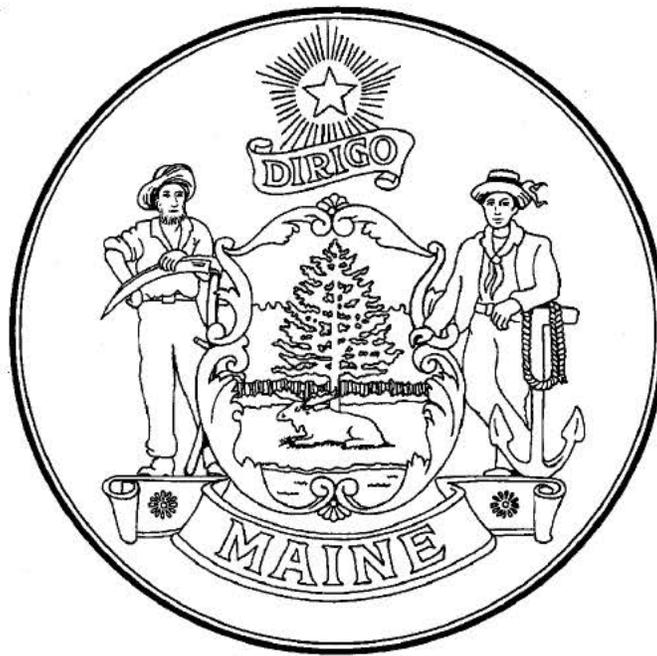


# MAINE STATE LEGISLATURE

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STATE OF MAINE  
PUBLIC UTILITIES COMMISSION  
242 STATE STREET  
18 STATE HOUSE STATION  
AUGUSTA, MAINE  
04333-0018

WILLIAM M. NUGENT  
STEPHEN L. DIAMOND  
COMMISSIONERS

January 14, 1999

Hon. Richard J. Carey, Senate Chair  
Hon. Thomas M. Davidson, House Chair  
Joint Standing Committee on Utilities and Energy  
115 State House Station  
Augusta, ME 04333-0115

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

Dear Senator Carey and Representative Davidson:

Pursuant to 35-A M.R.S.A. § 3195, we are pleased to provide the Joint Standing Committee on Utilities and Energy with our annual report on the Commission's actions to promote electric utility efficiency.

## I. INTRODUCTION

### A. Summary

The purpose of this report is to inform the Legislature of activities that the Public Utilities Commission (Commission) has undertaken pursuant to 35-A M.R.S.A. § 3195 during 1998. During the past year, the Commission has been involved in a variety of activities relating to the implementation of incentive ratemaking and pricing flexibility plans for Central Maine Power Company (CMP), Bangor Hydro-Electric Company (BHE) and Maine Public Service Company (MPS). During 1995, we developed plans, pursuant to § 3195, for each of these companies.

During the 1997 legislative session, the Maine legislature passed and Governor King signed P.L. 1997, Ch. 316, which is codified as 35-A M.R.S.A. chapter 32. This legislation, among other things, requires that all consumers of electricity shall have the right to purchase generation services directly from competitive electricity providers beginning on March 1, 2000. The beginning of retail access will approximately match the end of the plans that we have developed, pursuant to Section 3195, for the three investor-owned electric utilities.

During the summer of 1997, the Board of Directors of Maine Yankee voted to permanently shut down the plant. This action will have significant ratemaking implications for ratepayers in Maine while the plant is decommissioned and the site is returned to its previous state. The Commission has recently approved an agreement negotiated among Maine Yankee, the Commission Staff, the Office of the Public Advocate and the non-Maine owners of the plant concerning the shutdown and decommissioning plan. As a result of the agreement, Maine's utilities that are owners of the plant will pay a lower return on its remaining book value and Maine Yankee and the owners will share any savings that result from shutting down the plant cost-effectively. Any savings to the Maine utilities will be passed through to ratepayers.



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## B. Background

In 1991, the Legislature enacted P.L. 1991, ch. 413, AN ACT to Encourage Electric Utility Efficiency and Economical Electric Rates. The Act creates subchapter VII of Title 35-A entitled "Incentive Ratemaking." This legislation, codified at 35-A M.R.S.A. § 3195, provides the Commission's authority for incentive ratemaking and the promotion of electric utility efficiency.<sup>1</sup>

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

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

detailing any actions taken or proposed to be taken by the commission under this section, including actions or proposed actions on mechanisms for protecting ratepayers from the transfer of risks associated with rate-adjustment mechanisms.<sup>2</sup>

In 1994, the Legislature added to section 3195 a subsection entitled "Rate Flexibility."<sup>3</sup> Subsection 3195 (6) further provides that "[a]s part of a program adopted under this subsection, the commission may waive the requirements of section 3101 [the fuel adjustment clause]."

This letter provides the Commission's report to the Utilities and Energy Committee for 1998.<sup>4</sup>

## II. CENTRAL MAINE POWER COMPANY

Since the Commission's approval of the CMP Alternative Rate Plan (ARP) stipulation in the Order dated January 10, 1995, there have been several filings and proceedings that relate to the implementation of that Order. The Commission's activities during 1998 regarding CMP can be grouped into two categories, as described below.

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<sup>1</sup> Section 3195 is entitled "Commission authority to promote electric utility efficiency."

<sup>2</sup> Under section 3195 (4), the Commission is required to consider the transfer of risks associated with the effect of the economy and the weather on the utility's sales.

<sup>3</sup> P.L. 1993, Ch. 614 originated as L.D. 1666, AN ACT to Permit Electric Utilities Greater Flexibility in Adjusting Electric Utility Prices to Meet Changing Market Conditions.

<sup>4</sup> This Report is due annually on December 31.

A. Annual Price Change Proceeding.

A July 1, 1998 Order approved a stipulation authorizing a 1.33% increase on July 1, 1998 in the rate caps for all customer classes, the fourth such annual increase since the ARP's adoption. There will be one final adjustment under the ARP in 1999.

B. Pricing Flexibility.

CMP's ARP allows considerable flexibility in how it prices its electric service. The Commission established criteria and an expedited process under CMP's ARP to review and evaluate filings.<sup>5</sup> In 1998, CMP filed 29 flexible pricing petitions pursuant to its ARP criteria. Twenty-one of these petitions (approximately 72%) were special rate contracts or amendments to existing contracts. The remaining eight petitions either introduced or revised optional service rate schedules. Two of the flexible pricing petitions are currently under review at the Commission.

### III. BANGOR HYDRO-ELECTRIC COMPANY

In a February 14, 1995 Order the Commission established an Alternative Marketing Plan (AMP) for BHE, allowing the Company significant pricing flexibility. The Commission declined at that time to adopt a price-cap plan proposed by the Commission's staff, ordering instead a continuation of traditional regulation. The Commission's decision was based, in part, on BHE's public commitment that it would not seek rate increases for a 5-year period.

A. 1997 General Rate Increase.

In May 1997, BHE filed for a two-step general increase (Docket No. 97-116) in rates of \$5.0 million in early 1998 and an additional \$4.5 million on January 1, 1999. In July 1997, BHE withdrew its two-step rate increase proposal, in favor of a single increase of \$20.6 million (or 15.5%). In September 1997, the Company's rebuttal testimony further increased BHE's rate request to \$22.1 million. The Company stated that its weakened financial condition, coupled with the outcome of the electric restructuring legislation, made it necessary to fully recover its revenue deficiency. The Commission's Advocacy Staff, the Public Advocate, and other parties disputed the level of rate relief that BHE had requested and presented evidence indicating that a smaller increase -- \$10.0 to \$12.5 million -- would be appropriate.

Both the Advocacy Staff and the Public Advocate proposed limited versions of rate cap plans, pursuant to 35-A M.R.S.A. § 3195, for the period between the end of the rate case and March 1, 2000, the beginning of retail access. Those parties contended that as a condition of the Commission's granting of pricing flexibility for the Company in 1995, BHE agreed to voluntarily refrain from seeking rate increases for five years. BHE disputed this interpretation of the Commission's Order and opposed the imposition of a price cap plan for 1998-2000.

The Commission's issued its final Order in this case on February 9, 1998 and allowed a total increase of \$13.22 million, or 9.86%, over existing base rates. The Commission also adopted a price cap plan allowing for rate changes based on an inflation index minus a 1.2% productivity offset. The filing date for the 1998 proceeding was March 15, while 1999's filing deadline is set for February 15. In both years, if any change is deemed appropriate, it would take effect on May 1. The scope of the 1998 change was specifically limited to deferred costs relating to the January 1998 ice storm.

<sup>5</sup> Filings that meet the ARP criteria may go into effect by operation of law after 30-days notice. Filings that do not strictly meet the ARP criteria and long-term contracts require Commission approval within 4 months.

### B. Annual Price Change Proceeding

BHE filed a request on March 19, 1998 (Docket No. 98-211) requesting the collection of \$4.5 million in ice storm costs, over a one-year period. On April 10, 1998, the Hearing Examiner invited comments from the parties regarding the possibility of deferring ice storm costs until the 1999 annual review, to allow for the possibility of BHE's receiving federal funds for disaster relief. On April 17, 1998, the Company proposed that it be allowed to begin recovering half of the storm related costs immediately, while deferring the remainder until the 1999 review. On October 1, 1998 the Company formally requested that the issue be postponed until 1999, to either its annual review proceeding or to its stranded cost rate case, Docket No. 97-596.

### C. Pricing Flexibility Requests.

The AMP allows BHE considerable pricing flexibility. In 1998, BHE filed 10 flexible pricing petitions. Nine were special rate contracts or amendments to contracts. The remaining petition revised the residential and commercial discounted space heating rate schedules. One of the 10 flexible pricing petitions remains open.

## IV. MAINE PUBLIC SERVICE COMPANY

On November 13, 1995, the Commission approved a stipulation that set forth the major components of MPS's Rate Stability Plan (RSP), effective from January 1, 1996, to January 31, 2000. Subject to the provisions of the stipulation, beginning on January 1, 1996, and each subsequent February 1, MPS is permitted to increase retail rates by specified percentages.

### A. Rate Stability Plan

On January 30, 1998, MPS received its third annual retail rate increase of 3.90% pursuant to the RSP stipulation. The Company had originally requested a total increase of 7.59% comprising three components. The scheduled increase for 1998 pursuant to the RSP was 2.75%, to which the MPS added 2.20% for the sharing of Maine Yankee replacement power costs and 2.62% for protection from poor earnings. The Company and the Public Advocate reached a stipulation that, in addition to settling on a 3.90% increase for 1998, determined that the minimum 1999 increase would be 3.10% as opposed to the 2.75% originally scheduled in the RSP.

On November 13, 1998, in Docket No. 98-865, MPS requested a retail rate increase totaling 6.39%. This request comprised MPS's annual scheduled increase of 3.10%, pursuant to the stipulation in Docket No. 97-830, plus 3.29% for the sharing of Maine Yankee replacement power costs.<sup>6</sup> MPS requested an effective date of February 1, 1999 for this rate increase.

MPS's filing included two alternate proposals that hinge upon the Commission's final determination in the Company's asset divestiture proceeding, Docket No. 98-584, scheduled for completion on April 1, 1999. If the Commission approves the pending divestiture, MPS will agree to forego the scheduled 3.10% increase previously authorized, with the remaining 3.29% to be deferred and reviewed at that time. If the Commission does not approve the asset divestiture, the 6.39%

<sup>6</sup> Under MPS's RSP, if Maine Yankee is shut down for longer than six months, then beginning with the seventh month of the outage, MPS is permitted a price cap increase equal to 50% of the net purchased power cost incurred to replace its Maine Yankee entitlement. The remaining 50% of these net costs accrue to shareholders and will be recognized in the computation of earnings for profit sharing.

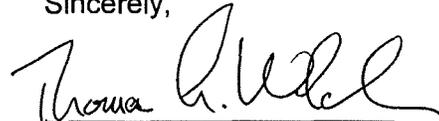
increase requested for February 1, 1999, would go into effect as a 7.55% increase on April 1, 1999.<sup>7</sup> MPS also requested that the end date of the original RSP plan be extended from January 30, 2000 to February 29, 2000. On December 15, 1998, the Commission issued an Order granting the extension of both the effective date for new rates from February 1, 1999 to April 1, 1999 and the end date of the RSP to February 29, 2000. The Commission has explicitly stated that its approval of these extensions does not in any way signify the approval of the amount of the increase that will go into effect on April 1, 1999.

B. Pricing Flexibility Program.

MPS's flexible pricing criteria are essentially the same as those specified CMP's ARP provisions. During 1998, MPS filed four flexible pricing petitions. All of these petitions were for special rate contracts and none of the petitions remains open.

Please contact us if you would like further information on any of these matters.

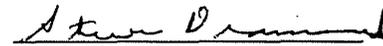
Sincerely,



Thomas L. Welch  
Chairman



William M. Nugent  
Commissioner



Stephen L. Diamond  
Commissioner

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<sup>7</sup> The effect of waiting two months for the increase until April 1, 1999 is an increase from 6.39% to 7.55%.