

**Request for Proposals to Provide
Standard Offer Service
To**

**Bangor Hydro-Electric Company's
Residential and Small Non-Residential Customers**

Term Beginning March 1, 2006

**Issued by the
Maine Public Utilities Commission**

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1. OVERVIEW

1.1. Objective of the Request for Proposals

General

The Maine Public Utilities Commission (Commission) is seeking proposals from suppliers to provide retail standard offer service to residential and small non-residential customers of Bangor Hydro-Electric Company (BHE) for the term beginning March 1, 2006. The Commission requests proposals for both one-year and three-year terms.

Initial proposals with indicative bid prices are due on October 27, 2005.

Suppliers chosen will provide requirements service for one-third of the load of BHE's residential and small non-residential standard offer customers (also referred to as the "small standard offer class" or "small class"). The small class includes all residential, small general service and lighting accounts that receive standard offer service, with small general service customers defined as those with a peak demand that generally has not exceeded 25kW.

For information about standard offer service for the remaining two-thirds of this load, please see the Commission's Order at

www.maine.gov/mpuc/industries/electricity/sosmall0305/results.htm

Linked Standard Offer/Entitlement Proposals

Bidders may link standard offer proposals with proposals for the output of the diesel generation that BHE is selling in a concurrent solicitation process. BHE's RFP is available by contacting Jeff Jones at : (jjones@bhe.com; Tel: (207)973-2899) or Gradon Haehnel (ghaehnel@bhe.com; Tel: (207)973-2881).

1.2 General Standard Offer Service Provisions

There are several rules related to retail access in Maine. Chapter 301 governs standard offer service and is provided as Appendix A. A list and short description of other rules related to retail access is provided as Appendix B. The complete text of these rules is available on the Commission's web site at www.maine.gov/mpuc

A statement of the standard offer provider's legal rights and obligations with respect to providing standard offer service is set forth in the Statement of Commitment contained in Appendix H. Bidders must submit a signed Statement of Commitment with their proposals indicating acknowledgement and acceptance of these rights and obligations. Alternative language to that contained in Appendix H will be considered. Standard offer provider rights and obligations are further detailed in Appendix J.

Standard offer providers will supply requirements service for their load share. Providers are not assigned particular customers.

Standard offer service is the only type of default service in Maine and is provided directly by standard offer providers to customers at retail. Retail standard offer prices are set equal to the bid prices of the winning bidders. If there are multiple providers, retail prices are the weighted average of the providers' prices. The retail price for the BHE small class for the March 2006 – February 2007 period will be two-thirds weighted at \$0.069851/kWh and one-third weighted at the winning bid price of this solicitation.

The provider will be paid its accepted bid price less a fixed amount of 0.75% for uncollectible revenue.

BHE will bill and collect from customers on behalf of the standard offer provider. The Standard Service Agreement that governs these billing arrangements and other matters between the provider and BHE is provided as Appendix C. BHE charges for the services it provides in accordance with Commission-approved Terms & Conditions. (See Appendix D.) Bidders may propose changes to the Standard Agreement and submit them for consideration. The Standard Agreement or an agreed upon alternative must be executed by the provider and BHE within 24 hours after the Commission designates a bidder to be a standard offer provider.

1.3 Description of Service Area and Customer Class

BHE's service territory covers 5,275 square miles in eastern and east-coastal Maine and is within the New England Independent System Operator (ISO-NE) control area.

BHE currently serves about 110,000 residential, small non-residential and lighting accounts. Retail sales to these customers in calendar year 2004 were about 780,000 megawatt-hours of which about 99% currently receives standard offer service.

Appendix E includes detailed electricity usage data for calendar year 2004 for the small standard offer class. Additional load data, including load profiles and settlement loads, is available at www.maine.gov/mpuc.

2. GENERAL RFP PROVISIONS

2.1 Contact Persons

Inquiries regarding this RFP should be directed to Faith Huntington (at 207-287-1373 or faith.huntington@maine.gov), Jim Buckley (at 207-287-1387 or

james.buckley@maine.gov) or Mitch Tannenbaum (at 207-287-1391 or mitchell.tannenbaum@maine.gov)

2.2 Commission Web Site

The RFP is available from the Commission's web site at www.maine.gov/mpuc. Any modifications, corrections or clarifications to the RFP will be posted at this same location.

The Commission's web site will also provide additional usage data and other information that may not be contained in the RFP.

2.3 Proprietary Information

A bidder may designate information included in its proposal as proprietary or confidential information. The Commission will take every reasonable step, consistent with law, to protect information that is clearly identified as proprietary or confidential on the page on which it appears. The identity of bidders selected to provide standard offer service, winning bid prices and standard offer prices will be public information.

2.4 Proposal Costs

All costs associated with developing or submitting a proposal in response to this RFP and providing oral or written clarification of its contents are borne by bidder.

2.5 Rights of the Commission

The Commission reserves the right to reject all proposals received in response to this RFP if in its sole determination the bid prices are unreasonably high and acceptance would not be in the public interest. In this situation, the Commission may at its sole discretion terminate the RFP and initiate a new selection process.

The Commission reserves the right to reject any proposal that in its sole determination does not meet the requirements and specifications of this RFP, the Commission's rules, Maine law, or generally accepted business practices. The Commission may ask bidders to clarify or supplement their proposals and may at its sole discretion allow bidders to conform proposals to the required specifications.

2.6 State Held Harmless

The State of Maine, its officers, agents, and employees, including the Maine Public Utilities Commission, Commissioners and the employees or agents of the Maine Public Utilities Commission shall be held harmless from any and all

claims, costs, expenses, injuries, liabilities, losses and damages of every kind and description resulting from or arising out of this RFP, the designation of standard offer providers or the provision of standard offer service.

2.7 Warranty

The information contained in the RFP and provided subsequently is prepared to assist bidders and does not purport to contain all of the information that may be relevant to bidders. The Commission makes no representation or warranty, expressed or implied, as to the accuracy or completeness of the information. The Commission, its staff and its agents shall not have any liability for any representations expressed or implied in, or any omissions from, the RFP or information obtained by bidders from the Commission, its staff, its agents or any other source.

3. PROCESS AND SCHEDULE

3.1 Key Events and Dates

Initial proposals with indicative prices submitted <i>(Section 4 outlines what should be included in the proposal.)</i>	October 27, 2005 (by noon EPT)
Negotiation of non-price terms <i>(May be with a "short-list" of bidders as determined by indicative prices.)</i>	October 28 – To Completion
Final Bid Prices Due/ Commission Decision	To be determined
Public Release of Standard Offer Prices	Date of Commission Decision
Execution of Standard Offer Service Agreement	Within 24 hours of Commission Decision
Submission of Financial Security	Within 3 business days of Commission Decision
Public Release of Standard Offer Provider Identity	May be kept confidential for up to 2 weeks after Commission Decision (at provider's request)
Standard Offer Service Term Begins	March 1, 2006

Changes or updates to this schedule will be posted on the Commission’s web site at www.maine.gov/mpuc.

3.2 Submission of Proposals

Proposals must be received at the Maine PUC by the times and dates indicated. Proposals may be submitted by electronic mail to faith.huntington@maine.gov, by fax to (207)287-1039 or by mail to the Maine Public Utilities Commission, 242 State Street, 18 State House Station, Augusta, Maine 04333-0018. Proposals should be clearly marked “Standard Offer Service Proposal” and should be sent to the attention of Faith Huntington.

4. PROPOSAL REQUIREMENTS: FORM AND CONTENT

The following items should be included in the initial proposals.

4.1 License

Bidder should provide evidence that it has a valid license or an application pending to provide standard offer service in Maine. Chapter 305 of the Commission’s rules governs licensing requirements. A license application is included in Appendix F or can be obtained from the Commission’s web site.

4.2 Financial Security

1) Bidder should provide either: (1) a certified statement from a federal or state licensed financial institution that it will provide an irrevocable letter of credit for the bidder that meets the requirements and specifications contained in Section 3 of Chapter 301 and section 5 of this RFP; (2) if the bidder, an affiliated corporation of the bidder, the bidder’s wholesale supplier, or an affiliated corporation of the wholesale supplier satisfies the requirements of section 3 of Chapter 301 and section 5 of this RFP, a certified statement that a corporate guarantee meeting the requirements and specifications contained in section 3 of Chapter 301 and in this RFP will be provided; or (3) a certified statement that the financial security requirement will be satisfied by cash.

The amount of the irrevocable letter of credit, corporate guarantee, or cash to be provided must equal or exceed the following:

1 year term:	\$2.6 million
3 year term:	\$7.8 million

2) If bidder proposes to provide a corporate guarantee or cash, the initial proposal should include audited financial statements of the guarantor, e.g., annual report to stockholders, SEC Form 10K, and the guarantor’s most recent credit rating from each rating agency that has issued a rating for the guarantor.

These materials must demonstrate that the guarantor meets the criteria contained in section 3 of Chapter 301.

4.3 Statement of Commitment

Bidder should provide a Statement of Commitment signed by an officer of the Company who is duly authorized to commit the Company as described in the Statement. The Commission's preferred Statement of Commitment is provided in Appendix H. Alternative language will be considered.

4.4 EBT

Bidder should demonstrate that it has completed or is enrolled in Maine's electronic business transaction (EBT) training and testing programs. Maine's EBT standards and training schedules are available from the Commission's web site or from BHE.

4.5 Contingencies

Standard offer proposals may include contingencies as long as the outcome of any such contingency is either: (1) within the control of the Commission; or (2) known at the time final bid prices are evaluated.

For proposals that are contingent on BHE's diesel output, bidders should price the supply as if without any contingency, i.e., at the supply's own market value.

Contingencies should be noted in the initial proposal.

4.6 Alternative Terms, Language

Bidder should provide in the initial proposal its proposed alternatives to the Standard Agreement (in the form of a red-line to the Standard Agreement), the Statement of Commitment, the standard form corporate guaranty and any other proposed alternative to standard practice as described in this RFP or Chapter 301.

4.7 Pricing

Proposals must specify prices for the entire bid period; prices may not be defined by a formula or reference to market or economic indices.

Standard offer prices must be an amount per kWh that does not vary by a customer's usage level, nor by month or time of day. For multi-year terms, standard offer prices may change on March 1 of each year. Prices may not include any amounts charged on a per-kW, per-customer or fixed-charge basis.

5. STANDARD OFFER PROVIDER REQUIREMENTS

5.1 Standard Offer Obligation

Standard offer provider must provide standard offer service in a manner that is consistent with Maine law, Commission rules and this RFP at the prices and terms it proposed and which were accepted by the Commission. Standard offer provider is responsible for all costs necessary to fulfill this obligation.

Standard offer provider is responsible for all requirements and costs (and will receive any benefits) pursuant to wholesale market rules that apply to its standard offer load obligation.

5.2 Form of Service

Standard offer service is retail all requirements service. Standard offer service includes all obligations and charges that would be assessed to the load serving entity for the applicable load, including all Locational Marginal Pricing (energy, loss and congestion components), all costs and obligations that arise from nodal settlements for load, all capacity, ancillary services and other products and charges for the load, including any new or redefined products or charges, required to supply the electrical requirements of customers receiving standard offer service at all times during the term of service in a manner that complies with all applicable rules and requirements.

5.3 Losses

Standard offer service includes all transmission and distribution line and transformer losses associated with providing standard offer service from the point of supply to the customers' meters. Standard offer provider must provide sufficient quantities of electric capacity, energy, ancillary and all other required products and services to cover all such losses. The factors that are currently used to determine line and transformer losses on BHE's system are contained in Appendix G.

5.4 Load Zone

BHE's service territory is in the Maine Load Zone as defined by ISO-NE Standard Market Design (SMD) and standard offer provider is responsible for all obligations for the applicable standard offer load related to this locational definition and any subsequent redefinition, including nodal settlement for load.

5.5 Transmission Charges

BHE local transmission and distribution charges and Regional Network Service charges for standard offer service are paid by customers through their BHE retail rates and are not the responsibility of the standard offer provider.

5.6 Financial Security

Standard offer provider must provide as financial security an irrevocable letter of credit, a corporate guarantee or cash to BHE that satisfies all applicable requirements of Chapter 301 and this RFP and meets all reasonable requirements of the Commission, not inconsistent with Chapter 301 and this RFP. A corporate guarantee may be used as financial security only if the provider, an affiliated corporation of the provider, the provider’s wholesale supplier, or an affiliated corporation of the wholesale supplier meets the financial criteria specified in section 3 of Chapter 301 of this RFP. The financial security must be furnished to BHE with a copy to the Commission and must be effective and subject to being drawn upon in the full amount no later than three business days after the date the Commission designates the provider such that BHE can access the full amount of the financial security on that date. The financial security cannot expire or be cancelled prior to the date 30 days after the end of the applicable term of service unless replacement financial security that meets the requirements of Chapter 301 and this RFP and is accepted by the Commission is provided. The expiration or termination of the financial security shall not affect obligations incurred while the financial security was in effect. The Commission retains the right to obtain further information about any financial security furnished by standard offer provider, and final acceptance shall be at the sole discretion of the Commission.

The financial security must meet the following specifications:

1) The **amount** must equal or exceed the following:

1 year term	\$2.6 million
3 year term	\$7.8 million

2) The **form** must be either:

- an irrevocable letter of credit from a federal or state licensed financial institution satisfying the requirements of section 3 of Chapter 301 subparagraph (3) below.
- a corporate guarantee from provider or related corporation satisfying the requirements of section 3 of Chapter 301 and of subparagraph 3 below.
- cash accompanied by proper documentation so as to perfect a security interest.

3) An **irrevocable letter of credit** must (i) unconditionally obligate the issuing commercial bank(s) to honor drafts drawn on such letter(s) for the purpose of paying the costs of replacement standard offer service; (ii) be issued by commercial bank(s) with a minimum corporate debt rating of “BBB+” by

Standard & Poor's or Fitch or "Baa1" by Moody's, or an equivalent short term debt rating by one of these agencies; and (iii) include the following language: "This letter of credit binds the insurer to pay one or more drafts drawn by Bangor Hydro-Electric Company as long as the drafts do not exceed the total amount of the letter of credit; and that any draft presented by Bangor Hydro-Electric Company will be honored by the Issuer upon presentation."

If the corporate debt ratings of an issuing bank drop below the above specified levels, the standard offer provider shall promptly: (1) notify the Commission's Director of Technical Analysis in writing; and (2) provide replacement security that satisfies the requirements of Chapter 301 and this RFP.

4) A **corporate guarantee** must (i) unconditionally obligate the guarantor to pay all obligations of the standard offer provider for the costs of replacement standard offer service; (ii) be executed by a corporation meeting the asset and common equity requirements stated in section 3 of Chapter 301 and that has a minimum corporate debt rating of "BBB+" by Standard and Poor's or Fitch or "Baa1" by Moody's, and (iii) conform with the standard form guaranty (provided in Appendix K).

5.7 License

Standard offer provider must at all times during the term of service possess a valid license, pursuant to Chapter 305 of the Commission's rules, to provide standard offer service. Standard offer provider's license must be effective as of the date it is designated a standard offer provider.

5.8 Standard Offer Service Agreement

Standard offer provider must have an executed Service Agreement with BHE within 24 hours of being designated. (See Appendix C for a Standard Form Service Agreement.)

5.9 Resource Portfolio Requirement

Standard offer provider must comply with the resource portfolio requirements of Chapter 311 of the Commission's Rules.

5.10 Disclosure Requirement

BHE will produce and distribute standard offer service disclosure labels pursuant to Chapter 306 of the Commission's rules on behalf of standard offer provider. The provider must pay BHE for this service in accordance with Section 43.7 of BHE's Terms and Conditions (See Appendix D). Provider must supply BHE with the information needed to prepare accurate and timely labels.

5.11 ISO-NE/NEPOOL Requirements

Standard offer provider must comply with all applicable ISO-NE requirements, (and those of any successor entity or entities), and shall be the designated load serving entity with a settlement account for the applicable standard offer load. The necessary ISO-NE designations and accounts must be effective at least 30 business days prior to March 1, 2006.

5.12 EBT

Standard offer provider must exchange data with BHE using the electronic business transactions (EBT) protocols and procedures contained in Maine's EBT standards. The EBT standards are available from the Commission's web site.

5.13 Net Billing, Small Generation Aggregation

Standard offer provider must comply with the net billing requirements of Chapter 313 and Chapter 360 of the Commission's Rules. There are currently eight net billing customers in BHE's small class. Specific information on net billing can be obtained from BHE.

Standard offer provider must comply with the requirements of Chapter 315 of the Commission's Rules. This rule requires standard offer providers to purchase the aggregated output of generators in BHE's service territory with a capacity of 5 MW or less at applicable clearing prices such that the standard offer provider is financially neutral to the transaction. If there are multiple standard offer providers for this class, the output and corresponding purchase obligation will be allocated in proportion to each provider's load obligation.

6. BILLING AND PAYMENT

6.1 Allocation of Uncollectible Accounts

Standard offer providers are allocated a fixed percentage amount for expected uncollectible standard offer revenue in accordance with the Service Agreement. The uncollectible percentage for the small class is 0.75% and will remain fixed for the provider's term of service.

6.2 Payments for Standard Offer Service

BHE will issue bills and receive payments from customers for standard offer service and will transfer funds to the standard offer provider in accordance with the Service Agreement.

Standard offer provider will receive gross revenues less uncollectible revenues for the applicable standard offer sales. Gross revenues are the product of the provider's accepted bid price times applicable kilowatt-hour sales. Uncollectible revenues are the product of 0.75% times gross revenues.

7. STANDARD OFFER PROVIDER LEGAL OBLIGATIONS

7.1 Legal Obligations and Responsibilities

Designation by Commission Order of a bidder as a standard offer provider legally obligates the bidder to provide standard offer service at the offered and accepted prices and terms in accordance with Maine law and regulations and the provisions of this RFP.

7.2 Standard Offer Provider Default

Upon a determination that a standard offer provider has failed to provide service as required or has otherwise failed to fulfill its standard offer obligations, the Commission may declare such provider to be in default. If the Commission declares a standard offer provider to be in default, the Commission will take one or more actions specified in section 9 of chapter 301.

The defaulting standard offer provider shall be responsible for and obligated to pay the additional costs of replacement standard offer service. As described in section 3 of Chapter 301, additional costs of replacement standard offer service are all costs that are incurred or will be incurred to acquire replacement standard offer service, including supply and administrative costs, through the remaining standard offer term that exceed the amounts paid or to be paid by standard offer customers at the standard offer rates in effect at the time of the Commission's declaration of a standard offer provider's default. The Commission shall determine the amount of the additional costs of replacement standard offer service and order the defaulting standard offer provider to pay that amount.

If the Commission declares a standard offer provider to be in default and there are additional costs of replacement standard offer service, it may direct BHE to (1) withhold any payments due to the defaulting standard offer provider and use those amounts to cover additional costs of replacement standard offer service; and (2) collect amounts from the financial security provided by or on behalf of the defaulting standard offer provider to cover the additional costs of replacement standard offer service.

In the event that the defaulting standard offer provider fails to pay the additional costs of replacement standard offer service as ordered by the Commission and the amounts obtained by BHE from the financial security are not sufficient to cover the additional costs of replacement standard offer service, the

Commission or Maine's Attorney General may bring legal action in Maine courts to fully recover these amounts.

In the event the Commission declares a standard offer provider to be in default and the standard offer provider, an affiliate of the standard offer provider or another entity is purchasing all or a portion of BHE's purchased power contract entitlements as part of a cross-contingent or "linked" arrangement, the Commission may direct BHE to terminate the entitlement sale.