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Electricity Shopping Guide, Vol. 4, March 2001

Maine Public Advocate Office

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ELECTRICITY SHOPPING GUIDE

Maine Public Advocate Office

Volume 4 — March 2001

SUPPLY PRICES INCREASE

The Wholesale Electric Market Reflects World-wide Fuel Cost Increases

As a result of dramatic increases in the regional price of power, the cost of the supply, or generation, portion of the electric bills of most Maine consumers is going up. These changes will first appear in March bills.

Since March 1st of last year, electricity has been sold in essentially two pieces. Your local utility (CMP, Bangor Hydro, etc) delivers power on the poles and wires. The price for this portion of you bill is likely to remain stable. (See Distribution Service, p. 5) Our greatest cause for concern on behalf of Maine electricity consumers is the cost of generation. Unlike distribution service, the supply of electricity is exposed to costs and influences beyond the reach of state regulators. For example, high oil and natural gas prices are contributing to a recent increase in regional wholesale electricity prices. (For a more detailed explanation of the New England wholesale market, and how it compares to California, see page 2.) The supply price in Maine is determined largely by the standard offer price, which in turn is put in place by the PUC. The PUC has recently approved standard offer default prices that became effective on March 1, 2001. (See Chart below.)

Across the state, standard offer prices vary depending on which utility delivers your power and the size of the customer. There are three standard offer classes, residential/small business, medium commercial and large

FORGET THE BASICS?
See page 5 for a REFRESHER.

Residential Rates for period from March 1, 2001 through February 28, 2002 (standard offer rates in this chart also apply to small business customers)

SERVICE TERRITORY	STANDARD OFFER	DISTRIBUTION RATE	TOTAL RATE*
CMP	4.09¢ ¹	7.84¢	11.93¢
BHE	7.3¢ ¹	9.41¢	16.71¢
MPS	5.6¢	7.34¢	12.94¢
EMEC	6.23¢	7.20¢	13.43¢
Houlton Water Co.	5.58¢	1.95¢	7.52¢
Kennebunk Light	3.86¢	1.14¢	5.00¢
Madison Electric	6.84¢	2.98¢	9.82¢
Van Buren Light	5.76¢	2.15¢	7.91¢

*This total rate does not include any monthly customer charge that you may pay.

¹These standard offer rates could be increased by the PUC during the next year based upon actions taken by the Federal Energy Regulatory Commission (FERC) or further disruptions in the wholesale market.

commercial. Residential/small business customers will see the lowest (average) prices relative to the other two classes. For such customers in Bangor Hydro's territory, however, this is small consolation, as they will see a significant price increase. Only residential/small business customers in CMP's territory are immune from this year's supply price increases since their 4.1¢ standard offer rate remains in effect until March 1, 2002.

Who is the supplier? This is a pertinent question since there has been a departure from the method for standard offer selection that was envisioned in Maine's Restructuring law. Originally, the standard offer supplier was to be selected by the PUC from among those independent licensed supplier/generators who bid in response to an auction. For example, CMP's residential/small business customers are served by a company called Energy Atlantic because it submitted the winning bid for serving that class of customers in March 2000.

However, the law contains an "out" in the event that the only bids received are considered by the PUC to be unacceptable. In this event, the PUC may require the distribution company to obtain electricity supply from the wholesale market. This has occurred for all medium and large customers in CMP and BHE distribution territory, and for residential/small business customers of BHE. When supply is obtained in this fashion, there are two important things to remember. First, the PUC works closely with the distribution utility to insure that the power is obtained at the best price available. Second, the utility is compensated only for its administrative expenses; the power costs are treated as a "pass through" and shareholders of the utility are kept neutral, they neither gain nor lose on the transaction. To quote a utility executive, "we are the agent of the PUC for standard offer service." Both the PUC and the utilities, having sold their generation assets two years ago, would prefer not to have the utilities in this position. The PUC will be closely monitoring this situation, including activity in the regional market, in the coming months.

What does the future hold? It is dangerous to predict future prices in a commodity market, especially in an industry with immature markets. We can say, however, that the "forward markets", that is, the current price for power to be delivered in the future, show moderate price reductions in electricity supply for 2002. However, we know that distribution service, by its nature, is stable, and we know that the stranded cost component (the cost of past PUC-approved expenditures) of your rates will only be coming down over time. It is only the supply costs, therefore, which are difficult to predict and are the cause of current worries.

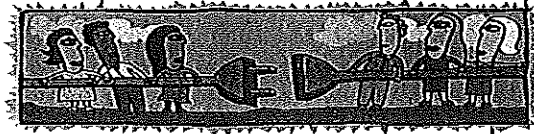
WILL MAINE CONSUMERS OF ELECTRICITY FACE THE CALIFORNIA PROBLEM?

For many decades, Americans have been able to take entirely for granted the continual supply of electricity to their homes and businesses. Recently, however, Californians have seen this supply evaporate when it is most needed. With no earthquakes, ice storms or other physical causes, blackouts have occurred throughout the state. Furthermore, there have been sharply higher wholesale prices. Knowledgeable commenters point to a variety of reasons, but to most people the culprit is man-made "deregulation." What *are* the reasons for California's problems, and, more importantly, could those problems be repeated here in Maine?

First, we must acknowledge that large price spikes are theoretically possible in Maine and New England. After all, here as in California, prices in the wholesale market for electricity are no longer subject to direct regulatory control. However, there are enough major differences between the situation in California and Maine to give us a great deal of comfort. Here is a brief description of those major differences:

Supply and Demand. California has seen large increases in demand for power over the last ten years with almost no new power plant construction. California's load (demand for power) has increased 17% in the last 44 months. Its supply (the number of power plants and other sources of generation) has not increased at all.

Also, California has been less able than in the past to import power from neighboring states because the population in those states has increased dramatically in recent years, over 50% in Nevada, for example. Furthermore, as in other parts of the country, power plants are shut down on a rotating basis throughout the winter for routine maintenance. As a result, demand has recently outstripped supply causing the need for rolling blackouts. Remember that power must be generated at the same time it is consumed because storage of electricity, unlike other commodities, is not yet commercially feasible. It is thus impossible for an electric grid to work if there is more demand than supply.



By contrast, during a time when annual load growth in New England has been around 2%, many new power plants have either been built or are now nearing completion. Maine alone has twice as much generation as it uses, making it an electricity exporting state. In fact, more than 1500 megawatts of new gas-fired units are either operating or about to operate here in Maine, at locations in Veazie, Rumford, Jay, Bucksport and Westbrook.

Deregulation. California was the first state to deregulate the generation of electricity and they made mistakes that we have not repeated. The current problem is occurring in the deregulated wholesale market. In California, bulk power is bought and sold almost exclusively in a spot market. Utilities that supply power through a standard offer are prohibited from securing that power under long-term contracts, and are required to turn to this spot market. As a result, they have little ability to "hedge" against the ups and downs of that market and the effects of, for example, worldwide increases in oil and natural gas prices. This, combined with a retail price cap imposed at the start of deregulation, has led to the prospect of utilities declaring bankruptcy. By contrast, though we also have a spot market, much of New England's power is bought and sold pursuant to long-term contracts. This includes Maine's standard offer suppliers.

Hydropower supply. California imports about 25% of its electricity from neighboring states, some coming from the large federal dams in the Northwest. There are reports that the combination of lower-than-normal rainfall and regulations on salmon runs has kept these large hydro power stations from producing as much electricity as usual. This, combined with the increased demand for power, has limited the ability of those dams to contribute to California's power needs.

There are two factors we share with California. One is that the transmission grid in each area is old and can be stressed at times of peak use. It is exceedingly difficult to build new transmission lines because of the needed land and the opposition from landowners. As indicated above, however, Maine is a supply-exporting state, and any problems in transmission are more likely to affect our neighbors to the south than to hit consumers at home.

The second factor we share with California is the potential that generators will "game" the system, either legally or illegally, in order to increase profits. While nothing has been proven, the US Department of Justice is reportedly now investigating large price increases that occurred in New England last spring and summer to determine if any laws were broken. The same suspicions have been voiced in California. With regard to forms of legal "gaming", there are efforts underway in New England to amend the rules governing the wholesale markets in order to reduce the ability of generators to gouge customers during periods of tight supply.

The bottom line is that California's problems are unlikely to visit us here in the Northeast. There will be bumps in the road to effective retail competition for electricity, but the lights should be on when we hit them.

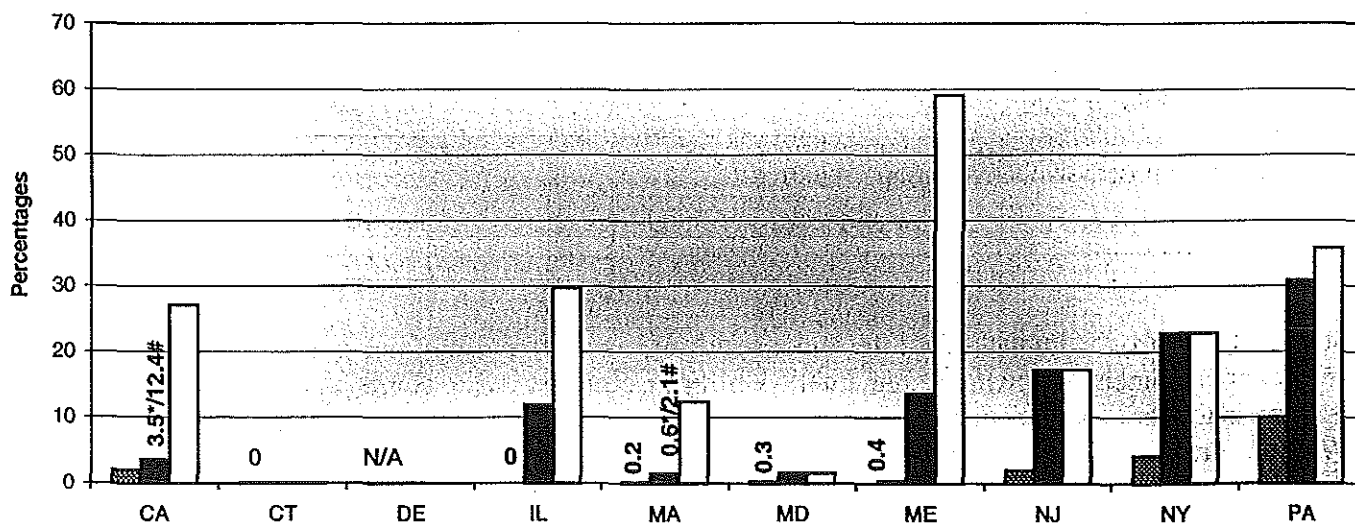
COMPETITIVE ACTIVITY

Xenergy, a Massachusetts-based energy consultant, just completed its ranking of states across the country in terms of the amount of customer load being served by competitive providers in each state. The results are shown below. Based on sources available in December 2000, Xenergy placed Maine first of the twelve states surveyed for the largest statewide percentage, at 30% of customer load, that was served by competitive providers.

PERCENTAGE OF CUSTOMER LOAD (kWhs) SERVED BY A COMPETITIVE PROVIDER (not including "standard offer")					
STATE	% OF RESIDENTIAL	% OF COMMERCIAL	% OF INDUSTRIAL	TOTAL %	TOTAL REVENUE (\$ MILLIONS)
California	2.0	3.5*/12.4#	27.1	11.8	971
Connecticut	0.0	0.0	0.0	0.0	0
Delaware	N/A	N/A	N/A	N/A	
Illinois	0.0	11.9	29.7	14.9	645
Massachusetts	0.2	0.6*/2.1#	12.4	5.8	96
Maryland	0.3	1.6	1.6	1.0	24
Maine	0.4	13.6	59.1	30.0	234
New Jersey	2.1	17.3	17.3	10.6	340
New York	4.2	22.9	22.9	17.3	631
Pennsylvania	10.0	30.9	35.8	23.8	1248
* small commercial # medium commercial					

Percentage of Customer Load (kWhs)
Served by A Competitive Provider

■ % of Residential
■ % of Commercial
□ % of Industrial



DISTRIBUTION SERVICE

Distribution service remains fully regulated. The PUC has recently completed a rate plan for CMP and will soon review one for Bangor Hydro. Currently, there are no such plans for Maine Public Service or the consumer-owned distribution utilities.

CMP In our last edition, we reported that our office, along with other parties, had negotiated with CMP and Energy East (its new corporate parent) for a stipulated solution to CMP's request for a 7-year rate plan. Rates are now related to the annual inflation rate as adjusted by a predetermined productivity offset. Distribution rates are likely to decrease over the term of this plan as long as inflation remains low. The plan also contains a Service Quality Index under which CMP must maintain reliability and quality of service at or above certain thresholds or face up to \$3.6 million in annual penalties. This index measures such things as the frequency and duration of outages, the average amount of time customers must wait before talking to a live customer service representative, the number of complaints filed against CMP at the PUC and customer survey responses. The purpose of this Index and the related penalties are to ensure that service quality and reliability do not decrease while the company is allowed to take steps to become more efficient.

Bangor Hydro The acquisition of Bangor Hydro by EMERA, a Nova Scotia holding company, was recently approved by the PUC. We participated in this docket and negotiated a stipulation with the merging companies and other parties. We believe, based on information gathered during this case, that ratepayers will not suffer as a result of this merger, and could actually realize some benefits by being part of a larger organization rather than a small stand-alone utility. Bangor Hydro is expected to file for approval of a rate plan this spring or summer assuming all federal approvals for the merger are received.

RESTRUCTURING REFRESHER

Have you recently moved into Maine, or have you simply forgotten some of the basic facts about how Maine has restructured its electric industry? Here, in a nutshell, are the basics. On March 1, 2000, Maine deregulated the generation of power, and put into place a system allowing competitive electricity providers (CEPs) to sell retail electricity supply. The PUC licenses these CEPs and they are subject to an array of consumer protection laws and rules, but they are otherwise unregulated. They are not regulated as to the price of the product they sell. CEPs can be companies that own generation resources, brokers or aggregators who help customers secure supply through contract. For customers who do not wish to shop, or who cannot, supply comes through the so-called standard offer. The distribution of electricity remains fully regulated and is in the hands of utilities such as CMP, BHE and MPS who are prohibited from generating power. Since most outages occur at the distribution level as a result of storms or accidents, the reliability of service remains subject to full regulation. The legislation that made these changes requires that 30% of all generation sold in Maine must come from sources that are renewable, such as hydro, solar, or biomass, or from highly efficient sources like cogeneration facilities that use the steam or heat byproduct from manufacturing processes, such as papermaking.

ABOUT THE PUBLIC ADVOCATE OFFICE

Stephen G. Ward, the Public Advocate, and his staff of seven represent Maine's telephone, electric, gas, and water customers before the Maine Public Utilities Commission, the courts, and federal agencies. Our mission is to work for reasonably priced, safe, and reliable utility services for Maine people.

Website: <http://janus/state.me.us/meopa> (Telephone 287-2445)

**Maine Public Advocate Office
112 State House Station
Augusta, ME 04333**

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CONSUMER RIGHTS

Your local electric (and phone) utilities continue to be regulated by the PUC. You and the utility have certain rights with regard to utility services. A utility cannot deny service based on race, gender, nationality, marital status or where you live. They may require a deposit before connecting you; if they do, they must inform you in writing. The utility has the right to charge a fee for late payments. The bill is considered paid when received by the utility. If you fail to pay, the utility may disconnect your service. Notice of disconnection is usually 14 days, but can be as little as three days in some circumstances. If you agree to a long-term payment plan, you can get special protection against winter disconnections.

A utility cannot disconnect service to a tenant at the request of a landlord or if a landlord fails to pay a bill. If you have been disconnected, the utility must reconnect service upon receipt of payment in full, although you may be charged a reconnection fee.

Complaints - If you have a complaint, feel free to call us (287-2445). We can help you to understand the way the utility operates, and may be able to help resolve the dispute. We may also refer you to the Customer Assistance Division (CAD) of the PUC. The CAD's job is to investigate complaints and mediate disputes between utilities and consumers. You may call them directly at 1-800-452-4699.