's estimates were open to challenge.

And one board member, state Treasurer Samuel Shapiro, pressed CMP President David Flanagan on why the utility, even with a junk-bond credit rating, couldn't absorb a \$2 million annual cost to borrow money for a buyout on the open market.

CMP officials said increased indebtedness through normal channels could preclude other borrowing needed for capital projects.

The FAME board received a preview of what members can expect at next month's Presque Isle hearing Thursday as a series of Aroostook County advocates raised a variety of concerns about CMP's plan.

Echoing others who charged that northern Maine was being penalized to benefit utility ratepayers elsewhere, Republican Rep. Richard Kneeland of Easton asked: "Are we just shifting the burden from one end of the state to the other?"

The price of FAME

By Martha A. Grant

I would like to amplify the remarks concerning the proposed Finance Authority of Maine rules attributed to me by Debra Sund in the July 19 Bangor Daily News ("It's messing with our money, a lot of money"). There are a number of substantial deviations between the rule proposed to cover Energy Rate Stabilization Projects (ERSPs), such as Central Maine Power's buyout of Fairfield Energy Venture (FEV), and the other secondary market taxable bond programs which FAME finances. The people of Maine, who will end up paying for the buyout if CMP defaults, are entitled to know what those differences are.

Charles Mercer, FAME's director of External Affairs, has recently stated that "Maine utilities have not performed well financially in recent years" and that the "outlook for the utility industry in general" is "negative." The rule proposed to regulate the \$78 million funding of CMP's buyout of FEV is particularly interesting against the background of that statement.

One of the most significant differences between the rule proposed for ERSPs (a better acronym might be "ERPS") and other FAME bond programs is the total lack of criteria for determining the financial viability of proposals. While other projects are measured against four pages of criteria, Section 5 of the draft rule provides that an ERSP may be approved if "the Authority determines that there is a strong likelihood that the loan will be repaid according to its terms" and "to the extent ... that is prudent for the Authority to provide such assistance and assume such liability." Missing from the draft rule are such criteria applied to other projects as profitability for the most recent three years of operations, a minimum asset to liability ratio, a maximum debt to net worth ratio, a minimum debt service coverage ratio, and other similar measures of financial performance.

A second distinction of equal

significance is the total lack of any collateral requirements for ERSPs beyond "such collateral as (the Authority may deem) necessary." Other bond projects are required to be secured by liens on property "sufficient to provide adequate security for the loan" and the total loan may not exceed 90 percent of the value of real estate plus 75 percent of the value of personal property securing the loan. The proposed rules would allow FAME to provide \$78 million for the buyout of FEV, a project 11 times larger than any other financed by FAME, with no collateral if none is deemed necessary by the Authority. The funds would be provided to an entity Charlie Mercer says has "not performed well financially in recent years" and has a "negative" outlook. Furthermore, since FAME may require no collateral, under the proposed rules FAME has no right to require liquidation of the collateral in case of a default.

There is no limit to the amount which may be loaned for any one project under the proposed rule. This would allow CMP to get 78 percent of the funds available (80 percent of the cost of buying the plant itself is allowed) for its one project, the buyout of FEV. Every other similar bond project is limited to \$7 million in funding from FAME. As the rule proposes to fund projects on a first-come, first-served basis, rather than according to the comparative worth of proposals, CMP's proposal is ensured financing if it meets the other entirely discretionary criteria.

No specific term limits for the loans to ERSPs are proposed. Other projects are limited to either 10 or 25 years, depending on the type of project, but the proposed rules allow FAME to determine the maximum term of loans to rate stabilization projects "on a case by case basis."

The proposed rules have all the earmarks of a hastily conceived plan which is likely to be poorly executed. Before FAME goes "messing with our money" the rules deserve a long hard look.

Martha A. Grant, an attorney in Presque Isle, is a candidate for House District 145.

FAME Board to meet July 21 in Augusta

Fort Fairfield Review 7-26-94

ELECTRIC RATE STABILIZATION PROGRAM TOPS AGENDA

On Thursday, July 21, the Board of Directors of the Finance Authority of Maine will hold its regular monthly meeting in Augusta. During the day long meeting, FAME board members will discuss several aspects of the Electric Rate Stabilization Program.

The proposal of Central Maine Power Company (CMP) to use the Electric Rate Stabilization Program to buy out the contract of Fairfield Energy Venture in Fort Fairfield and potentially close the plant has focused a great deal of attention on the new program and FAME's role in financing this project. At this week's board meeting, Steve Adams, Director of the State Planning Office, and two

members of the Legislature's Joint Standing Committee on Utilities, Senator John J. Cleveland of Auburn and Representative Carol A. Kontos of Windham, will discuss the new program. FAME is also expecting representatives from Central Maine Power Co. and the town of Fort Fairfield to be present during board deliberations that day.

As enacted into law, the Electric Rate Stabilization Program Act contains two major components: a Public Utilities Commission approval process and a FAME financing process. The Public Utilities Commission is required to look at each proposed Energy Rate Stabilization Project to determine whether the proposed project results in the public benefit defined in the legislation. If the Public Utilities Commission approves a

project, they then issue the utility company proposing the project a Certificate of Approval. That Certificate is required if the utility wants to access financing under the Electric Rate Stabilization Program. If a Certificate of Approval is issued for any given project, the costs of financing the project are treated as an allowable expense for ratemaking purposes. This allows the utility to recover the costs of buying out or buying down the non-utility generator contract.

Because borrowing to pay the costs of an Energy Rate Stabilization Project may be difficult and costly, the Legislature and the Governor determined it to be in the public interest to provide assistance in the financing of these projects in order to reduce the costs to the ratepayers. That is where the second component of the Electric Rate Stabilization Program comes into play.

Under this section of the bill, the

Projects at the lowest cost possible. All of the savings of the financing must be passed through to ratepayers.

During its board meeting on Thursday, the FAME Directors will attempt to learn more about the background of the Electric Rate Stabilization Program from the Director of the State Planning Office and two members of the Legislature's Utilities Committee. They will also learn about the potential impacts and ramifications of the program from utility company officials and residents of Fort Fairfield.

Following that discussion the FAME board will review a draft rule for the Electric Rate Stabilization Program. The FAME Board will also consider applications it has received from underwriters who want to assist the Authority in structuring and selling any bonds that are authorized under the program.

The FAME Board meeting will

Morning Sentinel

Energy project talks continue

Fort Fairfield still resisting Central Maine Power proposal

By FRANCIS X. QUINN
Associated Press

AUGUSTA — Central Maine Power Co. and officials of Fort Fairfield, at odds over CMP's bid to obtain \$78 million in state-backed financing to buy out a power plant that is a major employer and taxpayer in the town, gained more time this week to attempt to settle their dispute.

Prospects for a deal remained uncertain on Thursday, as talks brokered by State Planning Office Director Stephen Adams continued.

But a Public Utilities Commission hearing on CMP's proposal originally set for Friday has been postponed until the middle of next week.

Adams said the town and company were trying "to see if there's a way that they can work together toward a buyout that will keep the plant open and achieve the savings" that CMP has projected.

"They're just trying to see if they can bridge their differences," Adams said. "If they are able to do that ... there will be broader discussions involving all of the parties."

CMP's buyout plan is the first advanced since a new state law made available up to \$100 million in low-cost financing through the Finance Authority of Maine for utilities seeking to renegotiate or end their contracts with non-utility generators.

CMP has blamed high-priced contracts with power suppliers like the Fairfield

Energy Venture in Fort Fairfield for driving up its rates. The Augusta-based utility says buying out the contract and acquiring the wood-fired plant itself could produce savings of around \$35 million over six years.

While some skeptics within a business coalition known as the Industrial Energy Consumer Group have questioned whether ratepayers will actually reap the full benefit of projected savings, northern Maine critics of the CMP plan have raised different objections.

Area lawmakers and other Aroostook County advocates complain that northern Maine customers of a smaller utility — Maine Public Service Co. based in Presque Isle — stand to see their rates

go up because of the spinoff effects of closing the Fairfield facility.

They also warn of job losses and lost taxes from a plant closing.

CMP officials have said they would look at options for keeping the plant open in the event a buyout is approved by FAME and the PUC, but that currently there could be no guarantees.

Adams said officials of CMP and Fort Fairfield had agreed not to discuss the details of their discussions publicly.

The rescheduled PUC hearing on the buyout plan is slated for Wednesday morning at the commission's headquarters in Augusta.

A PUC decision is due by the middle of next month.

Portland Press Herald 7/29/94

MAINE

CMP, Aroostook plant seek a compromise

● Closing the plant would save ratepayers' money, but the town says it needs the industrial jobs and taxes.

By TUX TURKEL
Staff Writer

Central Maine Power Co. and the town of Fort Fairfield are seeking a settlement that would keep the community's power plant running but still lower electric bills for CMP customers.

The parties asked the Public Utilities Commission to delay a hearing set for today on CMP's plans to close the high-cost generator.

CMP's proposed buyout of the Fairfield Energy Venture plant has polarized Aroostook County residents and southern Maine electric customers. It also has sparked some political fallout. Lawmakers and bureaucrats are debating the intent of a new law designed to help utilities shed expensive contracts with private power plants.

The two sides have been meeting for three days with state officials and consultants to find compromises on fuel costs, taxes and operating methods. The goal is to keep the wood-fired plant running at some level past September.

But a group representing large factories and mills says any compromise may reduce the savings that customers would otherwise get if the plant closed.

"We're concerned that ratepayers get the full benefit of the savings associated with the original deal proposed by CMP," said Richard Silkman, a spokesman for the Industrial Energy Consumer Group.

CMP has said that it doesn't need the energy from Fairfield, and that

BACKGROUND

CMP announced in June that it could save customers \$35 million over the next eight years by buying out the contract for the 33-megawatt Fairfield Energy Venture wood-fired plant in Fort Fairfield.

CMP doesn't need the power, which costs more than double the current market rate. It had planned to shut the plant at the end of September.

To finance the buyout, CMP applied to the state for a \$78 million loan to end its contract with the out-of-state energy developers that now own the plant. The loan is part of a new law designed to help utilities buy

out or modify expensive contracts with private power plants.

While the deal has come under fire, two state agencies that must pass judgment on any plan have been moving ahead. The Public Utilities Commission must weigh the impact on ratepayers. The Finance Authority of Maine is to rule on the financial soundness of CMP's application.

A PUC hearing is set for Wednesday in Augusta. The commission is due to make its decision in the case Aug. 15. FAME has scheduled a hearing in Presque Isle Aug. 17.

buying out its contract and closing the plant will lower bills for its 500,000 customers. Opponents have argued that the buyout will use state-backed loans to eliminate a major employer and taxpayer in northern Maine.

Now they are trying to find a middle ground.

Any agreement must be approved by the PUC. The hearing has been rescheduled for Wednesday at the PUC offices in Augusta.

A key sticking point in the negotiations is that the electricity from Fairfield costs CMP 13 cents a kilowatt hour. But the regional power glut means CMP can buy surplus energy for about 3 cents.

"We need to be somewhere in that ballpark to keep the plant operating," said Arthur Adleberg, a CMP vice president involved in the talks.

The two sides have focused on several key areas where savings are possible.

The plant burns about 355,000 tons of waste wood a year, at a cost of roughly \$7 million. Fuel is by far the plant's largest expense. CMP is talking to wood suppliers about lowering their prices.

CMP is also exploring different ways to run the plant. It now runs around the clock, but costs could be cut by only generating power at times of peak demand. CMP is also looking at how many people it needs to run the plant, their wages, taxes and fees paid to the town.

"We're looking at anything that could bring the costs down," Adleberg said.

Consultants hired by the town are trying to convince CMP the plant can be run profitably.

Silkman said that if state officials believe it's good public policy to keep the plant running, or offset economic losses in Aroostook County, they should develop methods that don't hurt CMP customers.

Ram Island closes school;

CMP rate cuts will be smaller

Keeping Fort Fairfield plant open will stem reductions

By FRANCIS X. QUINN
Associated Press

AUGUSTA — Central Maine Power Co.'s new plan to keep open the Fort Fairfield generator it intends to buy would mean smaller rate reductions for CMP customers than envisioned when the utility planned to shut the plant down, state analysts said Tuesday.

"The savings aren't going to be quite as much," Public Utilities Commission staff lawyer Joanne Steneck said.

Nonetheless, the PUC staff and Maine's public advocate were lining up behind the arrangement worked out by CMP and Fort Fairfield.

A proposed settlement agreed to by those parties was scheduled to be presented Wednesday to the three-member PUC.

Public Advocate Stephen Ward echoed Steneck in agreeing that, "there's a reduc-

tion in savings."

CMP, which plans to use \$78 million in state-backed financing to purchase the generator from its out-of-state owners, had initially pegged savings at around \$35 million over a half-dozen years or more.

Ward estimated savings from the revised plan at \$30 million.

But Ward said that besides saving jobs in northern Maine, the revised plan could help save a potentially cheap energy producer using renewable resources — a potential long-term benefit not contemplated under CMP's original buyout plan.

"It's really been transformed into a kind of a contract buy-down," Ward said.

As broadly described at a State House news conference called by Gov. John McKernan last week, the proposal developed by CMP and the town seeks to keep open the Fairfield Energy Venture plant and retain most of its nearly 40 jobs for at least three

years.

CMP says it will acquire the plant through a subsidiary and continue to operate the wood-fired generator if costs can be controlled within six months.

The town in turn has pledged to take steps to help reduce those costs in an effort to preserve jobs.

When CMP first announced its intention to buy out its contract and take over the Fairfield Energy Venture plant, officials of the Augusta-based utility pledged that savings would be passed directly on to its customers in the central and southern reaches of the state.

As late as last Friday, a CMP spokesman maintained that the same amount of savings would be realized even if the company kept the plant open, as it has been urged to do by Aroostook County advocates.

Negotiators said Tuesday the new plan would result in a rate decrease of \$4 million

this December and that additional savings could be realized next summer, depending on how CMP's fuel costs are treated by state regulators.

A spokesman for an industrial coalition critical of the proposed agreement derided CMP's projections of future benefits and said utility customers stand to lose out on \$10 million in savings over three years.

"This is a very sophisticated way for CMP to say the check is in the mail," Anthony Buxton of the Industrial Energy Consumer Group said.

While protecting jobs in Aroostook County is a laudable goal, Buxton said, "the idea that we have to pay a ransom to do it is not appropriate."

Pending approvals by the PUC and the Finance Authority of Maine, CMP would purchase the plant from the U.S. Energy Corp. in Bethesda, Md., and HYDRACO of Syracuse, N.Y.

Plan would keep biomass plant open

Fort Fairfield, CMP agreement must get approval from PUC, FAME

Power, from A1
bought today for as low as 2 cents per kilowatt-hour.

The high prices paid to Fairfield Energy Venture and about 80 other non-utility generators in Maine stem from locked-in prices tied to the price of oil when it was much higher than it is today.

The agreement fashioned in negotiations led by State Economist Stephen Adams still must win approval from the Public Utilities Commission and the Finance Authority of Maine.

The tug of war between Maine utilities and the non-utility generators over high-priced contracts resulted in legislative passage of a mechanism to provide \$100 million in low-interest loans for utilities to

either buy out or renegotiate contracts.

David Allen of CMP said the Fort Fairfield plant, which burns wood chips and wood waste from nearby mills, is one of the largest plants with the most expensive contracts.

Even paying the \$78 million buyout costs, CMP says it can save \$10 million a year by terminating the contract with the 33-megawatt plant that employs 37 workers.

Allen said of the agreement with Fairfield Energy Venture, "It's a good first step for us in trying to stabilize electric rates."

"This is a good example of how if we all pull together we can come up with a win-win situation," said McKernan. "The absolute bottom line is we have to keep the plant running.

"We obviously want CMP to make a prudent business decision, but we also want the plant to run."

Scott Seabury, Fort Fairfield town manager, said, "Basically, the town is very pleased that we have done what we could ... There

is a chance of layoffs, but the vast majority of jobs will stay in place."

The Fairfield Energy Venture plant provides almost one-third the property taxes in Fort Fairfield. It is owned by HYDRA-CO Enterprises of Syracuse, N.Y., and U.S. Energy Associates of Washington, D.C.

Of the \$78 million in the buyout proposal, about \$2 million is for purchase of the plant and equipment and most of the rest is for the value of the remaining eight years on the contract.

Peter Powers, general manager of Fairfield Energy Venture, said of Friday's announcement, "I think it's wonderful for Aroostook County to have a business to continue to operate."

Employees, he said, were "excited to think that doom and gloom may be lifted."

Sen. R. Leo Kieffer, R-Caribou, said, "The insistence of the governor's office and his staff is what brought us all together."

Lottery

Daily numbers: 222 - 4788

EW ENGLAND

PUC approves proposal to keep plant on line

● Industrial customers are wary of the plan to reduce costs rather than close the Fort Fairfield plant.

By TUX TURKEL
Staff Writer

AUGUSTA - A plan that will lower electric bills for Central Maine Power Co. customers starting in December, while keeping open an Aroostook County power plant for at least three years, was approved on Wednesday by state regulators.

The deal will save the average customer 30 cents on a \$59 monthly bill.

The agreement was controversial because the paper industry and other large customers argued that they and other ratepayers would see greater relief if the wood-fired plant in Fort Fairfield were closed, as CMP first intended.

But the Public Utilities Commission decided unanimously that the deal met the intent of a new state law designed to lower electric rates. The three-member panel said the agreement would give quick and direct benefits to customers and was consistent with state energy policy.

Focus now shifts to another state agency, the Finance Authority of Maine, which must act on CMP's request for a \$78 million state-backed loan to buy out the power

contract from the plant's private owners. A public hearing is set for Presque Isle on Aug. 17.

CMP initially wanted to use the money to end the contract and close the plant, because its power was too costly and unneeded. But politics intervened after northern Maine residents complained they would lose a major employer. Their objections spawned negotiations, which led this week to a widely supported alternative plan for CMP to run the plant but cut its operating costs. That plan was put to regulators on Wednesday.

A key point of dispute was timing.

At issue was whether the Legislature, which passed the rate-stabilization law last spring, intended for all savings to be passed on immediately or at some point in the future. Industrial opponents argued that the compromise plan moved a large chunk of ratepayer benefits into the late 1990s, using the money to pay down costs that CMP is owed for past fuel purchases. Their concerns were also colored by speculation about a related, ongoing case at the PUC that could change the method for setting future utility rates.

The PUC pointed out that it would retain its ability to make sure ratepayers receive the benefits of any savings, with or without a new rate-setting method.

The commission did, however, express its own concerns about the

potential for CMP to convert the plant into an unregulated generator that could sell electricity wholesale to factories or other utilities. Because the move would change the plant's impact on rates, the PUC asked CMP to speed up its consideration of such plans.

Reaction to the PUC's decision was predictable and mixed.

"We're very pleased," said Scott Seabury, Fort Fairfield's town manager. "On to step two."

CMP officials said they were pleased with the ruling and were happy for the support they got from diverse parties, including the state's Public Advocate and the PUC's advocacy staff.

Industrial customers said the PUC decision makes it unclear if ratepayers will ever see the full benefits they are entitled to.

"Somebody forgot about the consumer who will back those bonds," said Tony Buxton, a lawyer representing the group.

Fairfield Energy to stay open under new CMP agreement

Residents and town officials were successful in keeping the Fairfield Energy plant open under a plan unanimously approved Wednesday by the Public Utilities Commission, according to Catherine Lee, a municipal attorney with the law firm of Bernstein, Shur, Sawyer & Nelson.

The plan allows Central Maine Power to buy Fairfield Energy Venture under a new state law designed to stabilize CMP's energy costs by buying down or buying out contracts with on-utility generators like Fairfield Energy. The plan will still reduce rates for CMP customers in Southern Maine, according to CMP. "This is the first time the new law, designed to reduce electric rates for Maine citizens, has ever been applied," said Lee. "The PUC finding is consistent with the position the town has had all along, that keeping plants open is far more in keeping with the intent of the legislation."

An earlier plan proposed by CMP to close down the plant and sell it for scrap once it was purchased came under fire by town officials. Lee said the credit for keeping

the plant open "goes to Scott (Seabury) and the town for having the tenacity to fight back, the tenacity to hold on for what was right. They ended up with a just result." She said also that she had been "really pleased" to be able to

Hats off to the residents of Aroostook County who turned this thing around

Catherine Lee

bring the involvement of other members of her firm, Gordon Grimes and Patrick Scully among others, in a team effort. She added she was "very pleased" with the result. "This is an example of all sides coming together and coming up with a creative decision. This is what the statute intended — to lower rates and keep people employed."

Lee said that the PUC hearing, held here in Fort Fairfield, had played a most important part in the proceedings. The hearing, attended by more than 450 people, had been called for by Lee. Lee said that it was felt that if the commission had a chance to hear people, the commission would respond. PUC Chairman Thomas Welch remarked at the close of the

hearing that he appreciated the time and effort all who had testified had expended in the effort. Another PUC member told Lee that after reading the complete transcript of the hearing, she felt that it was the "best public witness transcript" she had ever read.

She said that the transcript played a very important part in her understanding. In recounting this story, Lee said, "Hats off to the residents of Aroostook County who turned this thing around."

The next step is a hearing on August 17 at at 7:30 p.m. at the Campus Center, University of Maine at Presque Isle by the Finance Authority of Maine (FAME) where CMP's request for \$78 million to buy the contract and the plant will come under review. Under the new law, \$100 million was earmarked to help CMP buy down or buy out energy contracts with independent generators.

"The agreement to keep the plant open will maintain the town's tax base, keep needed jobs in Aroostook County and invest the

See FEV...page 3

FEV.....from page 1

town's future and economic well-being of the region," said Lee. "It will also stabilize rates for CMP customers. It's a good example of how a win-win outcome can be achieved when the interests of all the affected parties are considered."

Town manager Scott Seabury said the support of the Aroostook delegation, the Governor's office and townspeople helped CMP negotiate an agreement with the town to keep the plant open. The agreement allows a six-month trial period for Fairfield Energy to bring its costs to within limits established by the agreement. After costs have been adjusted, the plant will remain open for three years, with an option for continuing. Part of the adjustment will be made possible by a lowering of taxes, a concession made by the town. Another part will be renegotiation of wood contracts. Lee said, "Everyone needs to do their

share" in keeping the plant open. "Together, we managed to keep a good portion of our tax base and quite a few jobs," said Seabury. "It was a worthwhile effort, even though the town had to make a concession in taxes, because we still have a major employer that contributes to the town economically. And that affects us all."

Lee has been practicing municipal law for 13 years and has extensive experience in energy matters. A native of Lewiston, Lee has been with Bernstein, Shur, Sawyer & Nelson since 1984 and is known for her work in environmental law. She is a member of the Maine Chamber of Commerce and Industry and the Maine Alliance Environmental Policy Committee. Bernstein, Shur, Sawyer & Nelson is one of the state's largest law firms with more than 60 attorneys in offices in Augusta, Portland and Kennebunk.

CMP disputes need for collateral

By FRANCIS X. QUINN
Associated Press Writer

AUGUSTA — Central Maine Power Co. remains at odds with the Finance Authority of Maine over the need to provide collateral for \$78 million in low-cost financing for the planned buyout of a Fort Fairfield power plant.

FAME's chief executive officer, Timothy Agnew, has told CMP that FAME requires collateral to protect the state against po-

CMP continued from 1

tential losses from all loans and loan guarantees.

"I urge you to reconsider your position and propose the best collateral position that can be made available to FAME to provide us with assurances we need to move forward on this specific loan request," Agnew said in a letter to CMP Treasurer Douglas Stevenson.

Company spokesman Clark Irwin said Thursday he did not think CMP had responded in writing to Agnew's July 29 letter, but that FAME's insistence on collateral for the loan could "kill the deal."

Irwin said FAME financing would be repaid by revenue from existing CMP rates and that agency officials should find that revenue stream to be adequate to cover the loan.

He stopped short of saying CMP would refuse to offer additional assurances.

"I'm sure discussions are continuing," Irwin said.

At the same time, Irwin added that it would not be practicable for the company to provide "major collateral," saying virtually all CMP assets are already tied up or restricted from further commitments.

CMP's proposed buyout of the Fairfield Energy Venture wood-fired energy plant in Fort Fairfield will be the focus of a public hearing at the University of Maine at Presque Isle next Wednesday night.

FAME is sponsoring the hearing to hear views on CMP's loan request, the first made under a new loan authoriz-

ing up to \$100 million in low-cost loans for utilities seeking to reduce the costs of their contracts with non-utility generators.

CMP is seeking emergency action on the request so it can proceed with the buyout as soon as possible.

The Public Utilities Commission recently approved the proposed power-plant purchase after the utility and Fort Fairfield officials reached an agreement aimed at preserving jobs at the plant.

As part of the agreement, CMP is to reduce its rates by \$4 million in December, saving a residential customer about 30 cents on a \$59 monthly bill.

By winning PUC approval, CMP was thought to have cleared the major hurdle to its buyout plan. FAME officials had said their review would be strictly limited to the prudence of the loan.

But the dispute over collateral has raised new concerns about the viability of the plan.

"I would say it ain't a done deal. It ain't even close," said FAME spokesman Charles Mercer.

Irwin said CMP had already made two good-faith compromises in pursuing state assistance for its efforts to cut purchased power costs: dropping a campaign in the Legislature to win enactment of a windfall profits tax on non-utility generators, and making the deal aimed at keeping the Fort Fairfield plant open.

Irwin said FAME's demand for collateral "doesn't pass the straight-face test."

Business

Bangor Daily News

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FRIDAY, AUGUST 12, 1994

CMP disputes need for FAME loan collateral

\$78 million in financing sought for buyout of Fort Fairfield power plant

By Francis X. Quinn

AUGUSTA (AP) — Central Maine Power Co. remains at odds with the Finance Authority of Maine over the need to provide collateral for \$78 million in low-cost financing for the planned buyout of a Fort Fairfield power plant.

FAME's chief executive officer, Timothy Agnew, has told CMP that FAME requires collateral to protect the state against potential losses from all loans and loan guarantees.

"I urge you to reconsider your position and propose the best collateral position that can be made available to FAME to provide us with assurances we need to move forward on this specific loan re-

quest," Agnew said in a letter to CMP Treasurer Douglas Stevenson.

Company spokesman Clark Irwin said Thursday he did not think CMP had responded in writing to Agnew's July 29 letter, but that FAME's insistence on collateral for the loan could "kill the deal."

Irwin said FAME financing would be repaid by revenue from existing CMP rates and that agency officials should find that revenue stream to be adequate to cover the loan.

He stopped short of saying CMP would refuse to offer additional assurances.

"I'm sure discussions are continuing," Irwin said.

At the same time, Irwin added that it would not be practicable for the company to provide "major collateral," saying vir-

tually all CMP assets are already tied up or restricted from further commitments.

CMP's proposed buyout of the Fairfield Energy Venture wood-fired energy plant in Fort Fairfield will be the focus of a public hearing Wednesday night, Aug. 17, at the University of Maine at Presque Isle.

FAME is sponsoring the hearing to hear views on CMP's loan request, the first made under a new loan authorizing up to \$100 million in low-cost loans for utilities seeking to reduce the costs of their contracts with nonutility generators.

CMP is seeking emergency action on the request so it can proceed with the buyout as soon as possible.

The Public Utilities Commission recently approved the proposed power-plant purchase after the utility and Fort Fairfield

officials reached an agreement aimed at preserving jobs at the plant. As part of the agreement, CMP is to reduce its rates by \$4 million in December, saving a residential customer about 30 cents on a \$59 monthly bill.

By winning PUC approval, CMP was thought to have cleared the major hurdle to its buyout plan. FAME officials had said their review would be strictly limited to the prudence of the loan.

But the dispute over collateral has raised new concerns about the viability of the plan.

"I would say it ain't a done deal. It ain't even close," said FAME spokesman Charles Mercer.

Irwin said CMP had already made two good-faith compromises in pursuing state

assistance for its efforts to cut purchased power costs: dropping a campaign in the Legislature to win enactment of a windfall profits tax on nonutility generators, and making the deal aimed at keeping the Fort Fairfield plant open.

Irwin said FAME's demand for collateral "doesn't pass the straight-face test."

Under a pending agreement, CMP would purchase the Fort Fairfield plant from the U.S. Energy Corp. in Bethesda, Md., and HYDRACO of Syracuse, N.Y.

The company said initially that the proposed buyout, which contemplated shutting the plant down, could produce savings of around \$35 million.

Since then, with the buyout being transformed into a sort of buy-down which could keep the plant open, analysts have pegged potential savings somewhat lower, at around \$30 million.

The cost of energy

It is nice to know that the Finance Authority of Maine is interested in lowering Maine citizen energy bills. Investing \$70-\$80 million to buy out Fairfield Energy will save Central Maine customers about 30 cents a month. No problem. ...

That a legal contract with Fairfield Energy is being pressured out of existence with taxpayers' money is in keeping with government highhandedness. ...

At last check, Aroostook was still a part of Maine. We have an ongoing situation of overpriced gasoline here in the County. For many years it has been talked about, investigated and then dropped by various politicians and individuals.

Here's a simple solution (realizing it won't be simple if government forces get involved):

Obviously FAME has millions to spend and wants to help the citizens of Maine. We have an existing pipeline from Searsport (I believe) to Loring. It supplied fuel to that location for years. Even Uncle Sam evidently felt the transport prices we have to pay are too much. FAME could buy or lease this pipeline and supply gas to storage facilities at Loring and I'm sure private haulers would supply the County at less than the 20-30 cents difference a gallon we now pay compared with central Maine.

So, FAME would have to invest a few million. It would certainly save us more than the 30-cents-a-month savings for electricity users in central Maine. We would save nearly that much in a few gallons of gas.

OK, all you politicians, let us know all the difficulties and impossibilities that exist in the idea I've presented. And don't forget to mention the power and influence the oil companies have. They have no problem with the

County subsidizing lower costs for the rest of the state.

Ted Blanchard
Presque Isle

BDN 8-13-94

FAME sets public hearing at UMaine-Presque Isle

PRESQUE ISLE — The Finance Authority of Maine will hold a public hearing on a proposed emergency rule for its electric rate stabilization program at 7:30 p.m. Wednesday, Aug. 17, at the University of Maine at Presque Isle's Campus Center.

FAME is seeking to adopt its proposed rule on an emergency basis as a result of an agreement reached between the town of Fort Fairfield and Central Maine Power Co. on the Fairfield Energy Venture project. Under the electric rate stabilization program, CMP is seeking to borrow \$78 million in FAME-guaranteed loans to purchase the Fairfield Energy Venture plant in Fort Fairfield, according to Charles Mercer, FAME director of external affairs.

"CMP has requested that FAME consider its proposed rule on an emergency basis in order to meet an aggressive time frame the company has established for completing the project," said Mercer.

The hearing is part of a two-day visit by FAME that will include a luncheon meeting with the Loring Development Authority, a tour of Loring Air Force Base, and a meeting with Fort Fairfield town officials on Aug. 17. A regular board meeting will be held at 8:30 a.m. Thursday, Aug. 18, at UMPI's Campus Center.

PPH 8/20/94
**ELSEWHERE
IN MAINE**

Finance Authority scheduled to decide fate of CMP loan

AUGUSTA — The Finance Authority of Maine is scheduled to decide the fate of Central Maine Power Co.'s application for \$78 million in low-cost financing at a session in Augusta on Aug. 29.

CMP is seeking a FAME-processed loan to finance its buyout of a long-term energy contract with a wood-fired power plant in Fort Fairfield and the acquisition of the plant itself.

The Public Utilities Commission has already agreed to the plan.

But the deal remains incomplete, because FAME and CMP have yet to resolve what sort of security should be required to back the loan.

BDN 9-8-94

ENGLAND

CMP says collateral order could kill deal

By FRANCIS X. QUINN
Associated Press Writer

AUGUSTA — Central Maine Power Co. remains at odds with the Finance Authority of Maine over the need to provide collateral for \$78 million in low-cost financing for the planned buyout of a Fort Fairfield power plant.

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**Charles Mercer,
FAME spokesman**

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FAME to help CMP purchase power plant

By Doug Kessell
Of the NEWS Staff

AUGUSTA — The Finance Authority of Maine on Monday agreed to lend Central Maine Power up to \$82 million to purchase Fairfield Energy Venture, a wood-burning electrical plant in Fort Fairfield.

Despite all the hoopla during the past several months over the acquisition, Monday's meeting was quiet and attended by only a handful of people, nearly all CMP representatives. Voting unanimously, the FAME board of directors approved the financing, which CMP officials said is a major step forward in reducing electric rates in the state.

"This is a positive day, it's a positive development," said CMP President and CEO David Flanagan. Flanked by other CMP representatives, Flanagan met with the FAME board for more than two hours at the Augusta Civic Center, some of the time behind closed doors.

Stephen Adams, director of state planning for Maine, said CMP's

buyout could lead to other buyouts and help bolster the economy. Reducing costs like energy is one way to keep businesses going, he said, especially with little growth and meager profits expected during the next few years.

Financed by FAME, the purchase of Fairfield Energy Venture will mean reductions in CMP's high-cost energy purchases from nonutility-generators, or NUGs. Flanagan said last year Fairfield Energy supplied CMP with \$6 million worth of power, yet CMP had to pay \$29 million for it under state law. He estimated that this year, one-third of \$360 million in NUG payments will be overcharges.

By purchasing Fairfield Energy, CMP expects to save customers \$30 million or more over the 10-year life of the loan.

Included in the FAME loan is the base \$64 million to purchase the plant and another \$13 million to be used as a FAME reserve account should CMP be unable to make a payment.

CMP and FAME staff members reached an agreement whereby

CMP would put \$15 million upfront toward the purchase as well as use the mortgage on the Fort Fairfield plant as collateral, a sticking point in past negotiations.

While the salvage value of the plant, for collateral purposes, was only about \$2 million, FAME officials estimated that, fully operational, the plant is worth closer to \$15 million to another power company.

Flanagan said the \$15 million payment will be borrowed by the company and not come out of rate reductions to customers. In December, CMP is expected to drop rates by \$4 million, or about 30 cents on a residential bill of \$59. Reductions could reach \$10 million per year toward the end of the loan period.

Under guidelines still being developed, CMP will be put under intense scrutiny and conditions by FAME. The stipulations require that at least \$30 million in savings be returned to CMP customers; require CMP to provide five-year financial forecasts on the company; require involvement or approval of

FAME in capital expenditures and for the purchase or sale of assets or in the case of a merger.

FAME officials also want to establish a mechanism that would assure that loan repayments are made first, before dividends to stockholders.

"We don't want a situation where the company can't afford to pay us, but is paying dividends," FAME CEO Timothy Agnew told the power company.

Also, as part of an agreement reached with Fort Fairfield officials, CMP will continue to operate the energy plant for six months. After that, if the plant is economical to operate, it will stay on-line for at least another three years. In exchange, town officials have agreed to look at reducing operating costs, including tax rates.

"I would like to keep it running indefinitely," Flanagan said during the meeting.

The loan was part of a new law that went into effect this summer which authorized FAME to finance up to \$100 million in low-interest loans.

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8/30/94

FAME staff: Cut CMP loan request

Associated Press

AUGUSTA — — Finance Authority of Maine staff will recommend Monday that Central Maine Power Co.'s request for a \$79 million loan to buy out a Fort Fairfield power plant be reduced by \$15 million, a FAME spokesman said.

The additional financing for the

buyout would come from CMP, spokesman Charles Mercer said Sunday night.

The investment by the company is important because it reduces the state's financial risk and it leaves more money available for other electric-rate stabilization projects, he said.

FAME staff was to make the recommendations Monday afternoon at a board of directors

meeting in Augusta.

But final approval of the proposal remains with the board.

CMP wants the low-finance loan to buyout the Fairfield Energy Venture facility, a wood-burning power plant.

"Approval of this proposal will help to stabilize the company, while increasing electric-rate stability over the long term," Mercer said.

CMP customers would save \$30

million in energy savings cost from the buyout, which without it, would be lost in the eight remaining years of the contract between CMP and Fairfield Energy, according to Mercer.

CMP has opted to buy the entire Fort Fairfield plant, rather than simply renegotiate the price of its power, because its owners might have sold the power to one of CMP's present customers.

WTUL 8/29/94

Morning Sentinel 8-31-94

FAME allows \$64M loan to CMP

Associated Press

AUGUSTA — The Finance Authority of Maine voted unanimously Monday to approve a \$64 million loan to Central Maine Power to buy out a Fort Fairfield power plant.

The loan falls \$15 million short of the \$79 million CMP had requested, FAME spokesman Charles Mercer said.

The additional financing for the buyout will come from CMP, which, in turn, will leave more money available for other electric rate-stabilization projects, he said.

Under the plan, CMP will buyout Fairfield Energy Venture and operate the wood-burning plant for at least three years.

Mercer said that the deal will help stabilize CMP and

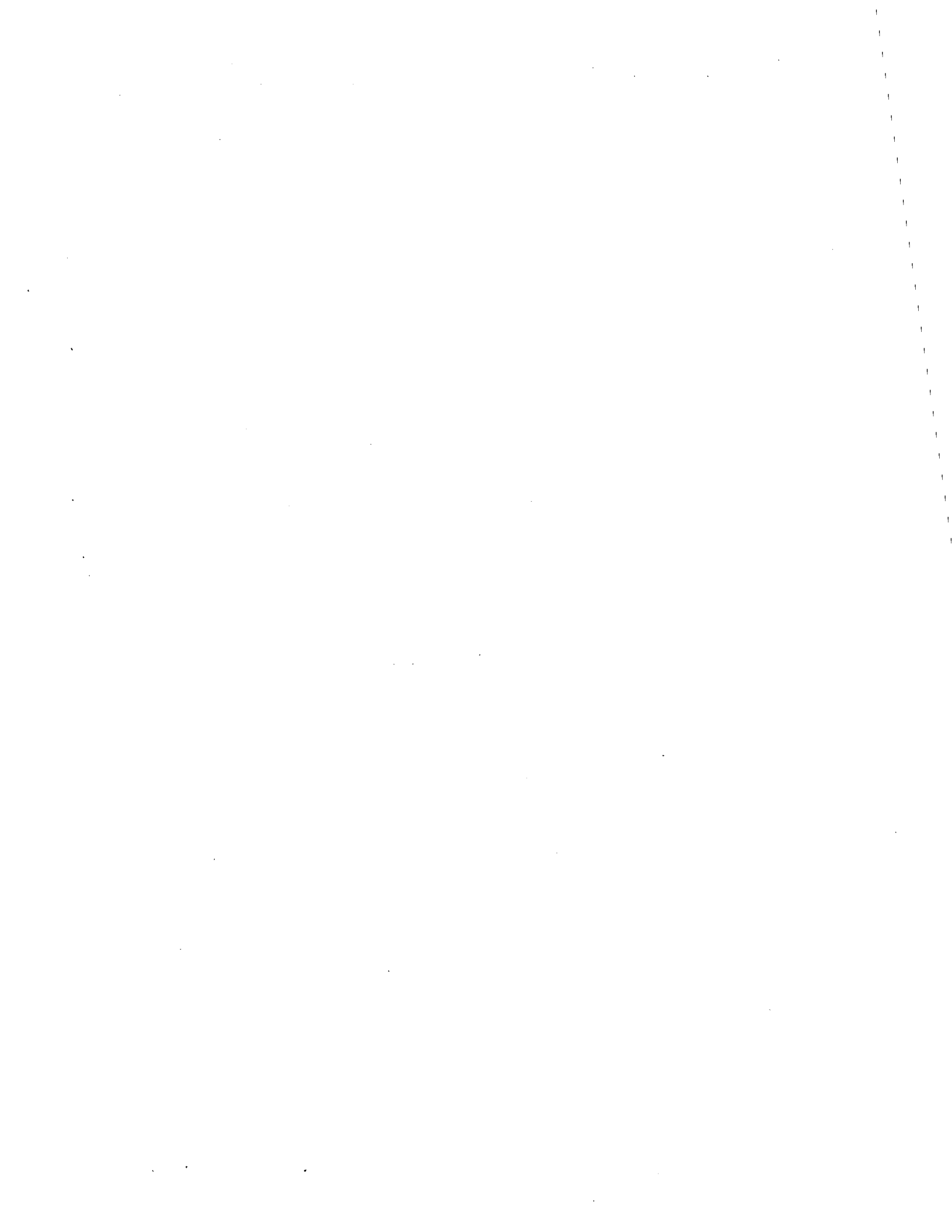
increase electric-rate stability over the long term.

CMP customers will save \$30 million in energy savings cost from the buyout which, without it, would be lost in the eight remaining years of the contract between CMP and Fairfield Energy, according to Mercer.

Approval of the loan "says a lot about the state's commitment to the high-cost NUG (non-utility generator) problem," CMP spokesman Mark Ishkanian said.

"We have a lot of work ahead of us. This is a very significant step in the right direction. We hope more contract holders will step forward to voluntarily renegotiate their contract," he said.

CMP has sought to get out of contracts because they were negotiated when power costs were much higher. It was required by law to sign the contracts in the 1980s.





\$79,300,000
FINANCE AUTHORITY OF MAINE
Taxable Electric Rate Stabilization Revenue Notes
Series 1994A (Central Maine Power Company)

Dated: Date of Delivery
 Final Maturity: January 1, 2005

Interest Rate: 8.16%
 Price: 100%

The Notes are being issued by the Finance Authority of Maine (the "Authority") pursuant to, and are secured under, a Trust Indenture by and between the Authority and Shawmut Bank, N.A., Boston, Massachusetts, as Trustee, for the purposes of financing the Project (defined herein) and funding the Capital Reserve Fund.

The Notes are issuable in the form of fully registered notes in Initial Amounts of integral multiples of \$100,000 and, upon delivery, will be represented by one note registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as the securities depository for the Notes. Purchases of Notes will be made in book-entry form only, and individual purchasers will not receive physical delivery of Note certificates. Principal payments are scheduled on January 1 of each of the years 1997 through 2005, and interest payments are scheduled on January 1 and July 1 of each year commencing July 1, 1995, except as otherwise described herein. The Notes are not subject to redemption prior to maturity.

The scheduled payment of principal of and interest on the Notes when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Notes by



Of the Notes, \$66,428,960 principal amount is being issued to finance the Project. Repayment of such principal and interest thereon is the obligation of Central Maine Power Company (the "Borrower") pursuant to a Loan Agreement between the Authority and the Borrower. The obligations of the Borrower under the Loan Agreement are general unsecured obligations. See "The Borrower" herein and Exhibit A—"Recent Filings by Central Maine Power Company Under the Securities Exchange Act of 1934 and Certain Other Documents".

The remaining \$12,871,040 principal amount of Notes will be used to fund the Capital Reserve Fund in the same amount, which is equal to the initial Reserve Requirement. For a description of provisions of the Finance Authority of Maine Act and the Indenture relating to the maintenance of the Capital Reserve Fund, see "Introduction" and "Security for the Notes" herein and Exhibit C—"Summary of Certain Provisions of the Indenture". The Borrower is obligated under the Loan Agreement to pay to the Trustee certain amounts to compensate for inadequate investment earnings and investment losses of the Capital Reserve Fund as described herein, but is not obligated to replenish the Capital Reserve Fund (except to the extent that payments by the Borrower of overdue principal or interest under the Loan Agreement and Loan Note after a draw on the Capital Reserve Fund may be deposited therein) or otherwise make payments with respect to the Notes issued to fund the Capital Reserve Fund.

The Notes are limited obligations of the Authority, payable solely out of the Trust Estate available under the Indenture for the payment thereof. The Notes shall not constitute any debt or liability of the State of Maine or of any municipality therein or any political subdivision thereof, or of the Authority, or a pledge of the faith and credit of the State of Maine or of any such municipality or political subdivision. **THE AUTHORITY HAS NO TAXING POWER.**

See "The Borrower", "Security for the Notes" and "Investment Considerations" herein for a discussion of and reference to certain factors that should be considered in connection with an investment in the Notes offered hereby.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR ANY STATE SECURITIES LAW, AND MAY ONLY BE OFFERED OR SOLD TO QUALIFIED INSTITUTIONAL BUYERS (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN RELIANCE ON THE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT PROVIDED BY RULE 144A FOR SALES TO QUALIFIED INSTITUTIONAL BUYERS, OR PURSUANT TO OTHER EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ANY OTHER APPLICABLE LAW BY ITS ACCEPTANCE OF A NOTE, EACH PURCHASER AND ANY TRANSFEREE SHALL BE DEEMED TO MAKE CERTAIN REPRESENTATIONS AND AGREEMENTS. SEE "NOTICE TO INVESTORS" AND "PLAN OF OFFERING" HEREIN. THE NOTES ARE NOT TRANSFERABLE EXCEPT UPON SATISFACTION OF CERTAIN CONDITIONS AS DESCRIBED IN "NOTICE TO INVESTORS" HEREIN.

This cover page contains certain information for quick reference only; it is not a summary of the terms of the Notes. Potential purchasers should read the entire Confidential Private Placement Memorandum to obtain information essential to the making of an informed investment decision.

The Notes are offered by the Initial Purchasers when, as and if issued by the Authority and received by the Initial Purchasers, subject to prior sale and to certain other conditions. The Initial Purchasers reserve the right to withdraw, cancel or modify such offer and to reject orders in whole or in part. It is expected that the Notes in definitive form will be available for delivery in New York, New York, through the facilities of DTC on or about October 26, 1994.

Prudential Securities Incorporated

Lazard Frères & Co.

Smith Barney Inc.

This Confidential Private Placement Memorandum is being furnished in connection with a transaction not involving any public offering of the Notes within the meaning of and in compliance with the Securities Act of 1933, as amended (the "Securities Act"), on a confidential basis, solely for the purpose of enabling prospective investors to consider the purchase of Notes. Delivery of this Confidential Private Placement Memorandum to any other person or any reproduction of this Confidential Private Placement Memorandum, in whole or in part, without the prior consent of the Authority, the Borrower and the Initial Purchasers named herein is prohibited.

The distribution of this Confidential Private Placement Memorandum and the offering of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Confidential Private Placement Memorandum comes are required by the Authority, the Borrower and the Initial Purchasers to inform themselves about and to observe any restrictions. This Confidential Private Placement Memorandum does not constitute an offer to sell or the solicitation of an offer to buy, and there shall not be any sale of Notes by any person in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. For a description of certain restrictions on offering, sale, resale, and delivery of Notes, see "Notice to Investors" and "Plan of Offering" herein.

THE NOTES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT, OR ANY STATE SECURITIES LAW, AND NEITHER THE AUTHORITY NOR THE BORROWER INTENDS TO REGISTER THE NOTES OR LIST THE NOTES ON ANY STOCK OR OTHER SECURITIES EXCHANGE. IN MAKING AN INVESTMENT DECISION, INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE AUTHORITY AND BORROWER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES AND EXCHANGE COMMISSION HAS NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM. WITH RESPECT TO THE VARIOUS STATES IN WHICH THE NOTES MAY BE OFFERED, NO ATTORNEY GENERAL, STATE OFFICIAL, STATE AGENCY OR BUREAU, OR OTHER STATE OR LOCAL GOVERNMENTAL ENTITY HAS PASSED UPON THE ACCURACY OR ADEQUACY OF THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM OR PASSED UPON OR ENDORSED THE MERITS OF THIS OFFERING OF THE NOTES. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

For New Hampshire Residents Only

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No broker, dealer, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Confidential Private Placement Memorandum in connection with the offering made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Initial Purchasers.

Information herein has been obtained from the Authority, the Borrower and other sources believed to be reliable, but it is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by, the Initial Purchasers.

The information and expressions of opinions herein are subject to change without notice and neither the delivery of this Confidential Private Placement Memorandum or the sale of any of the Notes shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

OTHER THAN WITH RESPECT TO INFORMATION CONCERNING FINANCIAL SECURITY ASSURANCE INC. ("FINANCIAL SECURITY") CONTAINED UNDER THE CAPTION "NOTE INSURANCE" HEREIN, NONE OF THE INFORMATION IN THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM HAS BEEN SUPPLIED OR VERIFIED BY FINANCIAL SECURITY AND FINANCIAL SECURITY MAKES NO REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO (I) THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION OR (II) THE VALIDITY OF THE NOTES.

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NOTICE TO INVESTORS

Because of the following restrictions, purchasers are advised to consult legal counsel prior to attempting to make any offer, sale, resale, pledge or transfer of Notes.

Each purchaser of the Notes (other than the Initial Purchasers in connection with the initial sale of the Notes) will be deemed to have represented and agreed as follows (terms used in this Notice to Investors and defined in Rule 144A ("Rule 144A") under the Securities Act of 1933 as amended (the "Securities Act") have their respective meanings set forth in Rule 144A):

1. The purchaser (a) is a qualified institutional buyer within the meaning of Rule 144A ("QIB") and is aware that the sale to it is being made in reliance on Rule 144A; and (b) is acquiring such Notes for its own account or for the account of a QIB; and (c) is not acquiring the Notes with a view to distribution thereof or with any present intention of offering or selling any of the Notes.

2. The purchaser understands and agrees that the Notes are being offered only in a transaction not involving any public offering within the meaning of the Securities Act, that such Notes have not been and will not be registered under the Securities Act, and that: (a) if it decides to resell, pledge or otherwise transfer such Notes, such Notes may be resold, pledged or transferred only (i) to the Authority, (ii) to the Borrower or an affiliate thereof, (iii) so long as such Notes are eligible for resale pursuant to Rule 144A, to a person whom the seller reasonably believes is a QIB that purchases for its own account, or for the account of a QIB, in a transaction meeting the requirements of Rule 144A and to whom notice is given by the purchaser that the resale, pledge or other transfer is being made in reliance on Rule 144A, or (iv) subject to receipt by the Trustee of the written consent of the Authority and the Borrower together with a certification of the transferee satisfactory, and to an opinion of counsel reasonably satisfactory, to the Authority, the Borrower and the Trustee to the effect that such transfer is in compliance with the Securities Act, in reliance on another exemption from the registration requirements of the Securities Act, and in each case under this clause (a) in accordance with the Indenture (including the representations and agreements of such purchaser and the transferee required thereby) and any applicable securities laws of any state of the United States or any other applicable jurisdiction; (b) the purchaser will, and each subsequent Holder is required to, notify any purchaser of Notes from it of the resale restrictions referred to in clause (a) above, if then applicable, and to deliver to the transferee before the sale a copy of a notice to investors describing such restrictions (copies of which may be obtained from the Trustee), except that this clause (b) shall not apply to transfers to Financial Security in connection with payments under the Note insurance Policy referred to herein; and (c) with respect to any transfer of Notes not held in book-entry form, the Trustee will require written confirmation from the transferee that the transfer is being made in compliance with the restrictions on transfer specified in either clause a(iii) or clause a(iv) above, as the case may be.

3. The purchaser acknowledges that it has such knowledge and experience in financial affairs, that it is capable of evaluating the merits and risks of purchasing Notes, and that it has received such information as is relevant to its decision to purchase Notes. All such information was either furnished, requested, obtained and reviewed (and any questions arising therefrom have been answered to the purchaser's satisfaction) or its rights with respect thereto have been voluntarily and knowingly waived by the purchaser. Without limiting the generality of the foregoing, the purchaser has been afforded an opportunity to request from the Authority and the Borrower, and to review, and it has received and reviewed, all additional information considered by it to be necessary to verify the accuracy of the information in this Confidential Private Placement Memorandum and has not relied on the Initial Purchasers or any person affiliated with the Initial Purchasers in connection with its investigation of the accuracy of the information contained in this Confidential Private Placement Memorandum or in connection with its investment decision.

4. The purchaser understands that the Notes and the Indenture may be amended from time to time without the consent of any Noteholder to modify the restrictions on and procedures for resales and other transfers of the Notes to reflect any change in applicable law or regulation (or the interpretation thereof) or in practices relating to the resale or transfer of restricted securities generally.

Each Note shall bear the legend as follows:

"THIS NOTE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY STATE SECURITIES LAW. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS THAT IT IS ACQUIRING THIS NOTE FOR INVESTMENT AND NOT WITH A VIEW TO ANY SALE OR DISTRIBUTION, AND AGREES FOR THE BENEFIT OF THE FINANCE AUTHORITY OF MAINE (THE "ISSUER") AND CENTRAL MAINE POWER COMPANY (THE "BORROWER") THAT THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (A)(1) TO THE ISSUER, (2) TO THE BORROWER OR AN AFFILIATE THEREOF, (3) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT TO A PERSON WHO THE HOLDER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER, WITHIN THE MEANING OF RULE 144A, IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A AND TO WHOM NOTICE IS GIVEN BY THE PURCHASER THAT THE RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, OR (4) SUBJECT TO RECEIPT BY THE TRUSTEE (AS DEFINED HEREIN) OF THE WRITTEN CONSENT OF THE ISSUER AND THE BORROWER TOGETHER WITH A CERTIFICATION OF THE TRANSFEREE SATISFACTORY, AND AN OPINION OF COUNSEL REASONABLY SATISFACTORY, TO THE ISSUER, THE TRUSTEE AND THE BORROWER TO THE EFFECT THAT SUCH TRANSFER IS IN COMPLIANCE WITH THE SECURITIES ACT, IN RELIANCE ON ANOTHER EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, (B) IN ACCORDANCE WITH THE REQUIREMENTS OF THE INDENTURE (DEFINED HEREIN), INCLUDING THE REPRESENTATIONS AND AGREEMENTS OF SUCH HOLDER AND THE TRANSFEREE REQUIRED THEREBY AND (C) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR ANY OTHER APPLICABLE JURISDICTION; AND THAT THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS SECURITY FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN CLAUSE (A) ABOVE AND DELIVER TO THE TRANSFEREE BEFORE THE SALE A COPY OF A NOTICE TO INVESTORS DESCRIBING SUCH RESTRICTIONS (COPIES OF WHICH MAY BE OBTAINED FROM THE TRUSTEE), EXCEPT IN THE CASE OF TRANSFERS TO THE NOTE INSURER IN CONNECTION WITH PAYMENTS UNDER THE NOTE INSURANCE POLICY REFERRED TO HEREIN. THIS NOTE AND THE INDENTURE MAY BE AMENDED FROM TIME TO TIME WITHOUT THE CONSENT OF ANY NOTEHOLDER TO MODIFY THE RESTRICTIONS ON AND PROCEDURES FOR REALES AND OTHER TRANSFERS OF THIS NOTE TO REFLECT ANY CHANGE IN APPLICABLE LAW OR REGULATION (OR THE INTERPRETATION THEREOF) OR IN PRACTICES RELATING TO THE RESALE OR TRANSFER OF RESTRICTED SECURITIES GENERALLY."

In order to preserve the exemption for resales and transfers under Rule 144A, the Loan Agreement will include a covenant whereby in the event that the Borrower is not subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower will make available the information and reports required by Rule 144A to enable resales of the Bonds to be made pursuant to Rule 144A.

CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM

**RELATING TO
THE ORIGINAL ISSUANCE OF**

**\$79,300,000
FINANCE AUTHORITY OF MAINE
TAXABLE ELECTRIC RATE STABILIZATION
REVENUE NOTES, SERIES 1994A
(CENTRAL MAINE POWER COMPANY)**

INTRODUCTION

This Confidential Private Placement Memorandum, including the cover page, the Table of Contents page, and the Appendices, is provided to furnish information in connection with the original issuance and sale by the Finance Authority of Maine (the "Authority") of its \$79,300,000 Taxable Electric Rate Stabilization Revenue Notes, Series 1994A (Central Maine Power Company) (the "Notes"). The Authority is a body corporate and politic and a public instrumentality of the State of Maine (the "State"): The Notes are being issued pursuant to the Finance Authority of Maine Act (the "Act"), constituting Chapter 110 of Title 10 of the Maine Revised Statutes, as amended, and a Trust Indenture dated as of October 19, 1994 (the "Indenture") between the Authority and Shawmut Bank, N.A., Boston, Massachusetts, as trustee (the "Trustee"). No additional notes or other obligations may be issued under the Indenture.

Capitalized terms used and not otherwise defined herein shall have the meanings given to them in the Indenture.

The scheduled payment of principal of and interest on the Notes when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Notes by Financial Security Assurance Inc. ("Financial Security" or the "Note Insurer") See "Note Insurance" herein and Exhibit D - "Specimen Note Insurance Policy".

This Confidential Private Placement Memorandum is being furnished in connection with an offering of the Notes in a transaction not involving a public offering within the meaning of and in compliance with the Securities Act of 1933, as amended (the "Securities Act"), on a confidential basis, solely for the purpose of enabling prospective investors to consider the purchase of Notes. For a description of certain restrictions on offering, sale, resale, and delivery of Notes, see "Notice to Investors" and "Plan of Offering" herein.

The proceeds received from the sale of \$66,428,960 principal amount of the Notes will be loaned to Central Maine Power Company (the "Borrower"). The loan, in the principal amount of \$66,428,960, will be made pursuant to the terms of a Loan Agreement dated as of October 19, 1994 between the Borrower and the Authority (the "Loan Agreement"). The loan is being made to finance the Project, which consists of the termination of a power purchase agreement between the Borrower and Fairfield Energy Venture, the owner of a 33 megawatt wood-fired electric generating plant located in Fort Fairfield, Maine (the "Plant"), and the related acquisition of the Plant by a subsidiary of the Borrower, and to pay costs of issuance of the Notes including the Note insurance policy premium. Pursuant to the Loan Agreement, the Borrower agrees to make payments by the times and in the amounts necessary to pay the principal of and interest on such portion of the Notes when due. To evidence such obligation, the Borrower also will execute and deliver to the Authority, and the Authority will assign to the Trustee, a promissory note (the "Loan Note") in a principal amount equal to the principal amount of such portion of the Notes. The obligations of the Borrower under the Loan Agreement are general unsecured obligations, are not restricted to revenues or performance

of the Plant, and are not secured by the Plant. The Borrower is not obligated under the Loan Agreement with respect to the balance of the Notes except to the limited extent described below.

In addition, the proceeds received from the sale of \$12,871,040 principal amount of the Notes (which proceeds equal such principal amount) will be used to fund the Capital Reserve Fund. This amount is equal to the initial Reserve Requirement. The Act provides in effect that in order to assure maintenance of the Reserve Requirement in the Capital Reserve Fund with respect to the Notes, there shall be paid from the State Contingent Account (as established in Title 5, Maine Revised Statutes, Section 1507) and, to the extent sufficient moneys are unavailable therein, appropriated annually and paid to the Authority such sum as shall be certified by the Authority as necessary to restore the amount in the Capital Reserve Fund to the Reserve Requirement. Under the Act and the Indenture, the Authority shall annually, on or before December 1, deliver a certificate to the Governor stating the amount, if any, necessary to restore the Capital Reserve Fund to the Reserve Requirement. See "Security for the Notes" herein. Such amount, even if fully funded, may be insufficient to pay all debt service on the Notes in the event of an acceleration thereof following an Event of Default.

While the Notes and the aforesaid provisions of the Act do not constitute a legally enforceable obligation upon the State or create a debt on behalf of the State, there is no constitutional bar to future Legislatures to appropriate such sum as shall have been certified by the Authority to the Governor as necessary to restore the Capital Reserve Fund to an amount equal to the Reserve Requirement.

The moneys in the Capital Reserve Fund not theretofore paid out as provided in the Indenture, but not in excess of \$12,871,040, shall be used to pay the last remaining like aggregate amount of installments of principal and interest on the Notes. The Borrower is obligated under the Loan Agreement to pay to the Trustee certain amounts to compensate for inadequate investment earnings and investment losses of the Capital Reserve Fund, but is not obligated to replenish the Capital Reserve Fund (except to the extent that payments by the Borrower of overdue principal and interest under the Loan Agreement and Loan Note after a draw on the Capital Reserve Fund may be deposited therein) or otherwise make payments with respect to repayment of the portion of the Notes issued to fund the Capital Reserve Fund. See "Security for the Notes" herein and Exhibit B - "Summary of Certain Provisions of the Loan Agreement - Additional Amounts Payable" and "- Obligations of the Borrower Unconditional". Until so used, amounts on deposit in the Capital Reserve Fund will be invested in Eligible Investments. For a description of Eligible Investments, see Exhibit C - "Summary of Certain Provisions of the Indenture - Provisions as to Funds - Eligible Investments" and "- Government Obligations".

The Notes are limited obligations of the Authority, and are payable solely out of the Trust Estate available under the Indenture for the payment thereof. See "Security for the Notes" herein. The Trust Estate includes, among other things, the loan payments required to be made by the Borrower under the Loan Agreement and the Loan Note, and the Additional Payments referred to above required to be made by the Borrower under the Loan Agreement relating to the Capital Reserve Fund.

THE NOTES SHALL NOT CONSTITUTE ANY DEBT OR LIABILITY OF THE STATE OR OF ANY MUNICIPALITY THEREIN OR ANY POLITICAL SUBDIVISION THEREOF, OR OF THE AUTHORITY, OR A PLEDGE OF THE FAITH AND CREDIT OF THE STATE OR OF ANY SUCH MUNICIPALITY OR POLITICAL SUBDIVISION. THE AUTHORITY HAS NO TAXING POWER.

Brief descriptions of the Authority, the Notes, the Borrower and certain other matters follow. Additional information regarding the Borrower, together with summaries of the Loan Agreement and the Indenture, are included in the Exhibits hereto. The descriptions and summaries of the Loan Agreement, the Indenture and other documents contained herein do not purport to be comprehensive or definitive and are qualified in their entirety by reference to those documents, and all references to the Notes are qualified in their entirety by the definitive form and provisions thereof included in the Indenture. Copies of such documents

will be available at the offices of Prudential Securities Incorporated as representative of the Initial Purchasers, One New York Plaza, New York, New York 10292, Attention: Public Finance, until the initial issuance and delivery of the Notes, and thereafter at the principal corporate trust office of the Trustee, Shawmut Bank, N.A., currently located at One Federal Street, Boston, Massachusetts 02211, Attention: Corporate Trust Department.

THE AUTHORITY

General

The Authority was created in 1983 by legislative act of the Legislature of the State consolidating three former State agencies: the Maine Guarantee Authority, the Maine Veterans' Small Business Loan Authority, and the Maine Small Business Loan Authority. One of the Authority's purposes is to stimulate a larger flow of private investment funds to help finance expansion of industrial, manufacturing, fishing, agricultural and recreational enterprises in the State. In July 1990, the Authority assumed responsibility for administration of the State's higher education loan programs.

The Authority is empowered to issue revenue obligation securities and to provide credit enhancement with respect to the financing of "eligible projects" within the meaning of the Act. The Authority is authorized to provide credit enhancement either by securing its revenue obligation securities with capital reserve funds (as it is doing with the Notes by establishing the Capital Reserve Fund) or by providing mortgage insurance with respect to the loans securing the revenue obligation securities. The Authority has an annual budget of approximately \$25.0 million. As of June 30, 1994, the Authority had assets of \$72.3 million, a fund balance of \$14.3 million, and outstanding credit enhancement obligations in excess of \$107.7 million, plus commitments for an additional \$6.2 million. Some of these credit enhancement obligations pertain to revenue obligation securities of the Authority, and others represent mortgage insurance on commercial loans. As of June 30, 1994, the Authority also had contingent liabilities of approximately \$469.0 million on student loans, which are currently at least 98% insured by the United States Government.

The Authority is a body corporate and politic and a public instrumentality of the State. It consists of 15 voting members, as follows: the Commissioner of Economic and Community Development; the State Treasurer; one natural resources commissioner designated by the Governor from either the Department of Agriculture, Food and Rural Resources, the Department of Conservation or the Department of Marine Resources; two members selected by the Governor from the appointed members of the Maine Education Assistance Board; and ten members appointed by the Governor (including a certified public accountant, an attorney, a commercial banker, two veterans, and two persons knowledgeable in the field of natural resource enterprises or financing), which appointments are subject to review by the joint standing committee of the State Legislature having jurisdiction over economic development and subject to confirmation of the State Legislature. The members elect a chair, a vice chair who also serves as secretary, and a treasurer, and employ a chief executive officer.

The present members of the Authority, their terms of office and their principal occupations are as follows (currently, there are two vacancies):

<u>Name</u>	<u>Term Expires</u>	<u>Principal Occupation/ Affiliation</u>
Jayne Crosby Giles, Chair	September 1996	Senior Vice President, Key Bank of Maine
Ray D. Hews, Vice Chair	September 1994*	R.D. Hews Associates
Laura Emack, Treasurer	September 1994*	CPA

Michael W. Aube	Ex-Officio	Commissioner of Economic and Community Development
Samuel Shapiro	Ex-Officio	Treasurer, State of Maine
Bernard W. Shaw of Resources	Ex-Officio	Commissioner, Maine Department Agriculture, Food and Rural
Janis Cohen, Esq. America	September 1997	UNUM Life Insurance Company of
Helen Sloan Dudman	September 1994*	Dudman Communications Corp.
Lawrence E. Dwight	September 1995	Registered Representative, H.M. Payson and Co.
Donald A. Kopp, Esq.	January 1998	Jensen, Baird, Gardner & Henry
Anita C. Stickney	September 1997	Retired
Bradford S. Wellman	September 1997	Retired
Edward Williams Resources,	January 1997	Senior Vice President of Human Casco Northern Bank

*Members continue to serve upon expiration of their term until a successor is appointed.

The Authority employs a staff of 38 persons. The following are the Authority staff members with primary responsibility for the Authority's financing programs:

Timothy P. Agnew, Chief Executive Officer. The Chief Executive Officer is responsible for coordinating personnel and instituting policies and programs of the Authority. His responsibilities include oversight and administration of all programs of the Authority, and Authority administration. Mr. Agnew was nominated Chief Executive Officer on January 4, 1989 and confirmed by the Legislature on February 2, 1989 after having served as Acting Chief Executive Officer and as General Counsel. Before assuming the position of General Counsel in January, 1986, Mr. Agnew served as Assistant Counsel to the Authority from April, 1984. Prior to joining the Authority in April, 1984, he was associated for four years with a private Maine law firm. He is a graduate of Vassar College and the University of Virginia School of Law.

Stephen A. Canders, General Counsel. Mr. Canders has been General Counsel since April 3, 1989, and previously had been Deputy General Counsel of the Authority since October 3, 1988. He was formerly an attorney in private practice in Presque Isle, Maine. Mr. Canders is a graduate of Colby College and the University of Chicago School of Law.

Elizabeth L. Bordowitz, Deputy General Counsel. Ms. Bordowitz has been Deputy General Counsel since June 16, 1992 and had previously been Assistant Counsel of the Authority since March 27, 1989. She was formerly associated with a private Maine law firm for one and a half years. She holds a B.A. and a M.A. in political science from Rutgers College and Rutgers University, respectively, and is a graduate of Rutgers School of Law-Camden.

Duncan R. MacKellar, Director of Finance. The Director of Finance is responsible for coordinating and supervising all financial activity of the Authority, including the Authority's investment portfolio and accounting system. Mr. MacKellar joined the Authority in December, 1983. Prior thereto he was an accountant and financial analyst for GTE-Sylvania in Danvers, Massachusetts. He holds a Bachelor of Science Degree and Master of Business Administration Degree in Financing and Accounting from the University of Maine, Orono.

David S. Markovchick, Director of Business Development and Commercial Loan Officer. Mr. Markovchick has been Director of Business Development since October, 1985. He is responsible for all business activity within the Division of Business Development, including implementation of the Authority's Commercial Loan Insurance, Industrial Development Bond and Small Business Loan Insurance Programs and direct loan programs. Prior to joining the Authority in January, 1984, Mr. Markovchick served as Chief Executive Officer of Franklin County Community Action Agency, a socioeconomic/development corporation. He holds a Bachelor of Science Degree in Marketing and Organizational Research and a Masters Degree in Business Administration from the State University of New York at Buffalo.

Charles A. Mercer, Director of External Affairs. The Director of External Affairs is responsible for marketing and promotion of all agency programs and activities and serves as legislative liaison with the Maine State Legislature. Prior to joining the Authority in October, 1985, Mr. Mercer was Legislative Assistant to the President of the Maine Senate. He holds a Bachelor of Arts Degree in Political Science from the University of Maine.

Charles J. Spies III, Director of Natural Resources and Commercial Loan Officer. The Director of Natural Resources is responsible for the administration of an agricultural direct lending program and interest rate subsidy programs for natural resources and other industries. Mr. Spies also develops bond and commercial loan insurance projects under the Authority's various financing programs, and oversees the Authority's loan insurance portfolio. Prior to joining the Authority in May, 1990, Mr. Spies was an Assistant Vice President of Treasury at Casco Northern Bank, a Bank of Boston Company, and was responsible for securities portfolio management. He holds a Bachelor of Science Degree in Forestry and a Master of Science Degree in Forest Entomology from the University of Maine, Orono, and a Master of Business Administration Degree from New Hampshire College.

The Authority's main office is located at 83 Western Avenue, Augusta, Maine 04330, and its telephone number is (207) 623-3263.

Electric Rate Stabilization Projects

Pursuant to the Act, among other things, the Authority is authorized to have outstanding at any time up to \$120,000,000 principal amount of revenue obligations relating to loans for electric rate stabilization projects (defined below), consisting of not more than \$100,000,000 for loans and up to \$20,000,000 to fund capital reserve funds. These amounts are, subject to certain conditions, exclusive of refundings, and capital appreciation bonds and similar instruments are valued at their accreted value. These electric rate stabilization project financing provisions were added to the Act in 1994.

The Project is the first electric rate stabilization project being undertaken by the Authority. The Authority approved the issuance of revenue obligation securities for the Project on August 29, 1994.

The Authority may issue additional obligations in the future for the same or additional electric rate stabilization projects up to the limits prescribed by law, as it may be changed from time to time, either to the Borrower or to other electric utilities. However, no additional notes or other obligations may be issued under the Indenture.

Financing of each electric rate stabilization project requires satisfaction of certain provisions of Maine law, including but not limited to those described below.

An electric rate stabilization project is defined in the Act as an agreement by an electric utility with a qualifying facility (small power producers and cogenerators as defined in Title 35-A, Maine Revised Statutes, Section 3303) that will result in the reduction of costs to the electric utility and that has been certified by the Maine Public Utilities Commission (the "MPUC") to meet the standards established under Title 35-A, Maine Revised Statutes, Section 3156. Such standards are summarized as follows:

1. *Benefits.* The agreement, and any assistance in financing the agreement to be provided by the Authority, will provide near-term benefits to ratepayers of the electric utility that will be reflected in rates paid by the electric utility's customers.

2. *Rate impacts.* Potential future adverse rate impacts associated with the agreement are not likely to be disproportionate to near-term gains.

3. *Protection of certain facilities.* The agreement does not have as a necessary or probable consequence the permanent cessation of operations of a qualifying facility with a capacity of more than 50 megawatts.

4. *Consistent with energy policy.* The agreement is consistent with Title 35-A, Revised Code of Maine, Section 3191, also known as the Maine Energy Policy Act, which requires an electric utility to pursue least cost planning taking into account risk and diversity of supply, and requires the MPUC to give preference to conservation, demand management and then to power purchased from qualifying facilities when available alternatives are otherwise equal.

5. *Protection of energy resources.* The agreement will not adversely impact the availability of a diverse and reliable mix of electric energy resources and will not significantly reduce the long-term electric energy or capacity resources available to the electric utility and needed to meet future electric demand. Under Section 3156, to the extent consistent with the long-term interests of ratepayers, an agreement resulting in a modification of an existing contract and that preserves electric energy or capacity resources is preferred over an agreement that results in the permanent cessation of operations of a qualifying facility.

THE BORROWER

The following is a brief summary of information concerning the Borrower and should be read in conjunction with, and is qualified in its entirety by, the more detailed information contained in the Annual Report on Form 10-K for the year ended December 31, 1993, the Quarterly Reports on Form 10-Q for the quarters ended March 31, 1994 and June 30, 1994 and Current Reports on Form 8-K dated January 5, 1994, January 13, 1994, February 3, 1994, April 4, 1994, April 6, 1994, May 16, 1994, July 5, 1994, and October 14, 1994 filed by the Borrower with the Securities and Exchange Commission pursuant to the informational requirements of the Securities Exchange Act of 1934, as amended, and a Current Report on Form 8-K dated October 17, 1994 (not filed as of October 19, 1994), and a Press Release dated October 19, 1994, relating to third quarter 1994 operating results, all of which are attached hereto as Exhibit A and are incorporated herein by reference.

General

The Borrower, an investor-owned Maine public utility incorporated in 1905, is engaged in the business of generating, purchasing, transmitting, distributing and selling electric energy for the benefit of retail customers in southern and central Maine and wholesale customers, principally other utilities. Its

principal executive offices are located at 83 Edison Drive, Augusta, Maine 04336, where its general telephone number is (207) 623-3521.

The Borrower has more customers and greater revenues than any other electric utility in Maine, serving approximately 500,000 customers in its 11,000 square-mile service area in southern and central Maine and having \$894 million in consolidated electric operating revenues in 1993. The Borrower's service area contains the bulk of Maine's industrial and commercial centers and includes approximately 936,000 people, representing about 77 percent of the total population of the state. The Borrower's industrial and commercial customers include major producers of pulp and paper products, producers of chemicals, plastics, electronic components, processed food, and footwear, and shipbuilders. Large pulp and paper industrial customers account for approximately 66 percent of the Borrower's industrial sales and approximately 27 percent of total service-area sales. In 1993, approximately 13.8 percent of its energy was supplied by hydroelectric sources, 28.0 percent by nuclear generating plants, 15.5 percent by oil-fired generating plants, 2.5 percent by contracts with Canadian supply sources and 40.2 percent from contracts with non-utility generators.

The Borrower is subject to the regulatory authority of the MPUC as to retail rates, accounting, service standards, territory served, the issuance of securities maturing more than one year after the date of issuance, certification of generation and transmission projects and various other matters. The Borrower is also subject as to some phases of its business, including licensing of its hydroelectric stations, accounting, rates relating to wholesale sales (which constitute less than one percent of operating revenues) and to interstate transmission and sales of energy and certain other matters, to the jurisdiction of the Federal Energy Regulatory Commission under the Federal Power Act. Other activities of the Borrower from time to time are subject to the jurisdiction of various other state and federal regulatory agencies.

Certain Recent Developments

Base-Rate Decision. The Borrower, like electric utilities generally, is facing a number of challenges resulting from a weak economy, increasing competition and increasing costs that are in large part due to the high costs of power purchased from non-utility generators. A December 1993 decision by the MPUC in a base-rate case of the Borrower, which resulted in an increase in net revenue of only \$26.2 million compared to the \$83 million requested by the Borrower, has subjected the Borrower to additional pressure.

The Borrower's response to the December 1993 base-rate decision and other business challenges was the reduction in its quarterly common-stock dividend from 39 cents to 22.5 cents per share. In addition, the Borrower has implemented a broad-based plan to reduce its own operating expenses, to cut costs of contracts with non-utility generators, and to work with the MPUC and other parties to develop the alternative rate plan discussed below to provide innovative, competitive new pricing and service options.

Alternative Rate Plan. On October 14, 1994, the Borrower filed with the MPUC for its approval a stipulation proposing an alternative rate plan (the "ARP") signed by most of the parties participating in the ARP proceeding, including, among others, the MPUC Staff and the Public Advocate. The ARP was developed in response to the MPUC's order in its December 1993 base-rate case decision that a follow-up proceeding be held to implement a rate stability plan by mid-1994. The following is a summary of certain significant provisions of the stipulation, which is described more fully in the Borrower's Current Report on Form 8-K dated October 14, 1994, which is included in Exhibit A hereto.

The proposed ARP contains a price cap mechanism that provides for the Borrower's retail rates to increase annually on July 1, commencing July 1, 1995, by a percentage combining (1) a price index to measure inflation and establish the basis of each annual price change, (2) a productivity offset to the price index, consisting of a 1 percent general offset and a second formula-based offset commencing in 1996 intended to reflect the limited effect of inflation on the Borrower's purchased power costs during the five-year period, (3) a sharing mechanism that would adjust the subsequent year's July price change if the Borrower's earnings

were outside a range of 350 basis points above or below its allowed return on equity, which is currently 10.55 percent but is subject to annual indexing for changes in capital costs, and (4) certain flow-through items and mandated costs. The price cap would apply to all of the Borrower's retail rates, including the Borrower's fuel and purchased power costs, which previously had been treated separately. Under the ARP no separate fuel clause price adjustments would occur.

As part of the stipulation, the Borrower agreed that it would take the following before-tax "restructuring charges" against 1994 earnings:

1. the unrecovered balance of its deferred fuel and purchased-power costs as of December 31, 1994, which the Borrower estimates will be approximately \$57 million;
2. the unrecovered balance of deferred demand-side management costs for 1993 and 1994, which the Borrower estimates will be approximately \$17 million;
3. the unrecovered balance of deferred Electric Revenue Adjustment Mechanism (ERAM) revenues as of December 31, 1994, which the Borrower estimates will be approximately \$24 million; and
4. the unrecovered balance of deferred costs related to the possible extension of the operating life of one of the Borrower's generating stations, as of December 31, 1994, which the Borrower estimates will be approximately \$2.5 million.

On an after-tax basis, these charges would total approximately \$60 million.

The proposed ARP would provide the Borrower the ability to adjust rates below the price-cap limit in three service categories: (1) existing customer classes, (2) new customer classes for optional targeted services, and (3) special-rate contracts. The Borrower believes that the added flexibility will position it more favorably to meet the competition from other energy sources that has eroded segments of its customer base. Some price adjustments could be implemented upon 30 days' notice by the Borrower, while certain others would be subject to expedited review by the MPUC.

The stipulation also contains provisions to protect the Borrower and ratepayers against unforeseen adverse results from the operation of the ARP. These include review by the MPUC if the Borrower's actual return on equity falls outside the designated return-on-equity range two years in a row, a mid-period review of the ARP by the MPUC in 1997 (including possible modification or termination), and a "final" review by the MPUC in 1999 to determine whether or with what changes the ARP should continue in effect after 1999.

The stipulation provides that it will be effective December 1, 1994, but it is subject to approval by the Borrower's Board of Directors and the MPUC. The stipulation states that the parties consider it to represent an integrated solution to the issues in the ARP proceeding resulting from a balancing of competing interests and objectives and that it will be null and void and not binding on the parties if the MPUC does not accept it without modification. The MPUC is expected to act on the stipulation by late November 1994. The Borrower cannot predict whether the MPUC will approve the stipulation or whether or in what form an alternative rate plan for the Borrower will result from the MPUC proceeding. If the stipulation is not approved or the ARP or another alternative rate plan is not implemented, traditional ratemaking principles and procedures would continue to apply.

Fairfield Energy Venture Contract

Since 1987, the Borrower has been purchasing power from Fairfield Energy Venture ("FEV") pursuant to a non-utility generation contract (the "Contract") which expires in 2002. In June 1994, the Borrower entered into an agreement with FEV pursuant to which the parties agreed to terminate the Contract.

The Contract is the largest single non-utility generation contract of the Borrower terminated to date involving an operating plant. The Borrower expects such termination to result in savings of approximately \$35 million, which amount is equal to the net present value of savings over the remaining term of the Contract. The costs associated with the termination of the Contract are recoverable through rates over the remaining term of the Contract. The first year revenue requirement associated with the termination cost, offset by a portion of the expected fuel savings, will result in a rate decrease of approximately \$5.6 million to be implemented on or about December 1, 1994.

Initially the Borrower expected that the 33 megawatt wood-fired facility (the "Plant") operated by FEV would cease to operate as a result of the termination of the Contract. The Town of Fort Fairfield (the "Town"), however, opposed the shut-down of the Plant because of the adverse economic impact on the Town, including the loss of jobs at the Plant. As a result, the Borrower and the Town entered into a settlement agreement pursuant to which it was agreed to continue operation of the Plant if economically feasible. Pursuant to the agreement, Aroostook Valley Electric Company ("AVEC"), a subsidiary of the Borrower, will acquire and operate the Plant for a minimum three-year period, subject to receipt of regulatory approvals and the transfer of required licenses. The obligation to operate the Plant is also subject, among other conditions, to a determination by an independent third party, within a six-month test period following the acquisition, that the Plant is capable of operating at a sustainable minimum 81 percent capacity factor at a specified maximum fuel cost per megawatt hour. If the Plant fails to meet the test criteria, the Town may fund modifications to the Plant to enable it to meet such criteria. If the Town does not exercise that right or if the Plant fails the retest, AVEC will have no further obligation to operate the Plant. The Plant does not constitute collateral for the Notes.

Other Matters Affecting the Borrower and its Industry

Cost Reduction. In response to the December 1993 base-rate decision and other economic pressures, the Borrower has restructured its organization along functional lines and eliminated 225 full-time-equivalent jobs, or approximately 10 percent of its workforce. The 1994 operating budget has been cut by \$22 million, or 12 percent, from previously planned levels, and the 1994 capital budget for plant, equipment, and conservation programs has been cut by \$14 million, or 19 percent, from previously planned levels.

Non-utility Generation. The Borrower's contracts with non-utility generators have contributed the largest part of the Borrower's increased costs in recent years. The average price of non-utility generators' energy is significantly higher than the Borrower's own cost of generation, and much higher than the price of energy on today's open market. In response to these circumstances, the Borrower has taken various actions with respect to such contracts. These actions have included buyouts or terminations of contracts, and restructurings. The restructurings have in certain cases involved continued plant operation, but have modified the terms and manner of such operation. Since 1988, these actions have affected 37 non-utility generation contracts, which by their original terms contemplated approximately 342 megawatts of power generation in the aggregate.

Increased Competition. The Energy Policy Act, enacted by Congress in 1992, (the "Policy Act") was designed to encourage competition among electric utility companies, improve energy resource planning and encourage the development of alternative fuels and sources of energy. The Policy Act has been a significant factor in creating new areas of competition for electric utilities, including the Borrower. The Borrower anticipates that competition will continue to place pressure on both sales and the price the Borrower can charge for its product because customers' energy options have been expanded.

In July 1993, the Borrower's largest wholesale customer, the Town of Madison Electric Works ("Madison"), accepted a competitive bid from Northeast Utilities ("NU") to become its wholesale electric supplier. Madison, NU and the Borrower subsequently entered into an agreement which provides more economic benefit to the Borrower than if it had under-bid NU for the electrical supply to Madison's system, but less than if Madison had stayed on the Borrower's system at the former rates. This increasingly competitive environment has resulted in the Borrower's entering into contracts with its two remaining wholesale customers to provide their energy needs at prices and margins lower than the current averages.

Residents of several small localities in the Borrower's service territory have expressed interest in investigating the feasibility of organizing local electric utility districts for the purpose of providing their own electric service with power purchased from a selected supplier. A referendum question is on the ballot in the upcoming November election in four municipalities concerning the formation of such local electric utility districts. The Borrower believes that the formation of such local districts is not in the best interests of either its customers or its investors and is strongly opposing such action, including opposing the four referenda questions. The Borrower further believes that formidable obstacles would be encountered by any group in attempting to create such districts, including obtaining MPUC approval and economically acquiring or constructing the necessary facilities for a local utility system. The Borrower cannot, however, predict the ultimate results of any such attempts.

Deferred Costs. Over the past few years, in accordance with the regulatory policies of the MPUC, the amount of the Borrower's deferred charges and regulatory assets has increased. The Securities and Exchange Commission has periodically considered issues regarding the proper accounting treatment of charges deferred by regulatory policy. As a result, the Borrower has regularly requested the MPUC to issue accounting and ratemaking orders to provide appropriate authority to comply with changing accounting requirements and to allow the Borrower to appropriately reflect the amounts as deferred charges and regulatory assets. In recent years, the Borrower received such orders with respect to issues such as purchased-power contract buy-outs, environmental-site cleanup costs and accounting for postretirement benefits. The Borrower continues to monitor situations that result in deferred charges and regulatory assets. See "Alternative Rate Plan" above and Exhibit A.

General Factors Affecting the Electric Utility Industry. The electric utility industry has been experiencing, or may in the future experience, problems, including (a) obtaining timely and adequate rate treatment, (b) the effects of inflation upon the costs of construction and operation of generating units, (c) increased costs and uncertain availability of capital, (d) availability and volatile cost of fossil fuel for generation, (e) opposition to nuclear power, (f) uncertainties in predicting future load requirements, (g) compliance with changing environmental safety and licensing requirements, (h) the effects of conservation on the use of electric energy, (i) uncertainties associated with the implementation of a national energy policy and (j) increased competition from energy suppliers, including cogenerators and independent power producers, and possible retail wheeling. The Borrower is or may in the future be affected by the foregoing factors in varying degrees through the ownership and operation of its electric facilities and systems.

THE PROJECT

The Project consists of the termination of a power purchase agreement between the Borrower and the Fairfield Energy Venture, the owner of a 33 megawatt wood-fired electric generation plant located in Fort Fairfield, Maine (the "Plant") and the related acquisition of the Plant by a subsidiary of the Borrower. The Plant is a "qualifying facility" under Title 35-A, Maine Revised Statutes, Section 3303, and has been in operation since 1987. The energy from the Plant has been purchased by the Borrower pursuant to contract, and in order to achieve cost savings, the contract will be terminated and the Plant acquired pursuant to an agreement between the Borrower and its current owner. For a description of the benefits expected to be derived by the Borrower's ratepayers as a result of the undertaking of the Project, see "The Borrower" herein.

As required by Title 35-A, Maine Revised Statutes, Section 3156, the MPUC entered Orders dated August 5 and 18, 1994, certifying as summarized above under "The Authority - Electric Rate Stabilization Projects" with respect to the Borrower-Fairfield Energy Venture purchase agreement the termination of which (together with the related acquisition of the Plant) constitutes the Project (the "Project Orders"). On September 6, 1994, the Industrial Energy Consumer Group ("IECG"), an intervenor in the MPUC's proceedings leading to the entry of the Orders, appealed the Orders to the Law Court of the State. The Borrower, IECG and other parties to a proceeding before the MPUC relating to a fuel clause case of the Borrower, have entered into a stipulation approved by the MPUC, under which stipulation IECG agreed to withdraw its appeal of the Project Orders. The withdrawal of the appeal of the Project Orders has been approved by the Law Court, which approval (unless reconsidered after petition to the court) will become final and no longer subject to appeal on October 21, 1994, at which time the Project Orders also will be final and no longer subject to appeal.

USE OF NOTE PROCEEDS

The total estimated cost of the Project is \$81,428,960, including the costs of the contract termination and related acquisition of the Plant, costs of issuance of all of the Notes and the Note insurance premium. Of this total, \$15,000,000 will be contributed by the Borrower from other available sources and the balance is being financed by the issue of a portion of the Notes. In addition, the initial funding of the Capital Reserve Fund in the amount of the Reserve Requirement will be financed by the issue of a portion of the Notes.

The sources and uses of the Note proceeds and certain other moneys with respect to the Project are as follows:

SOURCES:

Note Proceeds	\$79,300,000
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USES:

Project Costs (excluding costs of issuance)	\$64,067,824
Capital Reserve Fund	12,871,040*
Costs of Issuance of the Notes, including Note Insurance Premium and Initial Purchasers' Discount	<u>2,361,136</u>
	\$79,300,000

* The initial Reserve Requirement. See "Security for the Notes".

Any costs of the Project not paid from the proceeds of the Notes or from the contribution referred to above will be paid from other funds provided by the Borrower.

THE NOTES

General

The Notes will be issued as fully registered Notes without coupons and will be dated the date of their initial delivery. The Notes will mature on January 1, 2005, and will not be subject to redemption prior to maturity. The Notes are initially issuable in denominations of integral multiples of \$100,000, which constitute "Initial Amounts".

Principal of the Notes shall be paid on the Principal Payment Dates and in the respective amounts as follows:

<u>Principal Payment Dates (January 1)</u>	<u>Amount</u>
1997	\$ 6,300,000
1998	6,800,000
1999	7,400,000
2000	8,000,000
2001	8,600,000
2002	9,300,000
2003	10,100,000
2004	10,900,000
2005	11,900,000

If less than all of the Notes are to be paid on any Principal Payment Date, the principal of the Notes shall be paid pro rata, based on Principal Balance, rounded to the nearest dollar. The term "Principal Payment Date" means each January 1 commencing January 1, 1997, and any other date upon which principal of the Notes is due and payable in accordance with its terms, whether at stated maturity, by acceleration or otherwise. The term "Principal Balance" means, as of any date, the Initial Amount less all payments of principal made prior to that date allocable to such Initial Amount.

The principal of any Note or portion thereof payable when due, other than upon final payment in full, may be paid to the Holder thereof without presentation or surrender of such Note. Upon any such payment without presentation and surrender, for all purposes of (i) the Note to which such payment has been made and (ii) the Indenture, the Principal Balance of such Note Outstanding shall be reduced automatically by the principal amount so paid.

The principal of any Note shall be payable upon final payment in full to a Holder only upon presentation and surrender of such Note at the principal corporate trust office of the Trustee or at the office, designated by the Trustee, of any Paying Agent.

The Notes will bear interest from the date of their initial delivery at the rate per annum set forth on the cover page hereof, calculated on the basis of a year of 360 days consisting of twelve 30-day months. Interest is payable on each Interest Payment Date. The term "Interest Payment Date" means January 1 and July 1 of each year commencing July 1, 1995, and any other date upon which interest on the Notes is due and payable in accordance with its terms.

The Principal Balance of the Notes shall bear interest payable on each Interest Payment Date from the Interest Payment Date next preceding the date of their authentication to which interest has been paid, or, if authenticated on an Interest Payment Date, from such date if interest has been paid to such date, or, if authenticated prior to the first Interest Payment Date, from the date of initial delivery. The interest payable

on the Notes on each Interest Payment Date shall be for the period from the date specified in the preceding sentence to and including the date immediately preceding such Interest Payment Date.

Principal of (other than upon final payment in full) and interest on any Note shall be paid on each Note Payment Date (which means a Principal Payment Date or an Interest Payment Date) by check or draft which the Trustee shall cause to be mailed on that date to the person in whose name the Note is registered at the close of business on the fifth Business Day preceding such Note Payment Date (the "Regular Record Date") at the address appearing on the registration books held by the Trustee as Registrar. Notwithstanding the foregoing, principal of and interest on any Note with a Principal Balance of \$1,000,000 or more shall be paid by wire transfer in immediately available funds if such Holder in a timely manner notifies the Trustee of the bank account number and address for such purpose. In the event of a default in the payment of principal of or interest on any Note when due, the Trustee may establish a Special Record Date with respect to that payment of principal or interest when money becomes available for such payment, which Special Record Date shall be not more than 10 days nor fewer than 15 days prior to the date of the proposed payment.

The term "Business Day" means a day of the year, other than a Saturday or Sunday, on which both the Note Insurer and commercial banks located in the city in which the Trustee maintains its principal corporate trust office are not required or authorized to remain closed. If any Note Payment Date is not a Business Day, then payment of interest and principal need not be made on that date, but that payment may be made on the next succeeding Business Day with the same force and effect as if that payment were made on such Note Payment Date, and in such case no interest shall accrue for the period from such Note Payment Date.

Subject to the next paragraph hereof, the Notes may be transferred or exchanged for one or more Notes in like aggregate Initial Amount (and in an Initial Amount) and of like aggregate Principal Balance, and bearing interest at the same rate, upon surrender thereof at the designated office of the Trustee as Registrar or at the designated office of any Authenticating Agent (initially, the Trustee) by the registered owners or their duly authorized attorneys or legal representatives. Upon surrender of any Note to be transferred or exchanged, the Authority will execute, and the Registrar will record the transfer or exchange in its registration books and the Registrar or Authenticating Agent shall authenticate and deliver, new Notes appropriately registered and in appropriate Initial Amounts and Principal Balance.

Notwithstanding the foregoing, transfers may be made only upon compliance with the restrictions on transfer set forth in the Indenture and the Notes. See "Notice to Investors" and "Plan of Offering" herein.

In the event that the principal of or interest on any Note becomes due in whole or in part, or a check or draft for principal or interest is uncashed, and if moneys sufficient to pay the principal and interest then due on that Note or to pay such check or draft shall have been made available to the Trustee for the benefit of its Holder, all liability of the Authority to that Holder for such principal or interest then due on the Note or represented by such check or draft thereupon shall cease and be discharged completely. Thereupon, it shall be the duty of the Trustee to hold those moneys, without liability for interest thereon, for the exclusive benefit of the Holder, who shall be restricted thereafter exclusively to those moneys for any claim of whatever nature on its part under the Indenture or on, or with respect to, the principal or interest then due on that Note. Any such moneys remaining unclaimed for two years after becoming due and payable shall be paid to the Borrower or the Authority, and the Holders of such Notes shall thereafter be entitled to look only to the Borrower or the Authority, as the case may be, for payment and only in an amount equal to the amounts received by or paid to or on behalf of the Borrower or the Authority, as the case may be, without any interest thereon.

Book-Entry Only System

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Notes. The ownership of one fully registered Note will be registered in the name of Cede & Co., DTC's partnership nominee. SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE NOTES, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE NOTEHOLDERS, HOLDERS OR REGISTERED OWNERS OF THE NOTES SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE NOTES.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its direct participants (the "Direct Participants") deposit with DTC. DTC also facilitates the settlement among Direct Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic, computerized book-entry changes in Direct Participants' accounts, thereby eliminating the need for physical movement of securities certificates. Direct Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of its Direct Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (the "Indirect Participants").

Beneficial ownership interests in the Notes must be purchased by or through Direct Participants, which will receive a credit for the Notes on the records of DTC. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive confirmation from DTC of their purchases, but Beneficial Owners are expected to receive written confirmations providing details of their transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participants through which the Beneficial Owners entered into the transactions. Beneficial Owners of Notes will not receive certificates representing their beneficial ownership interests in the Notes, unless use of the book-entry only system is discontinued as described below.

Transfers of ownership interests in the Notes are to be accomplished by book entries made by DTC and in turn by the Direct Participants and Indirect Participants who act on behalf of the Beneficial Owners of Notes. To facilitate subsequent transfers, all Notes deposited by DTC Participants are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of Notes with DTC and the registration of Notes in the name of Cede & Co. effects no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Notes are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers. For every transfer and exchange of beneficial ownership in the Notes, the Beneficial Owner may be charged a sum sufficient to cover any tax, fee or other governmental charge that may be imposed in relation thereto.

Conveyances of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the Notes. Under its usual procedures, DTC mails an Omnibus Proxy to the Trustee as soon as possible after the record date. The

Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal of and interest payments on the Notes will be made to DTC. DTC's practice is to credit Direct Participants' accounts on payment dates in accordance with their respective holdings shown on DTC's records unless DTC has reason to believe that it will not receive payment on the applicable payment date. Payments by Direct Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Direct Participants and not of DTC, the Trustee or the Authority, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the Trustee, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursements of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

The above information contained in this subsection "Book-Entry Only System" is based solely on information provided by DTC. No representation is made by the Trustee, the Authority or the Initial Purchasers as to the completeness or the accuracy of such information or as to the absence of material adverse changes in such information subsequent to the date hereof.

Under the Indenture, payments made to DTC or its nominee shall satisfy the obligations under the Indenture to the extent of the payments so made.

THE AUTHORITY, THE INITIAL PURCHASERS AND THE TRUSTEE CANNOT AND DO NOT GIVE ANY ASSURANCES THAT DTC, THE DIRECT PARTICIPANTS OR THE INDIRECT PARTICIPANTS WILL DISTRIBUTE TO THE BENEFICIAL OWNERS OF THE NOTES (1) PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE NOTES; (2) CERTIFICATES REPRESENTING AN OWNERSHIP INTEREST OR OTHER CONFIRMATION OF BENEFICIAL OWNERSHIP INTERESTS IN NOTES; OR (3) NOTICES SENT TO DTC OR CEDE & CO., ITS NOMINEE, AS THE REGISTERED OWNER OF THE NOTES, OR THAT THEY WILL DO SO ON A TIMELY BASIS OR THAT DTC, THE DIRECT PARTICIPANTS OR INDIRECT PARTICIPANTS WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS CONFIDENTIAL PRIVATE PLACEMENT MEMORANDUM. THE CURRENT "RULES" APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT "PROCEDURES" OF DTC TO BE FOLLOWED IN DEALING WITH DIRECT PARTICIPANTS ARE ON FILE WITH DTC.

NEITHER THE AUTHORITY, THE INITIAL PURCHASERS NOR THE TRUSTEE WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT OR ANY BENEFICIAL OWNER OR ANY OTHER PERSON WITH RESPECT TO: (1) OTHER THAN TO DTC, THE NOTES; (2) THE ACCURACY OF THE RECORDS OF DTC, CEDE & CO., ANY DIRECT PARTICIPANT OR ANY INDIRECT PARTICIPANT; (3) THE PAYMENT TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT, BENEFICIAL OWNER OR OTHER PERSON, OTHER THAN DTC, OF ANY AMOUNT IN RESPECT TO THE PRINCIPAL OF OR INTEREST ON THE NOTES; (4) THE DELIVERY TO ANY DIRECT PARTICIPANT, INDIRECT PARTICIPANT, BENEFICIAL OWNER OR OTHER PERSON, OTHER THAN DTC, OF ANY NOTICE REQUIRED OR PERMITTED UNDER THE TERMS OF THE INDENTURE TO BE GIVEN OR MADE AVAILABLE TO NOTEHOLDERS; OR (5) ANY CONSENT GIVEN OR OTHER ACTION TAKEN BY DTC AS A NOTEHOLDER.

Discontinuation of Book-Entry Only System

DTC may determine to discontinue providing its service with respect to the Notes at any time by giving written notice to the Authority, the Borrower and the Trustee and discharging its responsibilities with respect thereto under applicable law. Upon the giving of such notice, the book-entry only system for

the Notes will be discontinued unless a successor securities depository is appointed by the Authority. In addition, the Authority, with the consent of the Borrower and without the consent of any other person, may terminate the services of DTC with respect to the Notes if the Authority determines, and shall terminate the services of DTC with respect to the Notes upon receipt by the Authority, the Borrower and the Trustee of written notice from DTC to the effect that DTC has received written notice from Direct Participants or Indirect Participants having interests, as shown in the records of DTC, in an aggregate amount of not less than 50% of the aggregate Principal Balance of the then Outstanding Notes, that : (A) DTC is unable to discharge its responsibilities with respect of the Notes; or (B) a continuation of the requirement that all of the Outstanding Notes be registered in the name of Cede & Co., as nominee of DTC, is not in the best interest of the Beneficial Owners.

Upon the discontinuance or termination of the services of DTC with respect to the Notes, after which no substitute securities depository willing to undertake the functions of DTC hereunder can be found which, in the opinion of the Authority and the Borrower, is willing and able to undertake such functions upon reasonable and customary terms, the Notes shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC, but may be registered in whatever names Noteholders transferring or exchanging Notes shall designate, in accordance with the provisions of the Indenture.

In the event that the book-entry only system for the Notes is discontinued, Notes are to be delivered pursuant to the conditions set forth in the Indenture.

SECURITY FOR THE NOTES

The Notes will constitute limited obligations of the Authority payable solely from, and secured solely by, the Trust Estate pledged and assigned by the Indenture to secure that payment. The term "Trust Estate" is defined in the Indenture to mean (i) all right, title and interest of the Authority in, to and under the Loan Agreement and the Loan Note, (ii) all revenues and other receipts, funds or moneys derived by the Authority under the Loan Agreement and the Loan Note, including without limitation the Loan Payments, (iii) all other amounts receivable by or on behalf of the Authority or the Trustee under the Loan Agreement, including without limitation the Additional Payments specified in the Loan Agreement to compensate for inadequate investment earnings and investment losses of the Capital Reserve Fund as described below, (iv) all moneys and securities on deposit in the Funds and Accounts, including without limitation the Note Fund, Project Fund and Capital Reserve Fund, and (v) all other amounts otherwise available under the Indenture for the payment of the Notes; provided, however, that the Trust Estate shall not include (a) any Unassigned Issuer's Rights, (b) as to any Notes, any moneys or securities set aside under the Indenture specifically for the payment of other Notes, or (c) any amounts paid by Financial Security pursuant to the Note insurance Policy. The term "Unassigned Issuer's Rights" is defined in the Loan Agreement to mean all of the rights of the Authority (a) in, to and under security agreements, mortgages and collateral as contemplated by the Loan Agreement, including a mortgage on the Plant and the right to enforce, and consent to the modification of or waiver of compliance with, the foregoing; (b) to enforce, and consent to the modification of or waiver of compliance with, certain covenants and agreements of the Borrower; (c) to receive Additional Payments (other than those relating to compensation for inadequate investment earnings and investment losses of the Capital Reserve Fund); (d) to examine certain books and records and receive other information; (e) to be held harmless and indemnified; (f) to give or withhold consent to amendments, changes, modifications, alterations and termination of the Loan Agreement and in the definition of certain fees payable to the Authority; and (g) to receive notices under the Loan Agreement, and in each such case any corresponding rights under the Loan Note. Unassigned Issuer's Rights does not include any rights of the Trustee under the foregoing provisions, including but not limited to its right to receive Additional Payments relating to compensation for inadequate investment income and investment losses of the Capital Reserve Fund as described below. THE AUTHORITY HAS NO TAXING POWER.

The Indenture contains a number of provisions recognizing or creating significant rights of the Note Insurer, including rights of the Note Insurer as subrogee or Noteholder whether or not in default under the Policy issued by it. Among other things, the Indenture provides that the Note Insurer shall be deemed to be the sole Holder of the Notes for the purpose of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Notes are entitled to take pursuant to Article VII (pertaining to defaults and remedies) and Article VI (pertaining to the Trustee and other agents) of the Indenture. See "Note Insurance" herein and Exhibit C - "Summary of Certain Provision of the Indenture" including " - Default Provisions," " - The Trustee" and " - Special Provisions Relating to Note Insurance" therein.

No additional notes or other obligations may be issued under the Indenture.

Under certain conditions following certain Events of Default under the Indenture or the Loan Agreement, the Notes are subject to acceleration. For a description of such provisions and other rights and remedies following default, and of significant limitations on exercise of such rights and remedies, see Exhibit C - "Summary of Certain Provisions of the Indenture - Default Provisions" and " - Special Provisions Relating to Note Insurance".

Enforceability of the provisions of the Notes, the Loan Agreement and the Indenture may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws in effect from time to time affecting creditors' rights, and is subject to the application of principles of equity relating to or affecting the enforcement of contractual obligations.

As security for the Notes, the Indenture requires that an amount of proceeds of Notes equal to the initial Reserve Requirement shall be credited to the Capital Reserve Fund. If payment of the principal of and interest on any Notes payable on any Note Payment Date has not been made in full, or such payment in full duly provided for, by the first Business Day prior to such Note Payment Date, the Trustee shall forthwith withdraw from the Capital Reserve Fund an amount not exceeding the amount required to provide for such payment in full, and shall transfer the amount so withdrawn to the Note Fund for application to such payment.

The "Reserve Requirement" means as of any date of calculation, an amount equal to the greatest amount of principal of and interest on the Notes to accrue or come due (without regard to any default or acceleration of maturity) in the then current or any future calendar year.

On the Business Day following the date the Trustee determines the Value of Eligible Investments on deposit in the Capital Reserve Fund as described below, unless otherwise agreed by the Authority, Financial Security, the Borrower and the Trustee, the Trustee shall give notice thereof to the Authority and the Borrower. The Indenture and Loan Agreement provide that the Borrower shall pay, as Additional Payments, on the Business Day following the date on which notice of the Value of Eligible Investments is given as aforesaid, the amount (if any) by which the cash and Value of Eligible Investments so determined on deposit in the Capital Reserve is less than the Reserve Requirement after deducting from the amount of the Reserve Requirement the amount of any withdrawals to pay debt service since the previous such determination reduced by any investment losses incurred in the liquidation of any securities for such purpose. Such Additional Payments shall be deposited in the Capital Reserve Fund and retained therein until applied in accordance with the Indenture.

For each period commencing on a scheduled Note Payment Date (or, in the case of the first period, the date of initial delivery of the Notes) and ending on the day prior to the next scheduled Note Payment Date, the Trustee shall determine the amount equal to the interest that would have accrued on the Reserve Requirement in effect at the time of calculation if invested during such period at the interest rate on the Notes (the "interest amount"), and shall give written notice thereof to the Authority and the Borrower by no later than the third Business Day next preceding such next scheduled Note Payment Date. The income or

interest earned and gains realized in excess of losses suffered by the Capital Reserve Fund in any such period, to the extent not in excess of the interest amount, shall be credited to the Note Fund on the second Business Day next preceding each applicable Note Payment Date but shall not be credited against any amount payable by the Borrower under the Loan Agreement, the Loan Note, or otherwise (but shall operate to reduce the amount of the Additional Payments described below in such period). Any excess in any such period of such income, interest and net gains of the Capital Reserve Fund over the interest amount shall be retained in the Capital Reserve Fund until applied in accordance with the Indenture. Any excess in any such period of the interest amount over the income, interest and net gains of the Capital Reserve Fund shall be paid by the Borrower, as Additional Payments, on the second Business Day next preceding each applicable Note Payment Date. Such Additional Payments shall be deposited in the Capital Reserve Fund and retained therein until applied in accordance with the Indenture.

"Value of Eligible Investments" shall be determined as of the close of business on the fifteenth day of December in each year commencing December 15, 1995 (or if such day is not a Business Day, the next succeeding Business Day), and each date any moneys are withdrawn from the Capital Reserve Fund to pay debt service on the Notes as described above, and means as of any such date (i) (a) the bid quotation prices thereof as reported as of said date in The Wall Street Journal or, in the event such newspaper is not published or such price is not reported in said newspaper, in a newspaper or a financial journal of general circulation in the Borough of Manhattan, City and State of New York, selected by the Trustee, or (b) if such price is not reported in any such newspaper, the amortized cost thereof, or (c) in lieu of value determined pursuant to clause (a) or (b), value determined by any other method as agreed by the Authority, the Borrower, the Trustee and the Note Insurer, or, if lower, (ii) the price at which such obligations are then redeemable by the holder at his option, in each case not including accrued interest on the Eligible Investments paid as a part of the purchase price thereof and not collected.

For a description of provisions of the Indenture and the Act relating to the replenishment of the Capital Reserve Fund following a withdrawal to pay debt service on the Notes, see "Introduction" herein and Exhibit C - "Summary of Certain Provisions of the Indenture - Provision as to Funds - Capital Reserve Fund."

For a summary of other provisions of the Indenture that describe or affect the security for the Notes and the enforcement thereof, see Exhibit C - "Summary of Certain Provisions of the Indenture", including but not limited to the information contained therein under the caption "Special Provisions Relating to Note Insurance", and "Note Insurance" herein.

NOTE INSURANCE

There follows under this caption certain information concerning Financial Security Assurance Inc. ("Financial Security"), the terms of the Municipal Bond Insurance Policy to be issued by Financial Security (the "Policy") and certain provisions of the Indenture related thereto. Information with respect to Financial Security and the Policy has been supplied by Financial Security. No representation is made by the Authority, the Borrower or the Initial Purchasers as to the accuracy or adequacy of such information. The Policy does not constitute a part of the contract between the Authority and the Holders of the Notes evidenced by the Notes and the Indenture. Except for payment of the premium on the policy, the Authority has no responsibility with respect to such insurance in any way, including the maintenance, enforcement or collection thereof.

Note Insurance Policy

Concurrently with the issuance of the Notes, Financial Security will issue its Policy for the Notes. The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Notes that has become due for payment, but shall be unpaid by reason of nonpayment by the Authority. On the later of the day on which such principal and interest is due or on the business day next following the

business day on which Financial Security shall have received notice by telephone or teletype, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from a Holder of Notes, the Trustee or the Paying Agent (as defined in the Policy), of the nonpayment of such amount by the Authority, Financial Security will disburse such amount due on any Notes to the Trustee or the Paying Agent, for the benefit of the Noteholders or, at the election of Financial Security, directly to each Noteholder, in either case upon receipt by Financial Security in form reasonably satisfactory to it of (a) evidence of the Noteholder's right to receive payment of the principal and interest that is due for payment and (b) evidence, including any appropriate instruments of assignment, that all of such Noteholder's rights to payment of such principal and interest shall be vested in Financial Security. The term "nonpayment" in respect of a Note includes any payment of principal or interest that is insured by Financial Security made to a Holder of a Note that has been recovered from such Holder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Notes. The Policy covers failure to pay principal of the Notes on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Notes may have been called for redemption, acceleration or other advancement of maturity, unless Financial Security shall elect, in its sole discretion, to pay such principal due upon acceleration together with any interest accrued to the date of acceleration, and covers the failure to pay an installment of interest on the stated date for its payment. Payment by Financial Security of principal due upon acceleration and interest accrued to the accelerated maturity date (to the extent unpaid by the Authority) shall fully discharge Financial Security's obligations under the Policy.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of the Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (i) copies of all notices required to be delivered to Financial Security pursuant to the Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (ii) all payments required to be made by Financial Security under the Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security.

The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to Holders of the Notes for any acts of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under the Policy.

Under the Policy, Financial Security will, to the extent permitted by applicable law, waive, only for the benefit of the Holders of Notes, all rights and defenses that might otherwise have been available to Financial Security to avoid payment of its obligations under the Policy in accordance with its terms.

THE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK STATE INSURANCE LAW.

Financial Security Assurance Inc.

Financial Security is a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"), a New York Stock Exchange listed company. Holdings is owned approximately 60.5% by U S WEST Capital Corporation ("U S WEST"), 7.6% by Fund American Enterprises Holdings Inc. ("Fund American"), and 7.4% by The Tokio Marine and Fire Insurance Co., Ltd. ("Tokio Marine"). U S WEST is a subsidiary of U S WEST, Inc., which operates businesses involved in communications, data solutions, marketing services and capital assets, including the provision of telephone services in 14 states in the Western and Midwestern United States. Fund American is a financial service holding company whose principal

operating subsidiary is one of the nation's largest mortgage servicers. Tokio Marine is a major Japanese property and casualty insurance company. U S WEST has announced its intention to dispose of its remaining interest in Holdings as part of its strategic plan to withdraw from businesses not directly involved in telecommunications. Fund American has certain rights to acquire and vote additional shares of Holdings from U S WEST and Holdings. No shareholder of Holdings is obligated to pay any debt of Financial Security or any claim under any insurance policy issued by Financial Security or to make any additional contribution to the capital of Financial Security.

Financial Security is domiciled in the State of New York and is subject to regulation by the State of New York Insurance Department. At June 30, 1994, Financial Security's total policyholders' surplus and contingency reserves were approximately \$475,843,000 and its total unearned premium reserve was approximately \$232,860,000 in accordance with statutory accounting principles. At June 30, 1994, Financial Security's total shareholders' equity was approximately \$530,024,000 and its total net unearned premium reserve was approximately \$206,026,000 in accordance with generally accepted accounting principles.

Copies of Financial Security's financial statements may be obtained by writing to Financial Security at 350 Park Avenue, New York, New York 10022, Attention: Communications Department. Financial Security's telephone number is (212) 826-0100.

Financial Security's claims-paying ability is rated "Aaa" by Moody's Investors Service, Inc. and "AAA" by Standard & Poor's Ratings Group. Such ratings reflect only the views of the respective rating agencies, are not recommendations to buy, sell or hold securities and are subject to revision or withdrawal at any time by such rating agencies.

The Policy does not protect investors against changes in market value of the Notes. The market value of the Notes may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes.

Financial Security makes no representation regarding the Notes or the advisability of investing in the Notes. Financial Security makes no representation regarding the Confidential Private Placement Memorandum, nor has it participated in the preparation thereof, except that Financial Security has provided to the Authority the information presented under this caption for inclusion in the Confidential Private Placement Memorandum.

INVESTMENT CONSIDERATIONS

Prospective Purchasers should consider carefully, in addition to the other information contained under "The Borrower", "Security for the Notes", and elsewhere in this Confidential Private Placement Memorandum, the following factors before purchasing the Notes offered hereby.

Appropriation for Reserve Requirement

Chapter 110 of Title 10 of the Maine Revised Statutes, the Finance Authority of Maine Act, provides in effect that in order to assure maintenance of the Reserve Requirement in the Capital Reserve Fund with respect to the Notes, there shall be paid from the State Contingency Account (as established under Title 5, Maine Revised Statutes, section 1507) and, to the extent sufficient moneys are unavailable therein, appropriated by the Maine State Legislature annually and paid to the Authority, such sum as shall be certified by the Authority as necessary to restore the amount in the Capital Reserve Fund to the Reserve Requirement. **The aforesaid provisions of the Act do not constitute a legally enforceable obligation upon the State of Maine or create a debt on behalf of the State of Maine. No assurance can be given that future Legislatures will appropriate sums required to restore the amount in the Capital Reserve Fund to the Reserve Requirement. However, there is no constitutional bar to future Legislatures to appropriate such**

sum as shall have been certified by the Authority to the Governor as necessary to restore the Capital Reserve Fund to the Reserve Requirement.

Note Insurance

The scheduled payment of principal of and interest on the Notes when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Notes by the Note Insurer. The ratings assigned to the Notes reflect the respective rating agencies' current assessment of the creditworthiness of the Note Insurer and its ability to pay claims on its policies of insurance. The ratings are not recommendations to buy, sell or hold the Notes insured by the Note Insurer and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings as a result of a change in the creditworthiness of the Note Insurer may have an adverse effect on the market price of the Notes.

Exercise of Rights and Remedies

The Indenture contains a number of provisions recognizing or creating significant rights of the Note Insurer, including rights of the Note Insurer as subrogee or Noteholder whether or not in default under the Policy issued by it. Among other things, the Indenture provides that the Note Insurer shall be deemed to be the sole Holder of the Notes for purposes of exercising any voting right or privilege or giving any consent or direction or taking any other action that the Holders of the Notes are entitled to take pursuant to Article VII (pertaining to defaults and remedies) and Article VI (pertaining to the Trustee and other agents) of the Indenture.

Possible Limitations on Security

The pledge of and security interest in the Trust Estate may be limited by the following: (i) statutory liens; (ii) rights arising in favor of the United States of America or any agency thereof; (iii) constructive trusts, equitable liens or other rights impressed or conferred by any state or federal court in the exercise of its equitable jurisdiction; and (iv) Federal Bankruptcy or state insolvency laws affecting assignments of revenues earned after any effective institution of bankruptcy or insolvency proceedings by or against the Authority or the Borrower.

PLAN OF OFFERING

Subject to the terms and conditions set forth in the Purchase Contract dated October 19, 1994 (the "Purchase Contract"), among the Authority, the Borrower and Prudential Securities Incorporated, Lazard Freres & Co. and Smith Barney Inc. as the Initial Purchasers, the Authority has agreed to sell to each of the Initial Purchasers, and each of the Initial Purchasers has severally agreed to purchase from the Authority, a portion of the Notes. In the Purchase Agreement, the Initial Purchasers have agreed, subject to the terms and conditions set forth therein, to purchase all of the Notes if any Notes are purchased. The Initial Purchasers will purchase the Notes at a price of \$78,772,655, which represents the principal amount thereof less the Initial Purchasers' discount of \$527,345.

The Initial Purchasers intend to resell the Notes to Qualified Institutional Buyers (as defined in Rule 144A under the Securities Act) in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A for sales to Qualified Institutional Buyers. The Initial Purchasers may reject any offer, in whole or in part.

The Initial Purchasers intend, but are not obligated, to make a market in the Notes in accordance with the restrictions on transfers described in "Notice to Investors" herein. Accordingly, no assurance can be given that a secondary market will develop or, if a secondary market does develop, that it will continue.

After the initial offering, the Notes may be sold from time to time at varying prices.

The Purchase Contract provides that the Borrower will indemnify the Initial Purchasers against certain liabilities, including liabilities under applicable securities laws, or contribute to payments the Initial Purchasers may be required to make in respect thereof.

The Prudential Insurance Company of America ("Prudential Insurance"), the holding company of Prudential Securities Incorporated, one of the Initial Purchasers, and Prudential Securities Incorporated are investors in the Borrower. In addition, Prudential Insurance and another of its affiliates are creditors of the Borrower.

RATINGS

Moody's Investors Service, Inc. and Standard & Poor's Ratings Group have assigned their municipal bond ratings of "Aaa" and "AAA", respectively, to the Notes based on the understanding that upon delivery of the Notes a policy insuring the scheduled payment when due of the principal of and interest on the Notes will be issued by Financial Security Assurance Inc. An explanation of the significance of such ratings may be obtained only from the rating agency furnishing the same at the following addresses: Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007; and Standard & Poor's Ratings Group, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance that any such ratings will be in effect for any given period of time or that they will not be revised downward or withdrawn entirely by such rating agencies if, in the judgement of the respective rating agency, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Notes.

TAX MATTERS

In the opinion of Note Counsel, the interest on the Notes is exempt from State of Maine income tax imposed on individuals under existing statutes. No opinion will be expressed as to whether interest on the Notes is not included in gross income for federal income tax purposes.

ALL PROSPECTIVE PURCHASERS OF THE NOTES ARE ADVISED TO CONSULT THEIR OWN TAX ADVISORS REGARDING THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE NOTES.

LEGALITY FOR INVESTMENT

The Act provides that the Notes are securities in which all public officers and public bodies of the State of Maine, its political subdivisions, all municipalities and municipal subdivisions, all insurance companies and associations and other persons carrying on an insurance business, all banks, bankers, banking associations, trust companies, savings banks and savings associations, including savings and loan associations, building and loan associations, investment companies and other persons carrying on a banking business, all administrators, guardians, executors, trustees and other fiduciaries and all other persons who are now or may later be authorized to invest in bonds or other obligations of the State of Maine, may properly and legally invest funds, including capital, in their control or belonging to them.

The Act also provides that the Notes are securities which may properly and legally be deposited with and received by all public officers and bodies of the State of Maine or any agency or political subdivision and all municipalities and public corporations for any purpose for which the deposit of bonds or other obligations of the State of Maine is now or may later be authorized by law.

LITIGATION

There is no controversy or litigation of any nature pending or threatened restraining or enjoining the issue, sale, execution or delivery of the Notes or the undertaking of the Project, or in any way contesting or affecting the validity of the Notes or any proceedings of the Authority taken with respect to the issuance or sale thereof, the pledge or application of any monies or securities provided for the payment of the Notes or the existence or powers of the Authority, or the Project, except as discussed in "The Project" herein.

APPROVAL OF LEGAL PROCEEDINGS

Legal matters incident to the authorization, issuance and sale of the Notes are subject to the approving opinion of Hawkins, Delafield & Wood, New York, New York, Note Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its General Counsel, Stephen A. Canders, Esq.; for the Borrower by its Corporate Counsel, William M. Finn, Esq., and LeBoeuf, Lamb, Greene & MacRae, a limited liability partnership including professional corporations, New York, New York; and for the Initial Purchasers by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts.

MISCELLANEOUS

This Confidential Private Placement Memorandum is submitted only in connection with the issuance and sale of the Notes by the Authority and may not be reproduced or used in whole or in part for any other purpose.

So far as any statements are made in this Confidential Private Placement Memorandum involving matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact.

The agreement of the Authority with the holders of the Notes is fully set forth in the Indenture, and this Confidential Private Placement Memorandum is not to be construed as constituting an agreement with the purchasers or holders of the Notes.


The execution and delivery of this Confidential Private Placement Memorandum and its distribution have been duly authorized by the Authority.

FINANCE AUTHORITY OF MAINE

/s/Timothy P. Agnew
Timothy P. Agnew
Chief Executive Officer

FINANCE AUTHORITY OF MAINE
MEMORANDUM

TO: Members of the FAME Board of Directors

FROM: Timothy P. Agnew 

DATE: July 14, 1994

SUBJECT: ***Electric Rate Stabilization Program - Background and Status***

The proposal of Central Maine Power Company (CMP) to use the Electric Rate Stabilization Program to buy out the contract of Fairfield Energy Venture in Fort Fairfield and potentially close the plant has focused a great deal of attention on the new program and FAME's role in a possible financing. At next week's Board Meeting, I have arranged for Steve Adams, Director of the State Planning Office, and two members of the Legislature's Joint Standing Committee on Utilities, Senator John J. Cleveland of Auburn and Representative Carol A. Kontos of Windham, to attend and discuss the new program with the Board. I am also expecting representatives from CMP to be present for this discussion as well. In anticipation of that presentation and the related action items on the board agenda, this memo will outline the background of the Electric Rate Stabilization Program, the legislative intent as FAME understands it to be, the current status of the program and how the Authority might proceed.

LEGISLATIVE BACKGROUND

The Electric Rate Stabilization Program is the result of a compromise reached after Central Maine Power Company sought legislation that would have placed a new tax on revenues of independent power producers (IPPs). The State's three utilities have repeatedly identified the cost of IPP power as a major financial burden that adversely affects the rates they must charge ratepayers. The electric utility companies maintain that legislative actions and policies of the Public Utilities Commission over the past decade have contributed to the very high cost the utilities must pay independent power producers under binding contracts.

Recently, State legislators have become more sympathetic to the problem of high energy rates caused in part by the costly IPP contracts. Based on the recognition that the economic future of the State depends, at least in part, upon affordable energy rates, Governor McKernan and Maine State Legislature worked to establish an electric rate stabilization program that would help to reduce the impact of the IPP contracts and bring some stability to electric rates in the future.

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The legislation that emerged, a copy of which is attached, establishes a process to help Maine's electric utilities to renegotiate their contracts with independent power producers. Since the IPPs have guaranteed contracts, the only feasible way to reduce the rates being paid under their contracts is to either buy out the contract entirely or to pay a sum of money (premium) up front to buy down the cost of the contracts.

The legislation contains two major components: a Public Utilities Commission approval process and a FAME financing process. The Public Utilities Commission is required to look at each proposed "*Energy Rate Stabilization Project*" and to determine whether the proposed project results in the public benefit defined in the legislation. Despite some of the comments in letters about the Fairfield Energy Venture you may have received, the legislation clearly allows the buy out of these independent power producer contracts, but it does direct the PUC to give preference to projects that buy down contract rates rather than contract buy outs that result in shutting down IPPs. However, the legislation does not say how the "preference" is to be applied. The legislation also prohibits PUC approval of buyouts of facilities generating more than 50 megawatts of electricity a year. This provision was designed to prevent the use of the program to shut down the larger facilities determined to have major public benefits.

The Public Utilities Commission has thirty days after receipt of an application to issue a Certificate of Approval or to deny an Energy Rate Stabilization Project application. If a Certificate of Approval is issued, then the cost of financing the project is treated as an allowable expense for ratemaking purposes in the future, so that the utility can recover the cost of buying out or buying down the IPP contract from ratepayers. In addition, because Maine utilities have not performed well financially in recent years, and because of the negative outlook for the utility industry in general, borrowing to pay the costs of an Energy Rate Stabilization Project may be very difficult and certainly will be costly. Since the ratepayers are paying the cost of buying out and buying down IPP contracts, the Legislature determined it to be in the public interest to provide assistance in the financing in order to reduce the cost to the ratepayers. Accordingly, the Finance Authority of Maine was authorized to issue bonds backed by the State's Moral Obligation in an effort to help the utilities finance Electric Rate Stabilization Projects at as low a cost as possible. All of the savings of the financing must be passed through to ratepayers.

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Last month, Central Maine Power announced that it would be submitting an application to the Public Utilities Commission under the program for approval of the buyout of the Fairfield Energy Venture. The \$78,000,000 proposal would result in the termination of the existing contract to purchase power from Fairfield Energy Venture, and would result in transfer of ownership of the facility to a subsidiary of Central Maine Power. That application has been submitted to the Public Utilities Commission, which is expected to issue a decision in August. Only after the Public Utilities Commission process is completed will an application for project financing be formally submitted to the Finance Authority of Maine.

At the last Board Meeting, we discussed the program and the pending application generally and whether and to what extent the Finance Authority is required or expected to consider public benefit in reviewing an application for financing from a utility under the Electric Rate Stabilization Program. Since that meeting, Charlie Mercer and I have spoken to all of the members of the Joint Standing Committee on Utilities, as well as several other members of the Legislature, the Governor's Office and the State Planning Office in an effort to determine what the expectation was when the legislation was passed.

The near unanimous view of all persons involved in the bill writing process is that FAME was expressly not expected or intended to apply public benefit criteria in reviewing an application for financing. Their view is that the Legislature intended the Public Utilities Commission to make the public benefit determinations, that the fifty megawatt limitation would prevent the shutdown of large projects and that some detriment in the form of lost jobs or other adverse impacts as a result of the program was an unfortunate but necessary result of the overwhelming State need to reduce the cost of energy in the future. FAME was brought in to the process solely to provide the credit analysis and underwriting standards necessary for the prudent management of this innovative financing program.

THE RULEMAKING PROCESS

To implement the new program, FAME must adopt a rule for the program under the Administrative Procedures Act (APA). At the last Board Meeting, staff presented a proposed amendment to Chapter 104, the Secondary Market Taxable Bond Program, designed to incorporate the Energy Rate Stabilization Program within the existing rule. Those amendments were approved by the members for an expedited rulemaking process that did not include a public hearing. After the events of the last month and the many requests we have received for a hearing on the rule, I am recommending that the pending rulemaking be terminated and a new rule focussed solely on the Energy Rate Stabilization Program be considered and approved for rulemaking. Given the attention being focussed on the program

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and the substantial differences from our other programs, I believe it makes sense to establish a stand-alone rule for this program. This rule will be considered as an action item at the July 21 Board Meeting. Please note that under Section 5 of the proposed new rule, the only criteria for approval of a complete application are financial: whether the board believes the loan will be repaid and the prudence of the financing. There is no provision in the rule to consider the public benefits or detriments resulting from the proposed project. Also note that under Section 4, a certificate of approval from the Public Utilities Commission is an essential element of an application.

Staff is proposing that this rule be approved for rulemaking and that we conduct a public hearing on the rule amendment in Presque Isle in August. We have had numerous requests for a public hearing on the rule and most of those requests have urged that the public hearing be in Fort Fairfield. Given that we had planned to meet in Presque Isle in September anyway, it seemed logical to move the Presque Isle meeting to August to accommodate the interest in the rule and to consider the comments of the public earlier in the process rather than later. I expect that the lack of any public benefit or detriment consideration in the draft rule will result in a great deal of comment from those concerned about the shutdown of Fairfield Energy Venture. The Town of Fort Fairfield has already retained the firm of Bernstein, Shur, Sawyer & Nelson to oppose the CMP application in the PUC process.

CENTRAL MAINE POWER SCHEDULE

The agreement between Central Maine Power and the owners of Fairfield Energy Venture apparently calls for a closing on or before September 30, 1994. Central Maine Power Company is anxious to meet this deadline and is concerned about any delay in the rulemaking process. Given the substantial projected savings to the ratepayers beginning immediately upon the buy out of the contract, I believe it is important for FAME to move forward as expeditiously as possible in order to consider the application if it is approved by the Public Utilities Commission. However, to close a very complex financing package by September 30 will be difficult under any conditions. It should also be noted that, in an effort to address the concerns focussed on the Fairfield Energy Venture application, Central Maine Power Company is working diligently to see if there are ways to keep the plant open and operating, thereby reducing the economic impact of a shutdown.

UNDERWRITER SELECTION PROCESS

Requests for Information were sent last month to 15 underwriting firms. Thirteen proposals were received by the July 7 due date. These proposals are being reviewed by the staff and a board subcommittee comprised of Ray Hews, Sam Shapiro, Janis Cohen and Larry Dwight. Interviews have been scheduled with eight of the underwriters for the position of senior manager on Wednesday, July 20 in Portland. As a result of those interviews, a recommendation for underwriter will be made to the full Board on Thursday, July 21. The eight firms being interviewed are Prudential Securities, Merrill Lynch, Morgan Stanley, Goldman Sachs, Lazard Freres, A.G. Edwards, Smith Barney Shearson and Kidder Peabody.

WHERE WE GO FROM HERE

FAME's first priorities are to implement a program rule, select an underwriting team to begin structuring the financing and to develop an application for the utilities to prepare and submit to FAME. Obviously the application form depends in part on the contents of the program rule.

If the PUC approves the Fairfield Energy Venture contract buy out and CMP files an application with FAME, a request could come to the Board as early as the September Board meeting. If the FAME Board agrees to leave public benefit determinations to the Public Utilities Commission, then the primary issue we would focus on would be the credit and the structure of the financing. There may be an issue with Central Maine Power Company regarding collateral for the loan. They have indicated that providing FAME with collateral would be difficult and very disruptive of their existing financing arrangements, and that collateral is really not necessary as security for the FAME loan since the Public Utilities Commission must approve adequate rate increases to permit payment of a FAME loan. This is an issue that will need to be explored further with the advice of our senior manager underwriter. Lack of collateral could affect the rating, pricing and marketability of the bonds.

Once an underwriter is in place, we will need to consider various alternative structuring scenarios for the bond financing. A bank letter of credit or insurance contract could be obtained to raise the rating on the bonds. A bank letter of credit would also result in an exemption from securities registration laws and allow the bonds to be sold publicly. Otherwise, the bonds would likely be privately placed which would add slightly to the cost of financing.