

Harvard Electricity Policy Group

September 22, 2005

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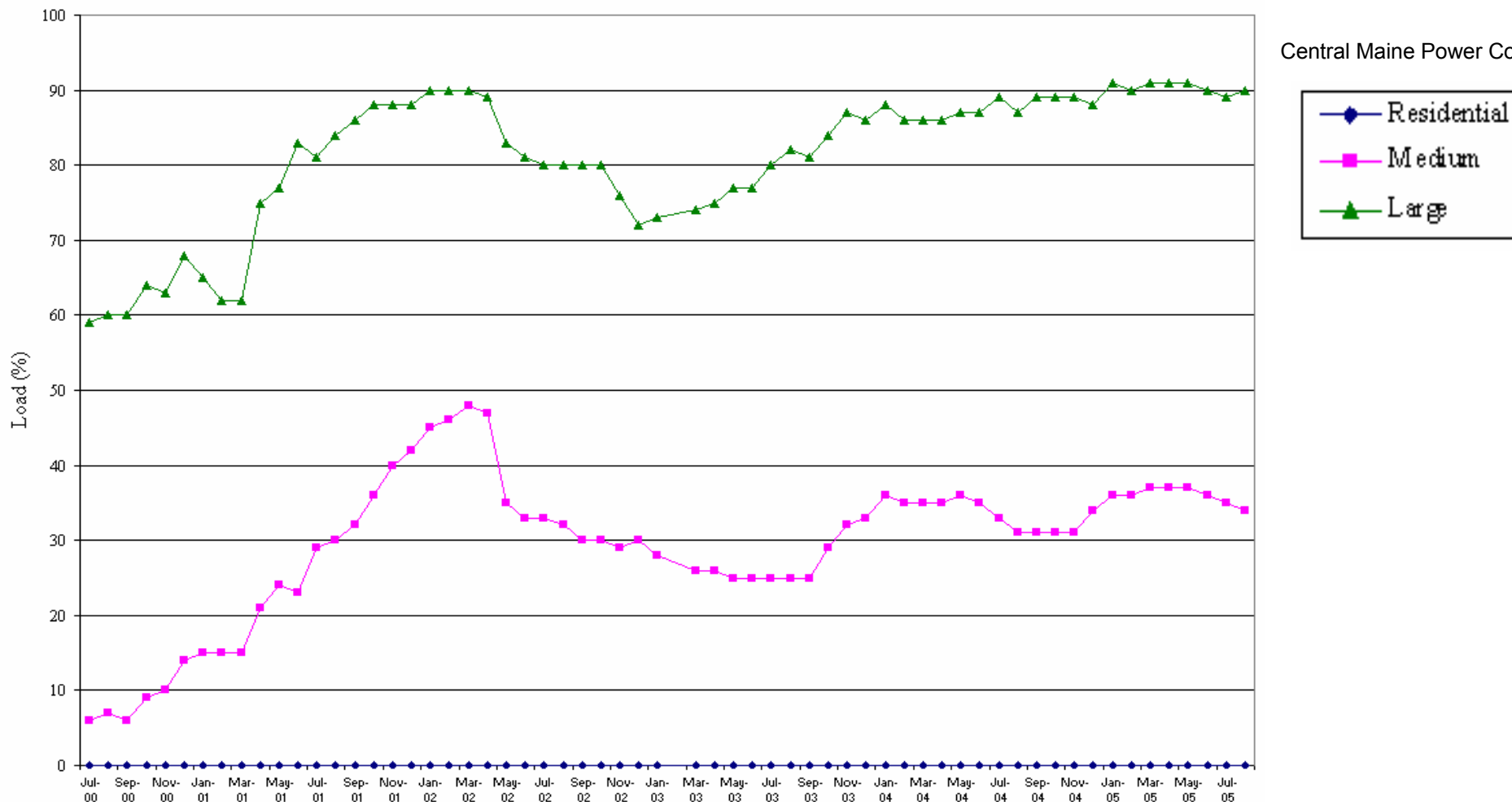
Maine Public Advocate Office



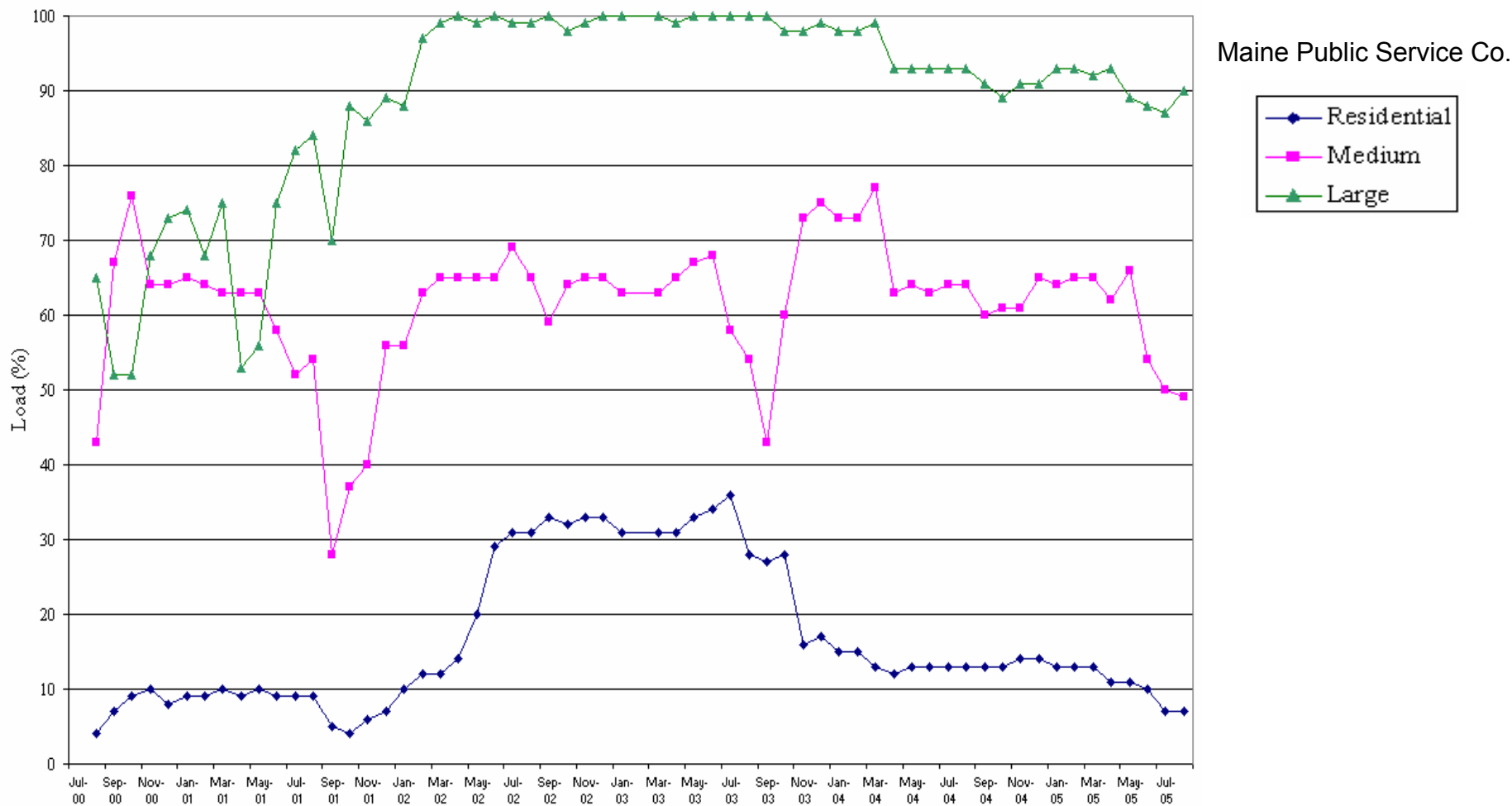
Restructuring in Maine is generally a success

- participation in the competitive retail market by larger businesses is high (90%)
- residential Standard Offer/POLR program is stable and accepted by the public, Legislature and press – notwithstanding recent price increases
- management for energy efficiency is out of utility hands and, at \$15M/Yr, is adequately funded and accountable to PUC and Legislature
- aggregation is working well with one aggregator of public authorities now up to 100 MW out of 1800 MW total load in Maine and 2000 customers enrolled in a Green Power supply program

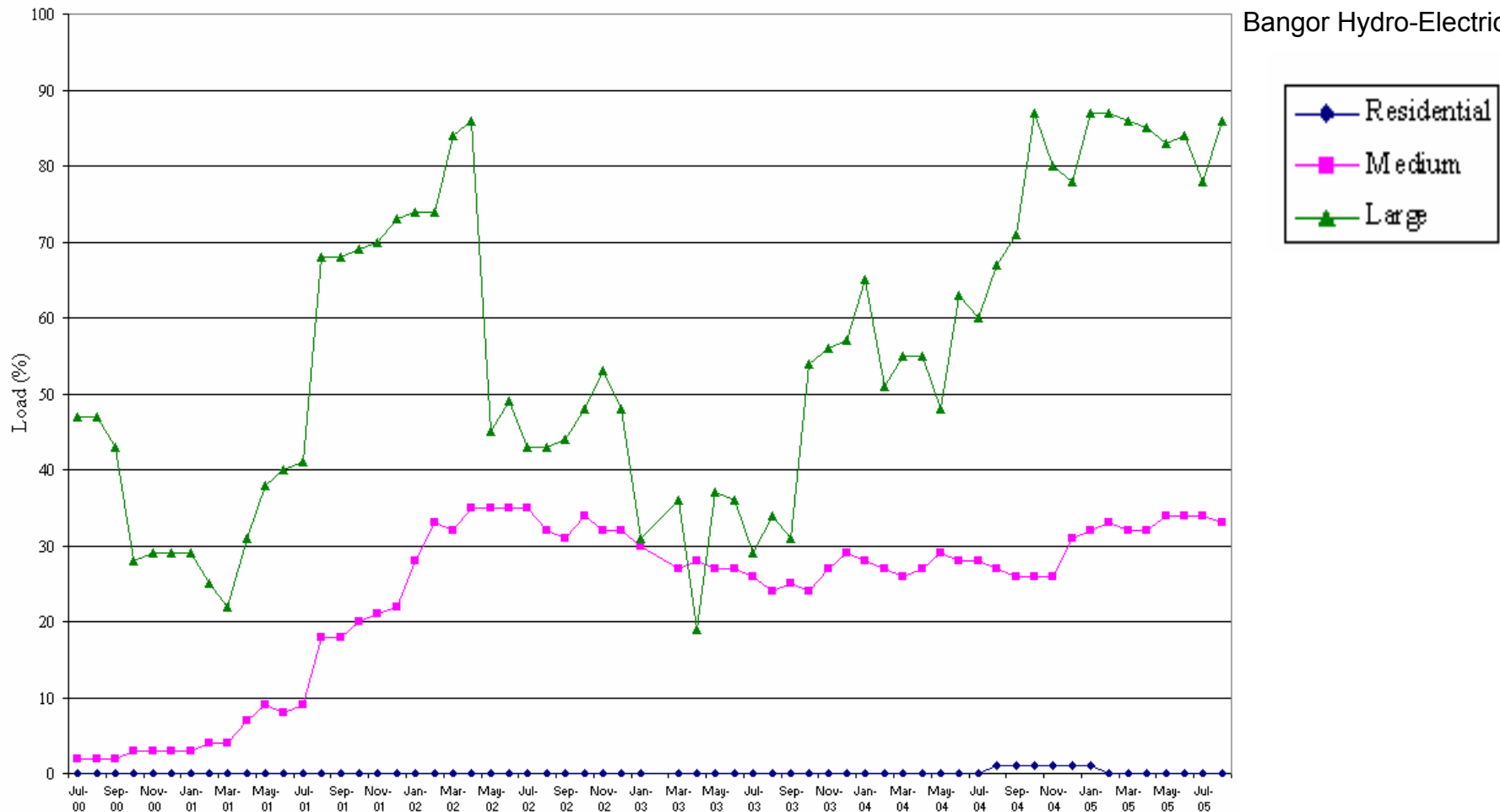




Marketers in Central Maine Power territory (accounting for 85% of Maine's population) account for an approximate 90% share of industrial load and a 35% of medium commercial load. By contrast, the competitive share of residential supply has been negligible over the past five years.



The smallest of Maine's three IOU's shows a considerably higher degree of competitive supply for residential customers, since July 2000. This is probably due to the fact that until mid-2003, Maine Public Service had an affiliate that captured as much as 35% of residential load – a “home field” advantage of sorts.



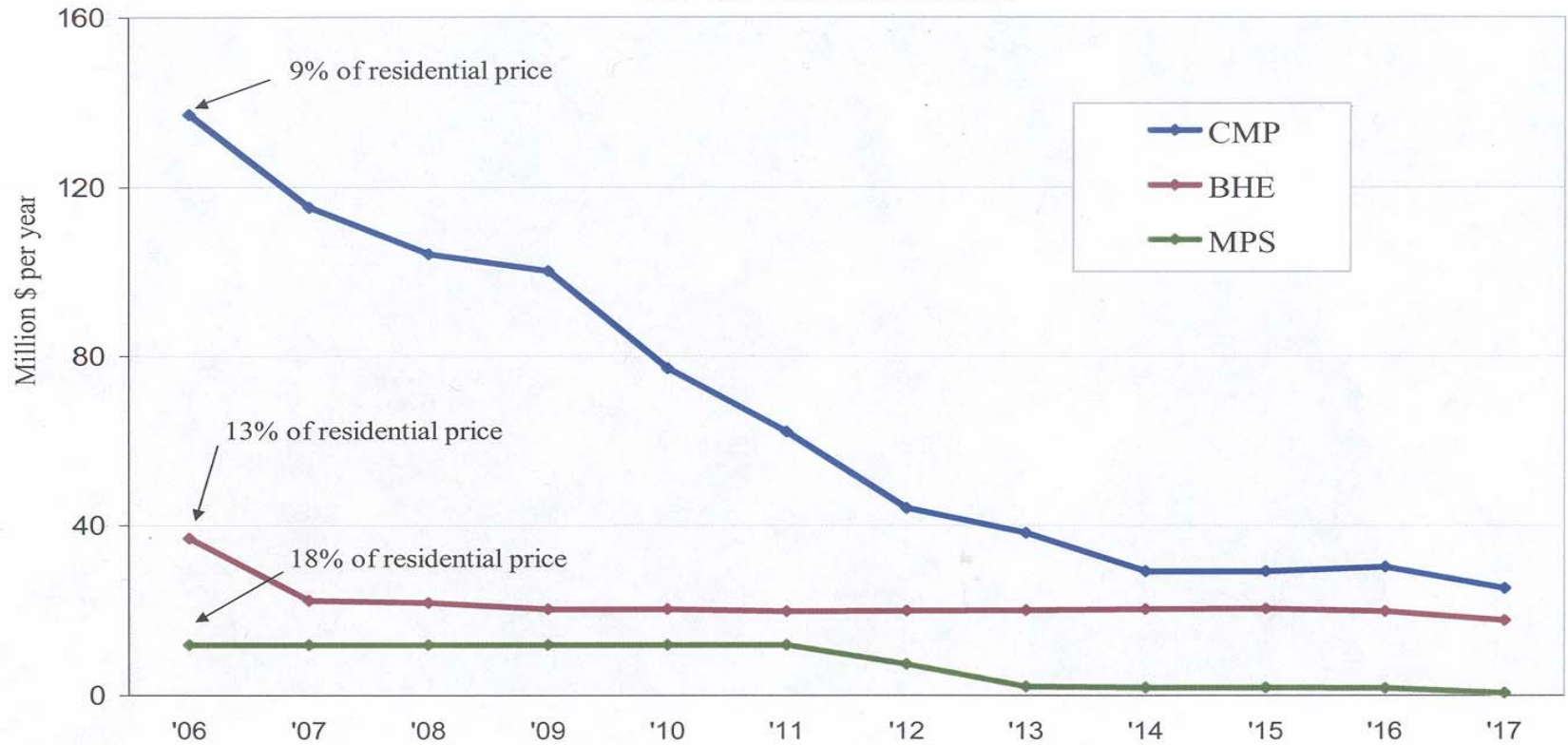
Like the CMP statistics, Bangor Hydro-Electric's service territory shows a high level of industrial load supplied by competitive providers and a negligible level of residential load. The availability of low-cost Standard Offer options in 2002 and 2003 explains the dip in market share for those years.

A. Further aspects of Maine's restructuring to date

- Renewable power generation continues to be a major part of Maine's in-state power mix, totalling 1,012 MW today. Only a few units still commit their output under a PURPA contract rather than bidding into the ISO-NE energy market or participating in a bilateral arrangement.
- Green Power initiatives are underway with many residential customers (2000 +) paying a price premium for renewable power
- Stranded costs are declining, from 3.3¢ to 2¢ for BHE as of 3/05, for example. Central Maine Power will continue to experience steady declines in stranded costs through 2014; see chart.



Annual Stranded Cost Projections As of March 2005



Stranded costs will be reestablished within the next 3 years

Presented by the MPUC
March 2005



B. In real terms residential electric rates today are close to where they were 6 years ago

	<u>in March</u>	<u>in March</u>	
	<u>1999</u>	<u>2005</u>	Δ
CMP	13.14¢	14.02¢	+6.7% over 6 yrs
BHE	13.76¢	15.60¢	+13.4% over 6 yrs
MPS	12.63¢	13.25¢	+4.9% over 6 yrs

Over the same period, gasoline prices rose at least 70% and heating oil prices rose at least 150%.

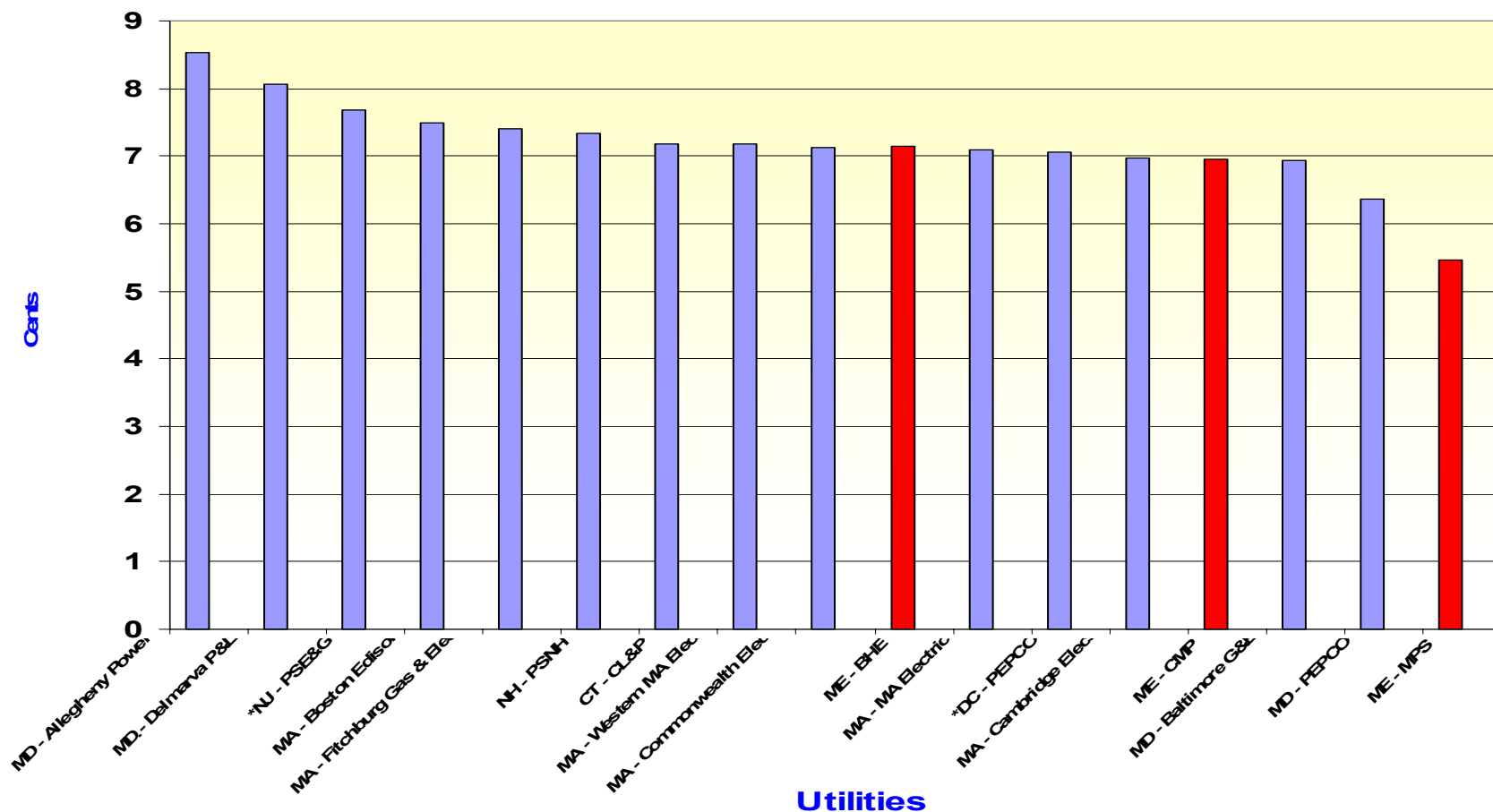


C. Separation of T&D service from retail supply marketing is complete

- T&D utilities ordered to divest generation units, by statute (unique to Maine). No T&D affiliates currently exist that market electricity.
- Because no Maine utility is a supplier of electricity service, other than COUs, there has been very little difficulty for CEPs signing up customers and handling changeovers.
- Standard Offer bid out every year for 1/3 of total SO load under a “ladder” of 3-year contracts.
- Maine zone in general has lower wholesale costs than other zones.
- Wholesale prices are rising - \$42 per MWh in September 04, to \$105 today but Maine retains \$10 per MWh price advantage
- Current residential Stranded Offer price @ 7¢/KWh is high, but 17 other utilities in NE are higher – see chart.



HOW MAINE'S NEW STANDARD OFFER PRICE FOR RESIDENTIAL CUSTOMERS COMPARES TO OTHER STATES



Prices obtained from State PUC websites and/or utility tariffs.



D. Maine's system enjoys general support for the following reasons

- Legislature never mandated artificial price cuts at the outset or subsequently: no false promises
- IOUs have entirely exited the supply business and are “honest brokers”: no interference by incumbents
- MPUC has been careful to secure low-cost Standard Offer/POLR service through bid process, showing no favorites: active participation by bidders in bid processes
- There is a Renewable Portfolio Standard (at 30% of all supply offers, for renewable resources, cogeneration and trash burners) and a Net Metering requirement up to 100 KW: strong support for indigenous generation and self-supply



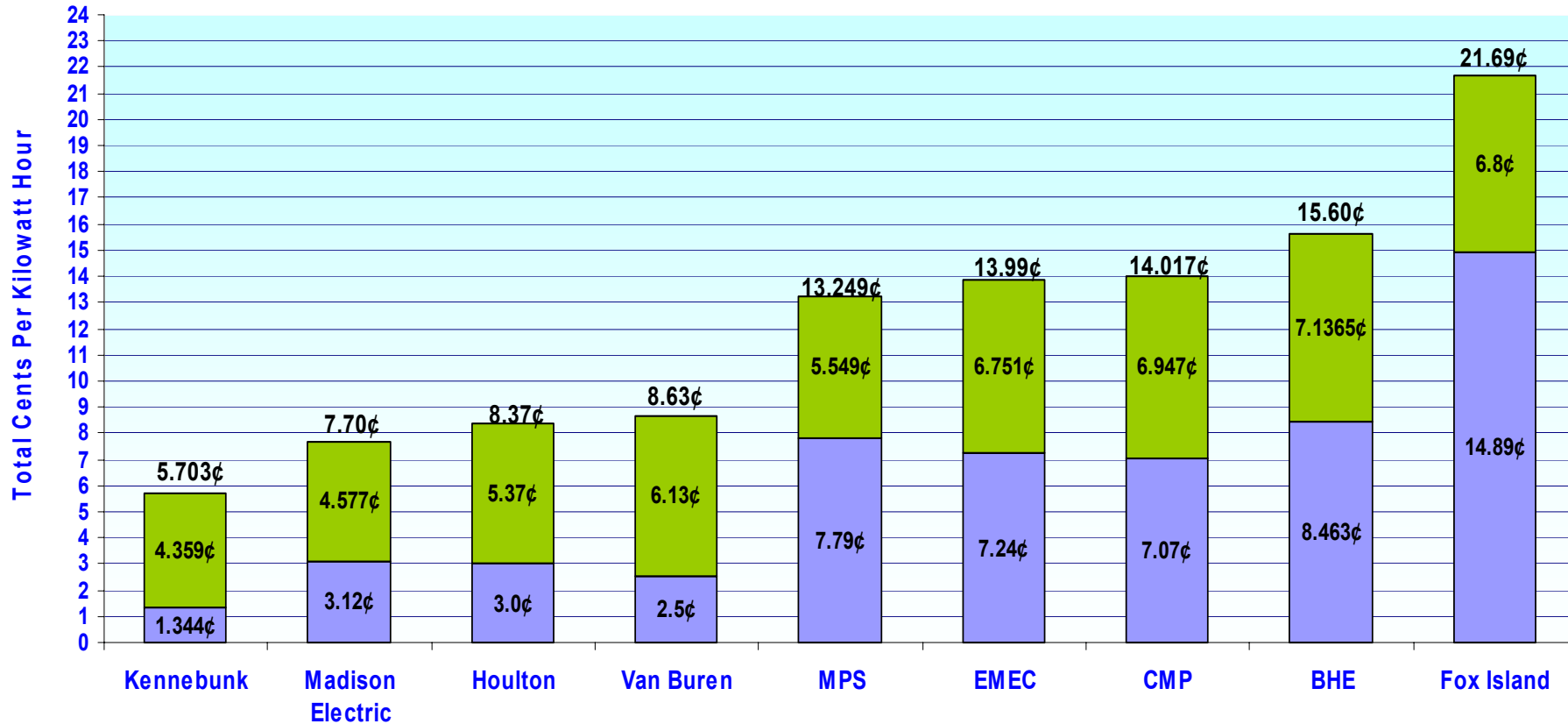
- Standard Offer contracts for larger customer groups are high price and short-term (6 months) while residential Standard Offer arrangements generally have 3-year terms at lowest price : a bifurcated system with more knowledgeable customers treated differently
- COUs have retained ability to seek supply deals for full requirements; and have generally lower costs than IOU's (see chart)



Residential Electric Rates in Maine - July 2005

■ Supply (Standard Offer)

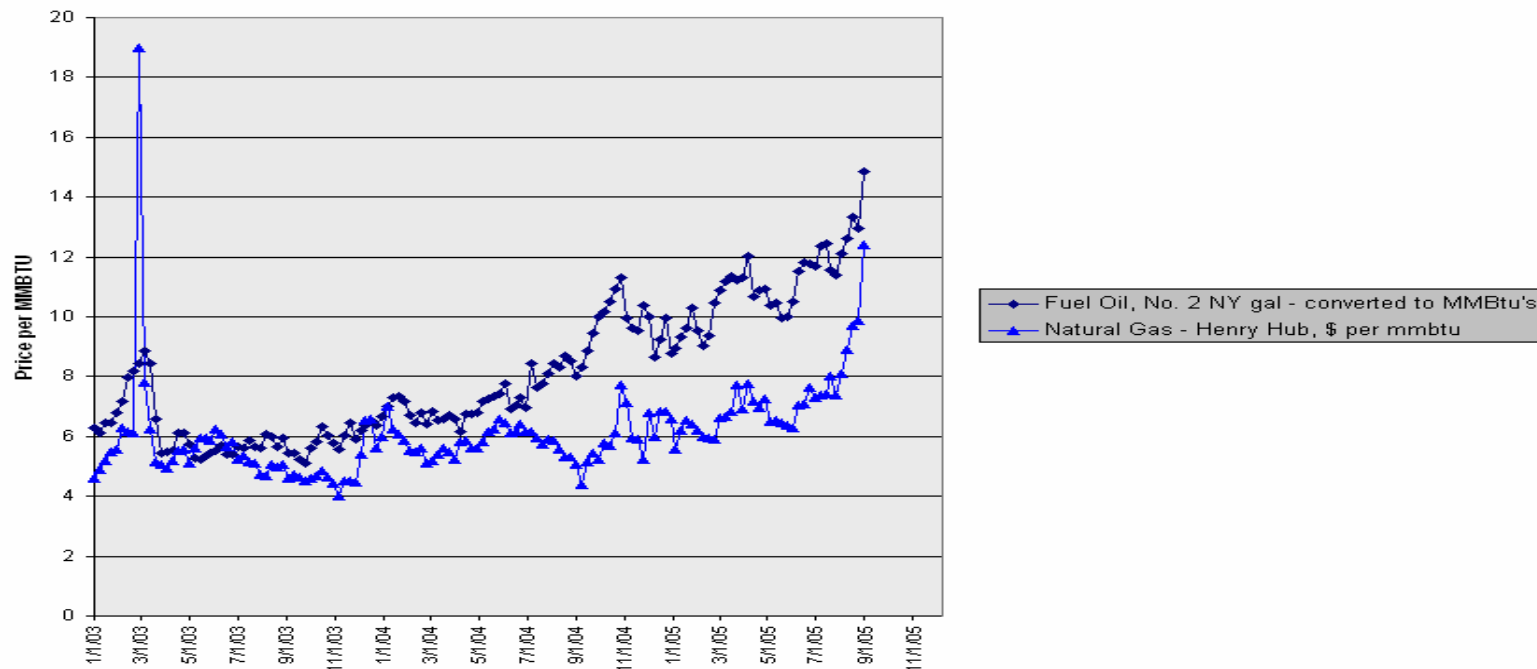
■ Delivery (Transmission & Distribution)



E. Two Caveats

1. Electric consumers in Maine are largely at the mercy of wholesale market forces and at the mercy of FERC rulings on the pricing of LICAP, transmission upgrades or ancillaries. The combined effects of high natural gas prices this year and the possible start-up of LICAP in October 2006 will be a real challenge.

Spot Prices Settled



2. With complete divestiture of utility generators, there no longer is any “obligation to supply.” At present there are adequate reserves in all parts of Maine but no guarantee that new generators will be sited and built.

F. General Conclusions and Observations

1) Maine did not restructure in order to promote competition: It fostered a competitive retail market in order to better manage prices and risk. Competition was not an end in itself. MPUC and Legislature have rejected the idea of setting SOS/POLR prices so high as to create “headroom” for competitors. Instead each SOS/POLR choice has been made in a bid competition with multiple bidders.



2) Electric service is infused with the public interest: the affordability of a necessity of life should not be sacrificed in order to facilitate markets. We have a single postage-stamp SOS/POLR rate for all customers with peak demands below 25 Kw. No differentiation into credit-poor customers versus credit-worthy customers. Maine's restructured paradigm includes elements that are political in key aspects. Maine's PUC and OPA have been very active at FERC, ISO-NE and within NECPUC in defense of those elements.



3) In summary, the key values underlying Maine's restructuring law are:

- Fairness: An “even playing field” for competitive suppliers with no preference for T&D companies or their affiliates
- Non-Interference by government: absence of interventions by the Legislature or PUC altering the rules for competition, once they are in place
- Encouraging Renewable and Conservation Resources: a RPS requirement for renewable generation at no less than 30% of retail sales, support for net-metering by end-users, and management of all demand-side programs by a division of the PUC, called “Efficiency Maine”
- Placing Affordable POLR Service Above Economic Efficiency: no subdividing Standard Offer into default & POLR products; instead implementing 3-year “laddered” Standard Offer arrangements for residential customers



4) Effectively Maine's form of retail restructuring has acknowledged that there needs to be a universal service approach, at least for residential customers.

I believe the primary goal of the State's electric policies should be to ensure that all consumers have access to reliable, reasonably priced and affordable electric service.

So far, we have met this standard. It is important to ensure that this standard is pursued in the region and nationally, in my opinion.



G. Questions?

