

SUBJECT TO CONFIDENTIAL TREATMENT UNTIL FEBRUARY 28, 2012

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2011-491

February 14, 2012

MAINE PUBLIC UTILITIES COMMISSION
Standard Offer Bidding Process for
Medium and Large Non-Residential Customers
In the Central Maine Power Company and
Bangor Hydro Electric Company Service Territories

ORDER DESIGNATING
STANDARD OFFER
PROVIDERS FOR CMP
AND BHE LARGE CLASS

WELCH, Chairman; VAFIADES and LITTELL, Commissioners

I. SUMMARY

Through this Order, we designate Algonquin Energy Services Inc. (Algonquin) as the standard offer provider for the large non-residential classes in the service territories of Central Maine Power Company (CMP) and Bangor Hydro Electric Company (BHE).

II. BACKGROUND

Maine's Restructuring Act directs the Commission to administer periodic bid processes to select providers of standard offer service. 35-A M.R.S. § 3212(2). The arrangement with the current standard offer providers for service to customers in the medium and large standard offer classes in the CMP and BHE service territories terminates on February 29, 2012. Accordingly, on December 8, 2011, the Director of Electricity & Gas Utility Industries initiated the process to solicit bids for the provision of standard offer service to these classes for the period beginning March 1, 2012, by issuing a Request for Proposals (RFP).¹ The RFP set out the procedure to be followed in soliciting bids and selecting standard offer providers, *i.e.* winning bidders. The RFP allowed for bids for the large standard offer classes to be in the form of fixed or indexed prices, with the structure of the indexed prices as prescribed by the RFP.

In our last several solicitations for the CMP and BHE medium and large classes, we accepted bids for six-month terms to minimize the time for which standard offer prices may deviate from prevailing market prices. Accordingly, the Director of Electricity & Gas Utility Industries asked for bids only for six-month terms in this round of solicitations. Pursuant to the RFP, indicative bids were received on January 4, 2012.

¹ On May 18, 2004 in Docket No. 2004-314, we delegated to the Director of Electricity & Gas Utility Industries the authority to decide and carry out all matters related to the development, issuance and conduct of standard offer bid processes.

On January 18, 2012, the Commission issued an Order rejecting the bids for the large non-residential classes in the CMP and BHE territories based upon a finding that the large class bids for both CMP and BHE were non-conforming bids and therefore insufficient under section 8(D) of Chapter 301 of the Commission's rules. Accordingly, the Commission directed Staff to work with the utilities to arrange for standard offer service through an alternative means.

Subsequent to the January 18, 2012 Order, the Staff had discussions with CMP, BHE and potential large class standard offer bidders. Based on those discussions, Staff developed an alternative price structure for the CMP and BHE large classes. This structure includes four components: (1) energy; (2) capacity; (3) fixed adder; and (4) uncollectible adder. The energy component paid by retail customers would be determined by the Commission prior to every month based on electricity futures prices; however, the amounts paid to the supplier would reflect actual energy costs as assessed through the ISO-NE market settlement system.² The capacity component and fixed adder component (that would reflect all other costs and risks perceived by the supplier) would be set through the bid, and the uncollectible adder would be set by the Commission prior to the final bids.³ The Director of Electricity & Gas Utility Industries asked bidders who indicated an interest in providing standard offer service under the alternative price structure to present bids to the Commission on February 14, 2012.

III. DISCUSSION

Upon review of all the bids received today, and applying the selection criteria specified in section 8(C)(2) and (4) of Chapter 301, we designate Algonquin as the standard offer provider for the CMP and BHE large customer standard offer classes for the six-month term beginning March 1, 2012 and ending August 31, 2012. Based on the alternative price structure discussed above, the winning bid was chosen based on the expected lowest overall cost to customers.⁴

² Standard offer prices will not be adjusted during this six-month term to reconcile for any over or under collections resulting from the energy component. Any variance between the amount charged customers and the amounts paid to the supplier will be credited or debited to the standard offer uncollectible account for the large classes.

³ Attachment A contains a more detailed description of this alternative price structure.

⁴ The lowest overall cost to customers was estimated by applying the fixed adder to the expected kWh load each class and the capacity charge to the expected aggregate capacity tag for the class.

Algonquin's winning bid for CMP's large standard offer class is as follows:

| | Fixed Adder | Capacity Charge |
|--------|--------------------|------------------------|
| | \$/kWh | \$/kW-mo |
| March | \$0.00512 | \$3.600 |
| April | \$0.00512 | \$3.600 |
| May | \$0.00512 | \$3.600 |
| June | \$0.00512 | \$2.951 |
| July | \$0.00512 | \$2.951 |
| August | \$0.00512 | \$2.951 |

Algonquin's winning bid for BHE's large standard offer class is as follows:

| | Fixed Adder | Capacity Charge |
|--------|--------------------|------------------------|
| | \$/kWh | \$/kW-mo |
| March | \$0.00504 | \$3.600 |
| April | \$0.00504 | \$3.600 |
| May | \$0.00504 | \$3.600 |
| June | \$0.00504 | \$2.951 |
| July | \$0.00504 | \$2.951 |
| August | \$0.00504 | \$2.951 |

Pursuant to the alternative pricing structure outlined by the Commission Staff in Attachment A and set forth in the Large Class Alternative Pricing Structure Standard Offer Provider (SOP) Standard Service Agreement, Algonquin has chosen to be paid for the energy component based upon the applicable LMP in the ISO-NE day-ahead market.

As illustrated in detail in Attachment A, the actual prices for CMP and BHE's large customer classes will be determined prior to each month of the March-August term based on ISO-NE Internal Hub Peak and Off-Peak Locational Marginal Pricing (LMP) electricity futures as settled through CME Group on the 15th day of the prior month.⁵

Our review of the Algonquin bid indicates that it complies with the requirements of Chapter 301 and the RFP as modified by the Director of Electricity & Gas Utility Industries' requested alternative pricing structure (including the financial security

⁵ We delegate to the Director of Electricity & Gas Utility Industries the authority to determine the prices each month pursuant to the pricing methodology specified in this Order.

requirements).⁶ Because the actual prices for the term will not be set in this Order, we will establish the utilities financial security (performance assurance) amount that will be included in Exhibit E of the standard offer agreements.⁷ This amount is \$585,000 for CMP and \$165,000 for BHE.

By designating Algonquin as standard offer provider, we hereby accept its bidder conditions and incorporate them into this Order. The bidder conditions, as well as the Algonquin's statement of commitment, are attached as appendices to this Order. The bidder conditions provide clarifications as to the precise nature of the standard offer provider obligations, as well as reasonable protections for the provider with respect to actions of the Commission or the utility. We understand all conditions are satisfied at this time or will be satisfied shortly after we issue this Order. Algonquin attached a modified version of the SOP Service Agreement (entitled Large Class Alternative Pricing Structure Standard Offer Provider Standard Service Agreement) to its CMP and BHE bids. We are informed that the modified versions of the proposed SOP standard service agreement are acceptable to CMP, BHE and the Director of Electricity & Gas Utility Industries,⁸ and that the winning bidder, CMP and BHE will execute the proper agreements upon issuance of this Order.

Section 8(C)(2) of Chapter 301 establishes the lowest price as the primary selection criteria in considering standard offer bids, although section 8(C)(4) does require the Commission to select three standard offer providers within a utility service territory if this can be accomplished without increasing standard offer prices within any standard offer class by more than 1.5%. The Commission's selection of Algonquin as the standard offer provider for BHE and CMP's large class results satisfies both of these requirements.

Finally, we recognize that the bidder conditions approved in this Order create certain risks and obligations for CMP and BHE and the alternative pricing structure may create additional administrative costs to the utilities. Such risks and costs are properly borne by customers and not shareholders. We are informed by Commission staff that

⁶ Because the alternative pricing structure reduces the ratepayer risks and consequences of a supplier default, the standard offer provider's base security amount has been reduced to \$250,000 for CMP and \$100,000 for BHE.

⁷ Under the standard offer provider agreement, the utility must post performance assurance if it falls below investment grade. The performance security amount is based on the maximum amount the utility may owe the supplier given monthly payments. This calculation is based on the price of the standard offer service and expected standard offer load.

⁸ By our May 18, 2004 Delegation Order, we also delegated authority to accept alternative SOP Standard Service Agreements to the Director of Electricity & Gas Utility Industries. The Director consulted with the Commission's legal staff in deciding to accept changes to the Standard Service Agreement.

CMP and BHE agree to accept the obligations imposed on them by the bidder conditions and the Alternative Pricing Structure Standard Offer Provider Standard Service Agreement and to incur the costs of administration, as long as it is compensated for the financial consequences of satisfying those obligations. Therefore, we explicitly find that CMP and BHE shall recover any costs associated with the difference between what the utilities bill their large class standard offer customers and what the utilities pay Algonquin under the Alternative Pricing Structure SOP Service Agreements. That difference shall be tracked through the uncollectible retainage account and recovered at a future time to be determined by the Commission and through a method to be determined by the Commission after the conclusion of this standard offer term. Any other direct or indirect costs, obligations, expenses or damages reasonably incurred by CMP and BHE, including incremental administrative costs, in fulfilling its contractual obligations or exercising its contractual rights under the SOP Service Agreements, or in satisfying the bidder conditions we have accepted, shall be tracked through a separate account and deferred, but shall be fully recovered by the utilities, with carrying costs, from customers at a future time to be determined by the Commission and through a method to be determined by the Commission after the conclusion of this standard offer term.

This Order will be treated as designated confidential information pursuant to the Protective Order issued in this proceeding for a two-week period. After that, the confidential treatment of this Order will be removed.

Dated at Hallowell, Maine, this 14th day of February, 2012.

BY ORDER OF THE COMMISSION



Karen Geraghty
Administrative Director

COMMISSIONERS VOTING FOR: Welch
 Vafiades
 Littell

Attachment A

CMP and BHE Large Commercial and Industrial Customer Standard Offer Service Outline of Alternative Price Structure

The applicable terms of the Commission's December 8, 2011 Request for Proposals (RFP) to Provide Standard Offer Service to Central Maine Power Company and Bangor Hydro Electric Company's Medium and Large Commercial and Industrial Customers and the Large Class Alternative Pricing Structure Standard Offer Provider (SOP) Standard Service Agreement will apply, except that the retail price structure and basis upon which the SOP is paid will be as follows. The retail price and payment basis will include four components: (1) energy; (2) capacity; (3) fixed adder; and (4) uncollectible adder.

1. The Energy Component Billed to Retail Customers will be established by the Commission prior to each service month using the load-weighted average ISO New England Internal Hub Peak and Off-Peak LMP Swap Futures, as settled through CME Group¹ on the 15th day² of each month prior to the effective date of the standard offer service price. The load-weighting will reflect representative usage of the class for the service month. The Energy Component Paid to the Standard Offer Provider, however, will be the real-time or day-ahead Maine Zonal Locational Market Price (LMP) as applicable for the load asset, as assessed by ISO-NE through the market settlement system. (Bidders shall select either the real-time or day-ahead market in their bid.)

2. The Capacity Component paid by retail customers and to the SO provider will be set by the bid price per kW of the SO provider. The Capacity Component will be charged to customers on a per-kW basis, with each large standard offer customer's kW set in a manner consistent with the large standard offer class Load Asset Coincident Peak Contribution (CPC) established pursuant to ISO-NE Market Rules, i.e., the "Cap Tag". Capacity Component bids may differ by month.

¹ CME Group represents the merger of the Chicago Mercantile Exchange (CME), the Chicago Board of Trade (CBOT), the New York Mercantile Exchange (NYMEX) and its commodity exchange division, Commodity Exchange, Inc. (COMEX). The formation of CME Group did not, however, result in any change to trading privileges for CME, CBOT and NYMEX/COMEX members.

² If the 15th day of the month occurs on a weekend or holiday such that prices are not published, then prices for the next available date will be used.

3. The Fixed Adder Component *paid by retail customers* and *to the SO provider* will be a fixed \$ per billed kWh intended to cover the SO provider's other costs and risks to serve the large SO class. The Fixed Adder Component will be set by the SO provider's bid. Fixed Adder Component bids may differ by month.

4. The Uncollectible Adder Component will be reflected in retail prices and SO provider payments in the same manner as for the medium standard offer class. The Uncollectible percentage for this alternative price structure for this standard offer term is 3%.

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within **20** days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought. Any petition not granted within 20 days from the date of filing is denied.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21** days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.