MAINE ENERGY COUNCIL

Senator Philip L. Bartlett II, Co-Chair *Representative Herbert Adams, Co-Chair*

April 9, 2007

Joint Standing Committee on Utilities and Energy
State House Station #115
Augusta, Maine 04333

Re: Final Maine Energy Council Report

Dear Joint Standing Committee on Utilities and Energy:

During last year's session, the Legislature enacted An Act To Enhance Maine's Energy Independence and Security (Act), P.L. 2005, ch. 677. Part D of the Act established the Maine Energy Council (Council) to evaluate matters affecting electricity supply and costs and to provide recommendations to the Governor, the Public Utilities Commission, other appropriate state agencies and the Legislature regarding these matters. The Act specifies that the Council shall submit a report to the Utilities and Energy Committee.

Please find attached the above-mentioned report and appendices.

Sincerely,

Senator Philip L. Bartlett II
Co-Chair, Maine Energy Council

Representative Herbert Adams
Co-Chair, Maine Energy Council

cc: Honorable Betheda Edmonds, Chair, Legislative Council
Honorable Glenn A. Cummings, Vice-Chair, Legislative Council
Members of the Legislative Council
David Boulter, Executive Director, Legislative Council
Patrick Norton, Director, Office of Policy and Legal Analysis
Lucia Nixon, Office of Policy and Legal Analysis

Maine Energy Council
Report

April 9, 2007

I. Introduction

During its 2006 session, the Legislature enacted An Act To Enhance Maine's Energy Independence and Security ("Act").[1] Part D of the Act, which is contained in Appendix 1 to this Report, established the Maine Energy Council ("Council"). As specified in the Act, the Council is established to:

> evaluate matters affecting electricity supply and costs to consumers in this State and to provide recommendations to the Governor, the Public Utilities Commission, other appropriate state agencies and the Legislature regarding these matters.

The Council consists of 17 members as follows:

- Two members of the Senate;
- Two members of the House of Representatives;
- The Chair of the Public Utilities Commission or the chair's designee;
- The Public Advocate or the Public Advocate's designee;
- The Commissioner of Environmental Protection or the Commissioner's designee;
- One member representing the Governor's office, appointed by the Governor;
- One member from the University of Maine System who has expertise in energy issues;
- One member representing electricity generators with a capacity in excess of 100 megawatts;
- One member representing electricity generators that rely on renewable energy resources;
- One member representing competitive electricity providers;
- One member representing residential users of electricity;
- One member representing large industrial users of electricity;
- One member representing small commercial users of electricity;
- One member representing investor-owned transmission and distribution utilities; and

[1] P.L. 2005, ch. 677.

- One member representing consumer-owned transmission and distribution utilities.

The designated members of the Council are listed in Appendix 2 to this Report.

As stated in the Act, the duties of the Council are to:

- Advise the Governor, the Public Utilities Commission, other appropriate state agencies and the Legislature on matters affecting electricity supply and costs to consumers in this State;

- As resources permit, undertake studies, develop findings and make recommendations to the Governor and to the joint standing committee of the Legislature having jurisdiction over utilities matters on issues affecting electricity supply or costs to consumers in this State; and

- Undertake an examination of the feasibility and appropriate means of studying the impacts of electric industry restructuring in this State.

The Act requires that the Council submit a report that includes its findings and recommendations, including suggested legislation, for presentation to the Utilities and Energy Committee.[2]

This Report contains background on the creation of the Council, a description of the Council's activities, a presentation of topics that the Council considered and the Council's findings and recommendations.[3]

II. Council Activities

The Council held five meetings to review a variety of relevant topics. Each of these five meetings included presentations on specified topics followed by questions and discussion. The agendas and meeting notes for each of the meetings are contained in Appendix 3 to this Report.

The general topics for each of the five meetings are specified below:

[2] The Council did not come to consensus on any specific legislation. Accordingly, no suggested legislation is included in the Report.

[3] Consistent with the Council's charge, this Report discussed only issues related to electricity, rather than overall energy policy.

- Meeting 1 (December 1, 2006): Overview of Maine's Electricity Position-Strengths and Weaknesses
- Meeting 2 (January 4, 2007): Economics of Regulation and Risk Allocation
- Meeting 3 (January 11, 2007): Energy Efficiency Options
- Meeting 4 (January 18, 2007): Environmental Policy and Its Impact on Energy Policy
- Meeting 5 (February 2, 2007): Maine's Strategic Position and Ways to Leverage that Position

The Council held three additional meetings to discuss the findings and recommendations that would be included in report. These meetings occurred as follows:

- Meeting 6 (February 16, 2002)
- Meeting 7 (March 7, 2007)
- Meeting 8 (March 14, 2007)

III. Topics of Discussion

The following is a list of general topics and issues that were raised or discussed during the meetings of the Council.

Regional Market Structure and Transmission

- Maine's strategic position relative to the rest of the region and Canada and ways to leverage Maine's position
- National Interest Electric Transmission Corridors and potential loss of State siting authority
- The impact of the ISO-NE capacity market
- Socialization of transmission cost allocation
- Over-reliance on natural gas-fired generation
- Market approach providing sufficient reliability at reasonable cost over time

Retail Restructured Market

- Modifications of the restructured market
    - Means to minimize retail prices
    - Means to reduce price volatility
- Long-term contracting/bid process
- Long-term procurement process and portfolio management for standard offer service
    - Merits of utilities serving as portfolio managers
- Utility ownership or control of generation assets
- Regulation of generation pricing and merits of a return to integrated electric utilities

Energy Efficiency

- Available energy efficiency options
- Customers that should be targeted for efficiency programs
- Role of utilities in energy efficiency
    - Utility disincentives for efficiency
- Methods of funding energy efficiency
- Changes in demand response capabilities of Maine consumers as a result of the ISO-NE Forward Capacity Market
- Integration of efficiency programs into the standard offer
- Value of targeted peak hour savings
- Promotion of Cogeneration

Northern Maine Market

- Promotion of wholesale and retail electricity markets

- Transmission connection to the New England market

Renewable Resources

- Appropriate means to promote development
- Promotion of clean energy retail market
- Net energy billing

Environmental Policy

- The impact of environmental policy issues in shaping energy policy and the need to prioritize
- The impact of RGGI on fuel choice and the price of electricity

IV. COUNCIL FINDINGS AND RECOMMENDATIONS

A. Maine's Energy Policy Objectives

The primary objective of Maine's energy policy is to reduce the total cost (prices and usage) of electricity to Maine's residents and businesses in a way that produces price predictability and maintains system reliability consistent with State and federal environmental policy so that electricity is delivered to Maine citizens at the lowest possible costs to assure affordable electricity for Maine families and promote economic development and retain jobs.

To promote these goal and objectives:

- Maine should continue to support a balanced generation resource mix.
- Maine should continue to implement policies that maximize the efficient use of fuel, such as through energy efficiency measures and combined heat and power technologies.
- Maine should institute a formal, permanent benchmarking system to allow it to: fully understand total energy costs to consumers; identify best practices for, and barriers to, reducing those costs; and measure the success of Maine's efforts to cut the cost of energy for its residents and businesses.
- Maine should expedite completion of its evaluation of regional energy arrangements and participate at the regional and federal levels to protect

the interests of Maine's electricity consumers and fully exercise Maine's energy sovereignty.

B. Consensus Findings and Recommended Action

The Council makes the findings and recommends action as specified in this section.[4]

1. Transmission Siting Preemption

The federal Energy Policy Act of 2005 ("EPAct") provides the Federal Energy Regulatory Commission ("FERC") with the authority to preempt state transmission siting authority for proposed projects that are within "National Interest Electric Transmission Corridors." The Department of Energy ("DOE") has the responsibility to designate these Corridors based on a national electric transmission congestion study conducted in consultation with affected states. In the event that Maine or portions of Maine are designated in the DOE study, the State will lose ultimate authority over transmission siting even if a transmission line violates State and local environmental laws or is detrimental to Maine consumer interests.

The Council finds that the DOE has not appropriately consulted with Maine as required by the federal law and that the transmission siting preemption authority is an ill-conceived and unnecessary assault on Maine's sovereignty.[5]

The Council recommends that Maine's Congressional delegation be requested to submit legislation to seek appropriate redress.

2. Transmission Cost Allocation

Under current ISO-NE rules, the cost of many major transmission projects in the region is "socialized" so that all electricity consumers in New England pay based on each state's relative load share. The result of these rules is that Maine's consumers pay a significant amount of costs for transmission projects to relieve congestion in other areas of the region (primarily

[4] Individual members of the Council were invited to submit statements containing their own comments and recommendations. Such statements contain only the views of the individual Council members and not those of the Council. The individual Council member statements are included in Appendix 4 to this Report.

[5] The Council representative from Constellation takes exception to this statement.

the Boston area and southwestern Connecticut) with little or no benefit to Maine. The annual impact on Maine of socializing the costs of transmission projects is expected to be in the range of $75 million.

The Public Utilities Commission ("PUC") has obtained the agreement of the New England Conference of Public Utility Commissioners ("NECPUC") to study reopening the cost allocation issue. The Council encourages the efforts of the PUC to reopen the transmission cost allocation issue in pursuit of a more rational approach.

3. Participation in the ISO-NE

Central Maine Power Company ("CMP) and Bangor Hydro-Electric Company ("BHE") participate in the regional transmission organization known as the ISO-NE. The ISO-NE operates the New England bulk transmission system and manages the markets for energy, capacity and ancillary services. Over recent years, Maine stakeholders have become increasingly concerned over whether the costs of Maine's participation in the ISO-NE (primarily the cost of the capacity market and transmission cost allocation) are greater than the benefits. At the direction of the Legislature, the PUC is conducting a two-year study of Maine utilities' participation in the ISO-NE. Resolves 2005, ch. 187.

The Council supports the PUC's efforts and endorses the pursuit of alternatives to the ISO-NE *status quo* as identified in the PUC Interim ISO-NE Report (submitted January 16, 2007):

- That the PUC continue to engage New Brunswick and other Maritime provinces, as appropriate, in high-level negotiations to expand electricity trade between Maine and New Brunswick, and to develop a plan for a possible common market.

- That the PUC explore the creation of one, or more, independent transmission companies (ITCs) in Maine.

- That the PUC engage the New England Conference of Public Utilities Commissioners ("NECPUC"), or the New England State Committee on Energy, as applicable, to form a transmission cost allocation regime that creates incentives for the development of the diverse generation needed to power New England.

4. ISO-NE Administrative Costs

The ISO-NE has the highest administration costs of any Regional Transmission Organization ("RTO") in the country. One explanation is that the ISO-NE is relatively small and has fewer economies of scale and scope; so costs are divided over fewer MWs and MWhs. Some entities in the region

have sought an investigation of the ISO-NE budget. The ISO-NE provides an "informational filing" on its budget each year and reviews its budget annually with NECPUC, but NECPUC typically cannot agree on an appropriate level of spending.

The Council recommends that the PUC continue its monitoring of the ISO-NE's budget to ensure due diligence in the budgeting process and to minimize the costs to Maine customers.

5. Alternatives to ISO-NE

The Governor of Maine and the Premier of New Brunswick have entered into a Memorandum of Understanding to Enhance the Mutual Benefits of the Maine/New Brunswick Electrical Interconnections (dated Feb 9, 2007).

The Council encourages the Governor and appropriate agencies of Maine Government to continue efforts with neighboring provinces and states to obtain mutually beneficial arrangements.

6. Coordinated Regional and Federal Activities

The PUC and other entities advocate before regional, federal and international forums on behalf of Maine consumers.

The Council recommends that to promote greater coordination of efforts, the PUC and other appropriate agencies of Maine government and other entities that advocate on behalf of Maine consumers maintain websites that contains information on advocacy efforts on the regional and federal levels and provides access to relevant publicly available documents.

7. Industry Restructuring and Resource Planning

During its 1997 session, the Maine Legislature fundamentally restructured the electric industry in Maine by providing consumers with the ability to choose their electricity suppliers, requiring utilities to divest most of their generation assets, and prohibiting utilities from providing electricity supply services. Prior to industry restructuring, electric utilities engaged in integrated resource planning, pursuant to PUC rules and oversight, with the goal of obtaining an optimal mix of resources (both supply and efficiency). This process ended with the opening of generation services to competition and the removal utilities from the generation supply business. After restructuring, Maine and the New England region have become over-reliant on a single fossil fuel source (natural gas) which places consumers in a high risk position with regard to both supply reliability and prices.

The Council finds that the State would benefit from the preparation and publication on a periodic basis of a Comprehensive State Electricity Plan. The Plan should be prepared by the appropriate state agency to assist lawmakers, agencies and affected stakeholders in meeting Maine's electricity challenges. Specifically, the Plan should include a comprehensive examination of Maine's present and future electricity needs, uses, infrastructure, and resources and the economics of each and should outline scenarios and strategies for the near and long-term future. The goal of the plan is to provide information and insights that will guide the development of public policy and lead to appropriate changes in law or regulation to advance that policy.

The Council is divided on whether the Restructuring Act should be amended to allow utilities in the State, subject to PUC oversight, to own or control generation assets, as well as to enter into long-term contracts and invest in energy efficiency measures.

8. Energy Efficiency

a) *Peak Demand and Cost Reduction*

Prior to electric industry restructuring, the utilities conducted energy efficiency programs as part of their obligation to secure resources to serve load at the lowest overall cost. After restructuring, utilities no longer have the obligation to supply load and the Legislature transferred the obligation to conduct efficiency programs to the PUC (through its Efficiency Maine division).

The Council finds that a key to controlling the demand for new power plants as well as reducing market prices for electricity will be the ability to reduce the State's peak demand for electricity. This can be accomplished by smoothing the variations of electricity use on both a daily and seasonal basis so that capacity requirements and peak high cost electricity can be minimized. The Council recommends that an effective strategy to minimize peak electricity usage (including off-grid generation) be developed and implemented. In doing so, it would be important to understand the impact that Maine's peak demand reduction actions will actually have on capacity charges and on avoiding price spikes. An effective management system would be needed to actually achieve the desired results and the experience of Maine utilities could be helpful.

The Council also finds that the acceleration of energy efficiency efforts could also reduce the need for new power plants and mitigate prices. The Council recommends that current programs should be evaluated to ensure the realization of the most cost effective efficiency results that are achievable in the near term, as well as to develop the next phase of efficiency

opportunities. As a part of this work, there should be a tracking system in place that measures actual results.

In considering programs to reduce Maine's peak demands and increase energy efficiency, the Council finds that Maine should review the costs and potential benefits of new technologies[6] as they develop that can facilitate demand response programs in which customers can react to real time prices by shifting demand to lower cost periods.[7]

b) *Targeted Efficiency*

Energy efficiency measures may be directed to areas of large load growth or where new transmission facilities are needed. Such energy efficiency measures may avoid or delay the need for new infrastructure.

The Council recommends that information be provided to the PUC to allow it to consider using targeted energy efficiency to avoid or delay the need for new infrastructure.

9. Resource Diversification

a) *Promotion of Grid Scale Renewables*

The development of renewable generation resources in Maine and throughout the region has the potential to reduce and stabilize electricity costs to Maine consumers, enhance system reliability and reduce the impact on the environment from the generation of electricity.

The Council finds that the goal of a robust retail market for clean energy products remains to be fully achieved. The Council also finds that Maine does not have a renewable power plant development promotion problem in that there is a significant amount of wind, biomass and tidal power at various stages of development and this appears to a place where the merchant generation model is working.

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[6] A resolution by the National Association of Regulatory Commissioners (dated February 21, 2007) regarding advance metering technology is attached to this report as Appendix 5.

[7] The AARP Maine is concerned with this statement because demand response programs that use advanced metering technology can adversely impact the elderly and medically fragile. The view of the AARP Maine is that demand response programs should be targeted to those that have the ability to react to real time prices and that any review of new technologies should consider the impact on specific subpopulations of residential customers, including specifically the elderly and medically fragile.

b) *Combined Heat and Power*

Combined heat and power ("CHP") technologies produce both electricity and steam from a single fuel at a facility located near the consumer. These efficient systems recover heat that normally would be wasted in an electricity generator, and save the fuel that would otherwise be used to produce heat or steam in a separate unit.

The Council finds that there are significant environmental and economic benefits associated with CHP in Maine. The Council recommends a consideration of current regulations to determine whether they properly recognize the overall energy efficiency of CHP or credit the emissions avoided from displaced grid electricity generation.

c) *Liquefied Natural Gas*

Several new liquefied natural gas ("LNG") facilities have been proposed for development in Maine, New Brunswick, and other areas in New England. The development of new LNG facilities can have a moderating effect on electricity prices and price volatility, and will provide a needed increase in the reliability of the grid.

The Council finds that Maine will benefit from the safe, secure and environmentally responsible development of LNG terminals and that Maine should support the development of such facilities provided they comport with all requirements and conditions imposed under Maine law to assure safety, sovereignty and environmental protection.[8]

d) *Net Energy Billing*

Net energy billing is a billing and metering practice that promotes the use of small renewable installations to serve the individual needs of customers. Net energy billing allows customers with small renewable generation to offset their usage with excess generation over a month and to carry excess generation credits for a twelve-month period to offset future usage.

The Council recommends investigation of the aggregation of renewable energy credits from net billing customers and other

[8] Representative Adams does not concur with this finding because the Council did not hold detailed hearings on the overall complex subject of LNG, nor about the controversial difficulties of siting LNG facilities in Maine. Given the complex state and international issues at stake in both categories, Representative Adams suggests that the Council take no official position on these issues.

smaller renewable generators to realize the full value of such credits so as to promote the installation and operation of small renewable generation.

10. Environmental Policy

a) *Regional Greenhouse Gas Initiative*

The Regional Greenhouse Gas Initiative ("RGGI") is a cooperative effort by the northeastern states to cap greenhouse gas emissions from electric generation facilities. Under the Initiative, CO_2 emissions would be limited by each state's CO_2 allowance budget, and states would have discretion over use of the allowances and their value. One approach is to auction the CO_2 allowances and to flow the proceeds back to ratepayers in some fashion to help offset electricity rate increases that may result from RGGI.

Under the assumption that RGGI will be implemented, the Council finds that integration of this effort into the State's and region's electrical energy strategy or comprehensive resource plan will be essential. The challenge will be to also recognize the influence of the other RGGI states in adopting plans for implementation, and in particular to ensure that there is a consistent set of outcomes for allocating 100% of auction revenue to a state's "public benefit fund."

b) *Environmental Permitting*

The environmental permitting process is an issue in the development of new generation and transmission infrastructure.

Informed by a comprehensive state electricity plan, the Council recommends that Maine seek to ensure greater coordination and integration of energy, environmental and land use policies so that decisions, approvals and actions can better balance inherent tradeoffs and conflicts among these policies.

11. Northern Maine

Northern Maine is unique in that the area is not directly connected to the New England transmission grid. Rather, northern Maine is connected to the New Brunswick system and is a part of the Maritimes control area. The PUC has recently declared the electricity market in northern Maine to be a failure and has established stakeholder groups to recommend strategies to address the market issues. Possible strategies include the promotion of generation facilities through long-term contracts and the construction of transmission that would link northern Maine to the New England transmission grid. There are several "unknowns" that could have a substantial impact on the situation in northern Maine. These include the possible construction of a large

wind facility, the ultimate transfer capability that will result from the second tieline to New Brunswick (that is currently being constructed by BHE), and the refurbishment of the nuclear facility in New Brunswick.

The Council recommends that Maine continue to monitor developments and policy changes in New Brunswick and take appropriate action that might be in the mutual benefit of New Brunswick and Maine.

12. Continuation of the Council

The Council recommends that the Maine Energy Council remain in existence to address electricity cost and supply issues as they may arise in the future.[9]

[9] The Chairman of the PUC has concerns with this recommendation under the current staffing requirements.

APPENDIX 1

CHAPTER 677, PART D

Sec. D-1. Maine Energy Council.

1. Council established. The Maine Energy Council, referred to in this section as "the council," is established to evaluate matters affecting electricity supply and costs to consumers in this State and to provide recommendations to the Governor, the Public Utilities Commission, other appropriate state agencies and the Legislature regarding these matters.

2. Membership. The council consists of 17 members. Appointing authorities shall seek to ensure representation of all areas of the State. Members are appointed as follows:

A. Two members of the Senate, appointed by the President of the Senate, one of whom must be a member of the political party holding the largest number of seats in the Senate and one of whom must be a member of the political party holding the 2nd-largest number of seats in the Senate;
B. Two members of the House of Representatives, appointed by the Speaker of the House of Representatives, one of whom must be a member of the political party holding the largest number of seats in the House and one of whom must be a member of the political party holding the 2nd-largest number of seats in the House;
C. The chair of the Public Utilities Commission or the chair's designee;
D. The Public Advocate or the Public Advocate's designee;
E. The Commissioner of Environmental Protection or the commissioner's designee;
F. One member representing the Governor's office, appointed by the Governor; and
G. Nine persons appointed by the Governor, including:

(1) One member from the University of Maine System who has expertise in energy issues;
(2) One member representing electricity generators with a capacity in excess of 100 megawatts;
(3) One member representing electricity generators that rely on renewable energy resources;
(4) One member representing competitive electricity providers;
(5) One member representing residential users of electricity;
(6) One member representing large industrial users of electricity;
(7) One member representing small commercial users of electricity;
(8) One member representing investor-owned transmission and distribution utilities; and

(9) One member representing consumer-owned transmission and distribution utilities.

The Governor shall request a list of names from organizations or entities identified in paragraph G from which to make appointments.

3. Chairs. The first-named Senate member and the first-named House member serve as cochairs of the council.

4. Appointments; convening of council. All appointments must be made no later than 30 days following the effective date of this Act. The appointing authorities shall notify the Executive Director of the Legislative Council once all appointments have been completed. Within 15 days after appointment of all members, the chairs shall call and convene the first meeting of the council.

5. Compensation. The legislative members of the council are entitled to receive the legislative per diem, as defined in the Maine Revised Statutes, Title 3, section 2, and reimbursement for travel and other necessary expenses related to their attendance at authorized meetings of the council. Public members not otherwise compensated by their employers or other entities that they represent are entitled to receive reimbursement of necessary expenses and, upon a demonstration of financial hardship, a per diem equal to the legislative per diem for their attendance at authorized meetings of the council.

6. Staffing. The staff of the Public Utilities Commission shall, within existing resources, provide assistance to the council in carrying out its functions and duties.

7. Duties. The council shall:

A. Advise the Governor, the Public Utilities Commission, other appropriate state agencies and the Legislature on matters affecting electricity supply and costs to consumers in this State;
B. As resources permit, undertake studies, develop findings and make recommendations to the Governor and to the joint standing committee of the Legislature having jurisdiction over utilities matters on issues affecting electricity supply or costs to consumers in this State; and
C. Undertake an examination of the feasibility and appropriate means of studying the impacts of electric industry restructuring in this State.

8. Authority. As resources permit, the council may:

A. Conduct public hearings, conferences, workshops and other meetings to obtain information about and discuss and publicize the needs of and solutions to issues facing electricity consumers in this State; and
B. At the request of the joint standing committee of the Legislature having jurisdiction over utilities matters, examine specific issues affecting electricity consumers in this State.

9. Report. No later than January 15, 2007, the council shall submit a report that includes its findings and recommendations, including suggested legislation, for presentation to the joint standing committee of the Legislature having jurisdiction over utilities matters and the Legislative Council. The council is not authorized to introduce legislation. Following receipt and review of the report, the joint standing committee of the Legislature having jurisdiction over utilities matters may report out a bill to the First Regular Session of the 123rd Legislature.

10. Extension. If the council requires a limited extension of time to complete its study and make its report, it may apply to the Legislative Council, which may grant an extension.

11. Council budget. The chairs of the council, with assistance from the council staff, shall administer the council's budget. Within 10 days after its first meeting, the council shall present a work plan and proposed budget to the Legislative Council for its approval. The council may not incur expenses that would result in the council's exceeding its approved budget. Upon request from the council, the Executive Director of the Legislative Council shall promptly provide the council chairs and staff with a status report on the council budget, expenditures incurred and paid and available funds.

Effective August 23, 2006.

Appendix 2

MAINE ENERGY COUNCIL

Public Law 2005, Chapter 677, Part D
(Revised December 12, 2006)

Appointments by the Governor

Barbara Alexander
83 Wedgewood Drive
Winthrop, ME 04364
Email: barbalex@ctel.net

Representing Residential Users of Electricity

Dan Allegretti
1 Essex Drive
Bow, NH 03304
Email: daniel.allegretti@constellation.com

Representing Competitive Electricity Providers

David F. Allen
220 Allen Lane
Washington, ME 04574
Email: allengroup@pivot.net

Representing the Governor's Office

Rob Bennett
BHE
P.O. Box 932
Bangor, ME 04402
Email: rbennett@bhe.com

Representing Investor-owned Transmission & Distribution Utilities

Tony Buxton
Preti, Flaherty
P.O. Box 1058
Augusta, ME 04330
Email: abuxton@preti.com

Representing Large Industrial Users of Electricity

Mark Cote
Engineering Department
Maine Maritime Academy
Pleasant Street
Castine, ME 04420
Email: mcote@mma.edu

Representing the University of Maine System with Energy Expertise

Phil Dumais
Van Buren Power & Light
P.O. Box 129

Representing Consumer-owned Transmission & Distribution Utilities

Van Buren, ME 04785-0129
Email: vblight@verizon.net

John Flumerfelt — Representing Electricity Generators in Excess of 100 Megawatts
14 Phillips Rd.
Falmouth, ME 04105
Email: jflumerfelt@calpine.com

Adam Lee — Representing Small Commercial Users of Electricity
Lee Auto Mall
107 Main Street
Topsham, ME 04086
Email: alee@leeautomall.com

Or Designee

Cathy Lee
Gallagher, Callahan & Gartrell
168 Capital Street
P.O. Box 5010
Augusta, ME 04332
Email: lee@gcglaw.com

David Wilby — Representing Electricity Generators Relying on Renewable Energy Resources
IEPM
P.O. Box 743
Augusta, ME 04330
Email: dwilby@iepm.org

Appointments by the President

Senator Philip L. Bartlett – Chair — Senate Members (1 from each of the two political parties with largest number of seats)
141 South Street
Gorham, ME 04038
Email: phil@philbartlett.com

Senator Richard W. Rosen — Senate Member
P.O. Box 877
Bucksport, ME 04416
Email: rrosen113@aol.com

Appointments by the Speaker

Rep. Herb Adams – Chair — House Member
231 State St., Apt. 46
Portland, ME 04101

Rep. Kenneth C. Fletcher — House Member
382 Garland Rd.
Winslow, ME 04901
Email: fletcher2@adelphia.net

Chair, Public Utilities Commission

Kurt Adams — Chairman
242 State Street
Augusta, ME 04333
207-287-1361
Email: kurt.adams@maine.gov

Chair, Department of Environmental Protection

David P. Littell — Or Designee
DEP
17 SHS
Augusta, ME 04333-0017
Email: David.P.Littell@maine.gov

Public Advocate

Stephen Ward — Public Advocate
OPA
112 SHS
Augusta, ME 04333
Email: Stephen.G.Ward@maine.gov

Staff:

Chris Simpson
PUC
242 State Street
Augusta, ME 04333
Email: chris.simpson@maine.gov

Appendix 3

AGENDA

Maine Energy Council Meeting
December 1, 2006

1. Introductions

2. Remarks by Senator Bartlett – Goals

3. Remarks of Representative Adams – History

4. Overview of Maine's Electricity Position – Strengths and Weaknesses

5. Topics of Inquiry – Discussion by Committee

6. Schedule of Future Meetings

7. Adjourn

Notes from the December 1, 2006 Meeting of the Maine Energy Council

The Maine Energy Council (MEC) held its initial meeting from 1:00 to 4:00 on December 1, 2006. The meeting took place in the hearing room of the Public Utilities Commission (Commission). MEC members/designees in attendance included the following:

Senator Bartlett, Chair
Representative Adams, Chair
Representative Fletcher

Kurt Adams (by phone)
Barbara Alexander
Dan Allegretti
David Allen
Rob Bennett
Tony Buxton
Mark Cote
Skip Dumais (by phone)
Bob Howe
Sharon Reishus
Steve Ward

Prior to the meeting, Commission staff handed out a meeting agenda, a list of Council members, a document entitled "Maine's Electricity Position," and several charts, graphs and maps.[1]

Senator Bartlett opened the meeting by requesting MEC members to introduce themselves. Senator Bartlett then summarized the competing goals the MEC must address. He identified (1) minimizing per unit cost, (2) reducing price volatility and (3) reducing total cost as primary goals. He noted that there are many additional goals, such as promoting renewables and addressing environmental concerns, which the MEC should consider and prioritize.

Representative Adams provided a summary of the history that led to the creation of the MEC. He noted that many good reports have already been written on topics relating to the MEC's charge and urged MEC members to review these reports.

Commissioner Reishus presented a three-page document entitled "Maine's Electricity Position" that was prepared by Commission staff and outlines the strengths and weaknesses on Maine's position. The document is divided into geographical two sections: the RTO-NE portion of Maine and northern Maine. Commissioner Reishus responded to a variety of questions relating to her presentation. In addition, several MEC members recommended specific editorial changes to the document. Some of the editorial suggestions were of a general nature. For instance, some MEC members thought the document should be further divided into wholesale and retail sections.

[1] As discussed below, the Commission staff is developing a link for the MEC that can be accessed through the Commission's web page. Each of the documents handed out during the December 1st meeting will be available in electronic form on the MEC site as soon as it is activated.

Others took issue with specific bullets within the summary. Some suggested additional items that should be added to the "strengths" and "weaknesses" listed in the document. Others thought that bullets listed as "strengths" should be characterized as "weaknesses" or, included as both "strengths" and "weaknesses." Several MEC members proposed specific edits to one or more of the bullets included in the document. Some MEC members indicated that they would like the opportunity to provide further comments on the document at a later time. Commissioner Reishus responded to each editorial suggestion and noted that the document was designed for discussion purposes and was not intended to evolve into a consensus product of the MEC.

The group then discussed the various charts, graphs and maps that were included in the handout package. Commissioner Reishus responded to questions about the handouts. As with the strengths and weaknesses document, several MEC members offered suggestions for ways to amend and clarify the various charts, graphs and maps.

Following the discussion of the handouts, the group discussed a work plan for the MEC. Senator Bartlett and Representative Adams indicated that he would like the MEC to meet four to six more times. They further indicated that they will be requesting the Legislative Council to extend the MEC's January 15th reporting deadline to March 15th. Senator Bartlett and Representative Adams then invited MEC members to identify topics that could be discussed in future meetings. MEC members identified the following topics:

- Exploring opportunities to cut the cost of electricity;
- What were the goals of restructuring and have those goals been achieved;
- How should the MEC coordinate its review with the various pending PUC inquiries;
- How can we achieve the lowest long-term electricity prices for Maine ratepayers;
- Peak shaving and energy efficiency;
- Utility-owned generation;
- Technologies to reduce usage;
- The impact of RGGI on fuel choice and the price of electricity;
- The components of the price of energy, transmission and distribution and how those components can be affected;
- Long-term contracts and risk allocation; and
- Building off of the work of last year's Renewables Stakeholder Group.

Senator Bartlett and Representative Adams agreed to consider the above-listed topics and develop a work plan, budget and schedule for the MEC that will ultimately be submitted to Legislative Council. Senator Bartlett and Representative Adams indicated that the next MEC meeting is tentatively scheduled for January 5th.

The meeting adjourned at approximately 3:50.

AGENDA

Maine Energy Council Meeting
January 4, 2007

1. **Opening Remarks**

2. **Presentation by Tom Austin - The Economics of Electricity Regulation, Deregulation and Reregulation**

3. **Q&A and Discussion**

4. **Discussion of Future Meetings, Schedule and the Council's Report**

5. **Adjourn**

Notes from the January 4, 2007 Meeting of the Maine Energy Council

The Maine Energy Council (MEC) held its second meeting from 1:00 to 4:00 on January 4, 2007. The meeting took place in the Utilities and Energy Committee Room. MEC members/designees in attendance included the following:

Senator Bartlett, Chair
Representative Adams, Chair
Senator Richard Rosen
Representative Fletcher

Kurt Adams
Barbara Alexander
Dan Allegretti
David Allen
Rob Bennett
Tony Buxton
Skip Dumais
John Flummerfelt
Steve Ward
David Wilby

At the outset of the meeting, a meeting agenda and background material regarding electricity prices were provided to Council members and the audience.[2]

Senator Bartlett opened the meeting by stating that the Council would focus on high level policy issues and the priority of policies with the intent of providing a framework for future discussions. In response to a question by Steve Ward regarding the future status of the Council, Senator Bartlett indicated that the continuation of the Council would be discussed at the end of the six weeks currently scheduled and any continuation of the existence of the Council would need to be justified.

Representative Adams stated that informal meetings could occur between the last two meetings to facilitate the drafting of the report.

Tom Austin of the Commission staff made a presentation to the Council entitled "The Economics of Electricity Regulation, Deregulation & Reregulation." A great deal of discussion occurred by members of the Council and Dr. Austin on the various points raised during the presentation.

After the presentation, Council members were provided the opportunity to suggest topics and possible recommendations for future discussions. The following items were suggested:

- Long-term procurement process and portfolio management;
- Use of a bid process to test the market;
- Impact of long-term contracts on utilities;

[2] All materials provided during MEC meetings can be obtained through the MEC's website. A link to MEC website can be accessed through the Commission's web page: www.maine.gov/mpuc.

- Cost of capital differences and other cost differences if generating facilities are constructed: 1) by a utility, 2) on a merchant basis, 3) by a public agency;
- Paths towards less reliance on fossil fuels; and

- How the new Forward Capacity Market will work with respect to energy efficiency and demand response and how might utilities play a role.

The meeting adjourned at approximately at 4:00.

AGENDA

Maine Energy Council Meeting
January 11, 2007

1. Opening Remarks

2. Presentation by Public Utilities Commission on Energy Efficiency

3. Q&A and Discussion

4. Discussion of Future Meetings

5. Adjourn

Notes from the January 11, 2007 Meeting of the Maine Energy Council

The Maine Energy Council (MEC) held its third meeting from 10:00AM to 1:00PM on January 11, 2007. The meeting took place in the Utilities and Energy Committee Room. MEC members/designees in attendance included the following:

Senator Bartlett, Chair
Representative Adams, Chair
Representative Fletcher
Kurt Adams
Barbara Alexander
Dan Allegretti
David Allen
Tony Buxton
Eric Bryant
Skip Dumais
Cathy Lee
Sharon Staz

At the outset of the meeting, a meeting agenda was provided to Council members, and the meeting was opened by Senator Bartlett.[3]

Denis Bergeron of the Commission staff made a presentation to the Council entitled "EE Programs: Past to Present"

After the presentation, Council members discussed various aspects of efficiency programs and directed questions towards Denis Bergeron. The following items were discussed:

- Value of targeting peak hour savings
- How or whether Efficiency Maine programs (or other programs) should be integrated with Standard Offer Service
- Changes in demand response capabilities of Maine consumers as a result of the Forward Capacity Market in the ISO-NE control area
- Utility incentives for efficiency
    - Value of efficiency vs. transmission construction
- Method of cost recovery for energy efficiency

After a brief recess at noon, Mitch Tannenbaum of the Commission staff answered questions about cogeneration and net energy billing. The following topics were discussed:

Cogeneration

- Cogeneration requirement for plants over a certain size
- The impact of utility rate design on cogeneration

[3] All materials provided during MEC meetings can be obtained through the MEC's website. A link to MEC website can be accessed through the Commission's web page: www.maine.gov/mpuc.

- Overview of current cogeneration in ME -material will be added to the MEC website, and the issue will be flagged for future policy discussion

Net energy billing

- If net energy billing capacity reaches 0.5% of utility peak load, a PUC review is triggered
- Net energy billing intended to encourage installation of small renewable generation for a customers own use
- Importance of mechanical aspects of installation, safety, and inspections
- After restructuring, customers are allowed to "bank" excess generation as an offset against future usage rather than receiving a payment for the generation

The meeting adjourned at approximately 1:00.

AGENDA

Maine Energy Council Meeting
January 18, 2007
Utilities and Energy Committee Room
(1:00 p.m. to 4:00 p.m.)

1. Opening Remarks

2. Presentation by Department of Environmental Protection on How Environmental Considerations of Current Energy Issues

3. Q&A and Discussion

4. Discussion of Future Meetings

5. Adjourn

Notes from the January 18, 2007 Meeting of the Maine Energy Council

The Maine Energy Council (MEC) held its fourth meeting from 1:15PM to 4:00PM on January 18, 2007. The meeting took place in the Utilities and Energy Committee Room. MEC members/designees in attendance included the following:

Senator Bartlett, Chair
Representative Adams, Chair
Representative Fletcher

Barbara Alexander
David Allen
Kathy Billings
Tony Buxton
John Flumerfelt
Sharon Reishus
Sharon Staz
Stephen Ward
David Wilby

At the outset of the meeting, a meeting agenda was provided to Council members, and the meeting was opened by Senator Bartlett.[4]

Commissioner David Littell of the Department of Environmental Protection presented the Council with information and responded to questions on the roles and responsibilities of the DEP in the energy sector.

The following items were discussed:

Permitting/Siting
- DEP/LURC siting jurisdiction for generation and transmission
- Emissions regulation

Regional Greenhouse Gas Initiative
- Offset methods
- DEP current thinking: $ from CO_2 allowances would go toward efficiency projects
- Auction/allocation design for CO_2 allowances
- Monitoring of CO_2 trading
- Implications of Maine's participation in regional initiative across multiple markets
- Implications of RGGI for energy prices
- Relationship between energy prices and CO_2 allowance prices
    - safety valves
- CO_2 emissions tracking and reporting
- Expectation of federal carbon regulation

The meeting adjourned at 4:05.

[4] All materials provided during MEC meetings can be obtained through the MEC's website. A link to MEC website can be accessed through the Commission's web page: www.maine.gov/mpuc.

AGENDA

Maine Energy Council Meeting
February 2, 2007
Utilities and Energy Committee Room
(10:00 p.m. to 4:00 p.m.)

1. **Opening Remarks**

2. **ISO Regional System Plan and its Impact on Maine (10:15 to 12:00)**

    a. **Presentation by Lisa Fink (20-30 minutes)**

    b. **Q&A and Discussion**

3. **Lunch Break (12:00 to 1:00)**

4. **DOE Congestion Study (1:00 to 2:30)**

    a. **Presentation by Kurt Adams (20-30 minutes)**

    b. **Q&A and Discussion**

5. **MECAN (2:30 to 3:30)**

    a. **Presentation by Tom Welch (20-30 minutes)**

    b. **Q&A and Discussion**

6. **Discussion of Future Meetings/Next Steps (3:30 to 4:00)**

7. **Adjourn**

Notes from the February 2, 2007 Meeting of the Maine Energy Council

The Maine Energy Council (MEC) held its fifth meeting from 10:00AM to 3:00PM on February 2, 2007. The meeting took place in the Utilities and Energy Committee Room. MEC members/designees in attendance for all or part of the meeting included the following:

Senator Bartlett, Chair
Representative Adams, Chair
Representative Fletcher

Kurt Adams
Dan Allegretti
David Allen
Rob Bennett
Eric Bryant
Tony Buxton
Mark Cote
John Flumerfelt
Deb Garrett
Nancy Kelleher
Sharon Staz
David Wilby

Chairman Adams opened the meeting, a meeting agenda was provided to Council members, and Council members introduced themselves.[5]

Lisa Fink of the Public Utilities Commission Staff made a presentation to the Council entitled "The ISO-NE Regional System Plan and Its Impact on Maine." The presentation included the results of the 2006 Regional Plan regarding capacity needs by region and the major transmission projects whose costs will be socialized among all ratepayers in New England.

At the conclusion of the presentation, Council members engaged in questions and discussion regarding the Regional Plan and the ISO-NE planning process. Steve Rourke of the ISO-NE joined Ms. Fink in responding to questions from Council members.

Kurt Adams, Chairman of the Public Utilities Commission, made a presentation to the Council entitled "National Electric Transmission Congestion Study and Implications for New England." The presentation highlighted the consequences of Department of Energy (DOE) designation of areas within Maine as "national interest electric transmission corridors" with respect to the loss of sovereignty and preemption of the State's transmission siting authority.

At the conclusion of the presentation, Council members engaged in questions and discussion regarding the DOE designation process. Chairman Adams responded to questions from Council members.

After the lunch break, Council members discussed a variety of "housekeeping issues." The Council agreed to an additional meeting to be held on February 16, 2007 at 10:00 AM. The purpose of the additional meeting is to discuss the contents of the Council's final report and whether the Council would continue after the completion of the report. Council staff was directed to prepare a draft preliminary report prior to the February 16th meeting that would contain background information of the activities of the Council and a list of topics that might be discussed in the final report.

[5] All materials provided during MEC meetings can be obtained through the MEC's website. A link to MEC website can be accessed through the Commission's web page: www.maine.gov/mpuc.

Tom Welch, a consultant to the Public Utilities Commission on its ISO-NE study, made a presentation to the Council on opportunities for closer electricity market integration between Maine and Canadian provinces. Mr. Welch explained that there are a range of alternative structures, that there may be benefits to Maine and that further analysis should occur.

At the conclusion of the presentation, Council members engaged in questions and discussion regarding the closer integration with Canadian provinces. Mr. Welch responded to questions from Council members.

The meeting adjourned at 3:00.

Appendix 4

This appendix contains the views or recommendations of individual members of the Council.

AARP Maine

Take Long-Term Steps to Ensure More Stabilized Prices and Supply

- The retail competitive market for the sale of electricity has not developed in Maine for residential and most small commercial customers served by the Standard Offer.
- Standard Offer service prices have increased dramatically since the adoption of restructuring, in part due to the total reliance on short term wholesale market contracts that pass through electricity prices based on volatile natural gas prices.
- Maine should explore all reasonable and available means to reduce its reliance on short-term wholesale market contracts that rely on volatile natural gas prices to price electricity for residential customers who have no practical alternative to the Standard Offer electric service.
- Standard Offer Service for residential and small commercial customers should be implemented based on a long term procurement plan that evaluates a wide range of options to assure the statutory obligation to provide "over a reasonable time period the lowest price for standard offer service to residential and small commercial customers." [35-A MRSA §3212, sub§4-C]
- The long term procurement plan for standard offer service should systematically evaluate all available supply and conservation and demand options during a 10-15 year planning period and propose the resource mix to meet the standard offer needs of residential and small commercial customers in order to acquire sufficient, efficient and reliable resources over time to meet its customers' needs at a minimal cost. This plan should reflect the authority granted in last year's statutory amendments to include voluntary demand response and energy efficiency services in the standard offer service portfolio, as well as long term contracts (capacity and associated energy, as authorized in 35-A MRSA §3210-C and §3210-D).
- The long term procurement plan should rely on competitive acquisition methods to obtain the products and service identified as the most likely to meet the statutory goals for Standard Offer Service and, where determined to be necessary to reach the statutory goals and objectives, propose a utility self-build option for a portion of the recommended portfolio.
- Since the Maine PUC has refused to date to prepare such a long term procurement plan for Standard Offer Service, Maine should consider granting the authority to plan and implement Standard Offer Service to the States' investor owned electric utilities, subject to the regulatory oversight of the Maine PUC.

Industrial Energy Consumer Group

Regulatory and Market Barriers to CHP

Although technologies used in CHP systems have improved in recent years and CHP has become cost-effective in many applications, significant hurdles exist that limit widespread uses of CHP. The effect of these hurdles is to constrain use of CHP systems, meaning that less-efficient SPH systems continue to predominate. The main hurdles to CHP are:

- Current regulations do not recognize the overall energy efficiency of CHP or credit the emissions avoided from displaced grid electricity generation.
- Depreciation schedules for CHP investments vary from 5 to 39 years depending on system ownership, and frequently don't reflect the true economic lives of the equipment.
- Many facility managers are unaware of technology developments that have expanded the potential for cost-effective CHP.

Recommended Next Steps

- Maine should review utility and ISO-NE interconnection standards and make changes to ensure removal of any barriers to development of CHP. Backup and supplemental power service for CHP facilities should be based on the actual cost of service.
- DEP should shift to output-based emissions standards, which regulate emissions based on the power and heat produced and thereby implicitly credit efficiency.
- Maine Revenue Service should set a depreciation schedule for CHP assets at 7 years, which reflects the true technical and economic life of most systems.
- The Maine Legislature should enact tax credits to encourage efficient, low-emissions CHP systems.
- Maine should develop rules and guidance to facilitate siting and permitting for CHP projects.
- Maine should utilize its bonding authority to develop a stable funding source for (a) cost-sharing of CHP feasibility studies; (b) low-interest loans for commercial and industrial CHP projects; and (c) grants for qualified CHP projects for low-income or assisted living facilities.

- Maine should review state facilities for CHP opportunities, and co-sponsor education opportunities for facility managers and others to learn about the benefits of CHP.

- Maine should amend the site location of development now to require CHP in any commercial or industrial building with its own boilers for heat above a threshold size.

Representative Adams

Energy and Environmental Policy Issues

Representative Adams supports a thoughtful integration between energy policy and environmental policy, which should not be seen as necessarily in conflict or mutually exclusive concepts. Regarding siting, this issue will gain increasing importance in the near future. Sweeping State or federal pre-emptive policies should be avoided here; although difficult, the best siting policy-and the only one with hope of public support and acceptance-must respect local and regional needs, opinions and rights.

Central Maine Power Company

Utility Ownership of Generation Assets

Because of New England's marginal clearing price design and its guaranteed capacity or reliability payments, deregulating generation has failed to reduce the price of electricity for Maine customers or shift the risk of generation investments from customers as originally envisioned. The New England states that have allowed continued utility ownership of generation, such as Vermont and New Hampshire, have been largely insulated from these regional wholesale market impacts, and other states are considering allowing utilities to once again own rate base generation. The benefits of utility-owned generation in the current deregulated environment have been abundantly apparent in light of the recent FERC decision to impose transitional capacity payments in New England. Unlike Maine's electric consumers, who will incrementally pay nearly $300 million over the next four years as a result of this decision, most customers in nearby Vermont and New Hampshire will be shielded from many of these additional charges due to the generation ownership of their distribution utilities. The Legislature should allow transmission and distribution ("T&D") utilities to once again participate in the energy business by owning and/or investing in generation, signing long-term contracts, and investing in demand response technologies.

Anthony W. Buxton

This, the first report of the Maine Energy Council, reflects both the hard work of the Council and its staff and the extraordinarily hard work which remains to be done if the State of Maine is ever to have an effective energy policy. While the high quality of the Council's recent discussions shows that the Council could do far more if asked, this report is not yet an energy policy, and it does not recommend one equal to Maine's need.

Put simply, Maine is desperate for a clear, affirmative energy policy and the serious, prolonged implementation of that policy. The states and nations with energy policies achieve what they seek: greater energy diversity, lower energy costs, less energy waste and the environment they desire. Maine can and should do the same; in an economy driven by technology and in our carbon-challenged world, a sound energy policy is a sovereign duty, even in a democracy with a preference for free markets.

The desperation I describe may be inferred from the electricity prices Maine consumers pay today. In the Central Maine Power Company territory, residential consumers pay delivery costs of 6.46 cents per kWh and electricity costs of 8.8 cents per kWh, for a total of 15.26 cents per kWh. In Bangor Hydro's service territory, residential consumers pay 8.52 cents per kWh for delivery and 9.01 cents per kWh for energy, or approximately 17.53 cents per kWh total. In Maine Public Service Company's service territory, the last service territory in Maine to receive the full impact of record fossil-fuel prices, residential consumers pay 8.3 cents per kWh and 7.89 cents per kWh for electricity, for a total of 16.19 cents per kWh. Commercial and industrial customers throughout Maine pay less for delivery because of their higher efficiency, but pay comparable electricity prices, creating combined electricity and delivery costs which are simply unacceptable. Electricity prices in Maine, long among the highest in the nation, have contributed significantly to the loss of thirty-thousand manufacturing jobs in Maine in only ten years. Thousands more jobs remain, but they remain at serious risk.

The Council's report thoroughly describes and decries the additional risks to Maine electricity consumers from the actions of FERC and ISO-NE over the next few years. To put these in the all-important context of cost, I estimate the current electric bill for Maine consumers purchasing through T&D utilities to be approximately 1.65 billion dollars annually, assuming an average total delivery and supply cost of 15 cents per kWh. The LICAP or FCM Decision by FERC, made to subsidize generation for Connecticut, will add an additional $200 million dollars per year to Maine consumers as of 2010. Maine's annual cost for its 8% share of the $4.5 billion dollars to be invested in transmission projects in New England, once again done largely to benefit consumers in states which have not acted to meet their own needs, will add approximately $60 million dollars annually to our costs. Further, the construction of one or more high voltage lines

to drain Maine of the generation surplus we have paid so dearly for over the past two decades, again to benefit states which have not built generation to meet their own needs, would raise Maine's rates overnight by at least $70 million dollars annually. Thus, quite conservatively, the pending threats to Maine, most of which are certain to occur, will raise Maine's rates by approximately $330 million dollars annually. This would be a 20% increase, on top of the highest electricity costs in the nation. Looked at another way, locking these "hard"(non-fossil fuel) costs into rates evaporates the benefit we naturally expect to occur when fossil fuel prices fall from present record levels. For example, if fossil fuel prices fall by 50% by 2010 (to the level of $1.30 to $1.40 per gallon of gas), we would expect electricity (the non-delivery part of your bill) prices to fall by a slightly smaller amount proportionately. Yet, those decreases would be offset by the cost of the other events I have preciously described. It is difficult to imagine Maine's economy becoming competitive while burdened by these new and unnecessary costs.

Council members vigorously debated my proposal to establish the purpose of Maine's energy policy as the reduction of the cost of energy, including electricity. The result of the debate, as expressed at the start of our report, is as follows:

> The primary objective of Maine's energy policy is to reduce the total cost (prices and usage) of electricity to Maine's residents and businesses in a way that produces price predictability and maintains system reliability consistent with State and federal environmental policy so that electricity is delivered to Maine citizens at the lowest possible costs to promote economic development and retain job.

The most important message this paragraph communicates is that Maine considers energy only as part of our environmental policy, and that our environmental policy is of overriding importance. In turn, this implies that there is a necessary conflict between energy and environmental policy, one resolved always by favoring protection of the environment. This is a false conflict, and thus a flawed policy.

The unfortunate accuracy of our "policy" paragraph may be seen in two recent decisions rejecting, respectively, a large and a small wind power project in Maine. The Land Use Regulation Commission's decision to reject the Reddington proposal for 90 MW of wind turbines despite the urgent pleas of citizens concerned about the need for wind power to combat global warming could be described as an implementation of our policy paragraph. The second, a board of appeals rejection of a municipal planning board approval of a 3 turbine "community wind" project in Freedom, Maine is also illustrative. The Freedom rejection relied primarily on an anecdotal finding that the wind project, when combined with rural background noise, would exceed by one-half of a decibel

Freedom's 45-decibel sound limit. If you read this paragraph out loud, your voice will be from 55 to 65 decibels in volume. If you read it in a whisper, you will not exceed 45 decibels.

Unfortunately, the defeat of the Reddington and Freedom wind projects illustrates the victory of aesthetic environmental concerns over an energy policy which would help save the world from global warming, the ultimate environmental disaster. These defeats prove the status quo policy is unacceptable, and the projects defeated show that an energy policy can and should be environmentally beneficial. A sound energy policy seeks to lower the cost of energy, to enhance energy efficiency, and to ensure energy diversity. A sound environmental policy seeks to ensure that these goals are met with only necessary environmental impact. An environmental policy that consists of opposing necessary energy projects as a means of bargaining an unstated and non-democratic end result is not a policy, but a case of capture of regulatory power by special interests, however well-motivated.

We can and must do better. And very soon.

Appendix 5

Resolution to Remove Regulatory Barriers To the Broad Implementation of Advanced Metering Infrastructure

WHEREAS, The Energy Policy Act of 2005 amended the State ratemaking provisions of the Public Utilities Regulatory Policies Act of 1978 (PURPA) to require every State regulatory commission to consider and determine whether to adopt a new standard with regard to advanced metering infrastructure (AMI); *and*

WHEREAS, Advanced metering, as defined by Federal Energy Regulatory Commission (FERC), refers to a metering system that records customer consumption hourly or more frequently and that provides daily or more frequent transmittal of measurements over a communication network to a central collection point; *and*

WHEREAS, The implementation of dynamic pricing, which is facilitated by AMI, can afford consumers the opportunity to better manage their energy consumption and electricity costs through the practice of demand response strategies; *and*

WHEREAS, Effective price-responsive demand requires not only deployment of AMI to a material portion of a utility's load, but also implementation of dynamic price structures that reveal to consumers the value of controlling their consumption at specific times; *and*

WHEREAS, AMI deployment offers numerous potential benefits to consumers, both participants and non-participants, including:

- greater customer control over consumption and electric bills;
- improved metering accuracy and customer service;
- potential for reduced prices during peak periods for all consumers;
- reduced price volatility;
- reduced outage duration; and,
- expedited service initiation and restoration; *and*

WHEREAS, The use of AMI may afford significant utility operational cost savings and other benefits, including:

- automation of meter reading;
- outage detection;
- remote connection/disconnection;
- reduced energy theft;
- improved outage restoration;
- improved load research;
- more optimal transformer sizing;
- reduced demand during times of system stress;
- decreased T&D system congestion; and,
- reduced reliance on inefficient peaking generators; *and*

WHEREAS, Sound AMI planning and deployment requires the identification and consideration of tangible and intangible costs and benefits to a utility system and its customers; *and*

WHEREAS, Cost-effective AMI may be a critical component of the intelligent grid of the future that will provide many benefits to utilities and consumers; *and*

WHEREAS, It is important that AMI allow the free and unimpeded flow and exchange of data and communications to empower the greatest range of technology and customer options to be deployed; *and*

WHEREAS, The deployment of cost-effective AMI technology may require the removal and disposition of existing meters that are not fully depreciated and may require replacement of, or significant modification to, existing meter reading, communications, and customer billing and information infrastructure; *and*

WHEREAS, Regulated utilities may be discouraged from pursuing demand response opportunities by the prospect of diminished sales and revenues; *now, therefore, be it*

RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners, convened at its February 2007 Winter Meetings in Washington, D.C., recommends that commissions seeking to facilitate deployment of cost-effective AMI technologies consider the following regulatory options:

- pursue an AMI business case analysis, in conjunction with each regulated utility, in order to identify an optimal, cost-effective strategy for deployment of AMI that takes into account both tangible and intangible benefits;
- adopt ratemaking policies that provide utilities with appropriate incentives for reliance upon demand-side resources;
- provide for timely cost recovery of prudently incurred AMI expenditures, including accelerated recovery of investment in existing metering infrastructure, in order to provide cash flow to help finance new AMI deployment; and,
- provide depreciation lives for AMI that take into account the speed and nature of change in metering technology; *and be it further*

RESOLVED, That the Federal tax code with regard to depreciable lives for AMI investments should be amended to reflect the speed and nature of change in metering technology; *and be it further*

RESOLVED, That NARUC supports movement toward an appropriate level of open architecture and interoperability of AMI to enable cost-effective investments, avoid obsolescence, and increase innovations in technology products.

Sponsored by the Committee on Energy Resources and Environment
Adopted by NARUC Board of Directors February 21, 2007

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