Long-Term Contracting

General Authority

During its 2006 session, the Legislature enacted an Act to Enhance Maine’s Energy Independence and Security, P.L. 2005, ch. 677 (codified at 35-A M.R.S. § 3210-C) that authorized the Commission to direct T&D utilities to enter into long-term contracts for power supply that are expected to provide a benefit to ratepayers through reducing electric prices and price volatility for the State’s electricity consumers and reducing greenhouse gas emissions from electricity generation. Generally, the purpose of this legislation was to provide the Commission with a tool that could be used to accomplish these goals while promoting the development of new generating resources (e.g., renewable resources) in Maine. Long-term contracts for power supply are often necessary for generating projects to be financed and developed, and a long-term contract with a creditworthy entity, such as a public utility, can be especially valuable to a developer of electric generation resources. Thus, project developers may be willing to offer attractive prices (such as fixed prices projected to be significantly lower than market prices or prices at a stated discount off market prices) in return for a long-term contract with a public utility.

The Commission considers several factors in deciding which utilities should enter into contracts, such as contract price and size of the project. The long-term contracting authority is intended to incentivize grid size facilities and is not intended to provide a ratepayer subsidy.

Standards For Approval

Pursuant to the statute, the Commission evaluates proposals based on analyses of the amount of near-term and long-term benefits to ratepayers and the likelihood that those benefits will occur.

The statute also contains the following priority list:

(1) New interruptible, demand response or energy efficiency capacity resources located in this State;

(2) New renewable capacity resources located in this State;

(3) New capacity resources with no net emission of greenhouse gases;

(4) New nonrenewable capacity resources located in this State with preference to new nonrenewable capacity resources with no net emission of greenhouse gases;

(5) Capacity resources that enhance the reliability of the electric grid of this State. The commission shall give preference to capacity resources with no net emission of greenhouse gases; and
(6) Other capacity resources.

**Commission Authorized Long-term Contracts**

The Commission has considered dozens of proposals but, to date, has only authorized two contracts:

- Verso Bucksport Renewable Capacity Project, a five-year contract for renewable energy credits (REC) and capacity value with Central Maine Power Company (CMP).

- Rollins Wind Project, a 20 year contract for energy and capacity for a 60 MW facility. The Commission directed CMP to contract for 80% of the output and Bangor Hydro Electric Company (BHE) to contract for 20% of the output.

With respect to the other proposals that have been submitted, the Commission conducted an analysis of future market prices and determined that the proposed long-term contracts did not contain sufficient benefits to ratepayers. Cost/benefit estimates are based on 25 year wholesale electricity price projections.

The Commission currently has pending a request for long-term contract proposals and will be considering those proposals in the near future.

**Costs and Benefits**

For calendar year 2012, the Verso contract has produced a $3.4 million benefit to ratepayers and the Rollins contract has cost ratepayers $2.8 million.

Assuming that future Maine Class I RECs are in the $10 to $15 range, over the term of the contract, the Verso contract could have a range of a net present value benefit of $575,000 (assuming $15 REC prices) to a net present value loss of $3.9 million (assuming $10 REC prices).

Over the term of the Rollins contract, based on a 20 year projection of wholesale electricity prices, the contract will have a net present value loss of $6.35 million. The Commission emphasizes, however, that the costs and benefits of long-term contracts are extremely sensitive to wholesale electricity price projections and can vary greatly based on the price projections that are used in the analysis.

In addition to authorizing energy and capacity contracts, in a few instances that allow specific projects to be built in Maine under the Legislative policy, a significant benefit of long-term contracts is that they encourage a positive investment environment in Maine. Although the Commission has directed utilities
to enter into only one long-term contract for onshore wind, there has been construction of 400 megawatts of wind in Maine to date as well as proposals for more than 1000 megawatts of additional projects in Maine. Investments in Maine renewable energy projects to date exceed $1 billion dollars and the value of proposed projects exceed $3 billion though it is likely that not all proposed projects will ultimately go forward.

**Related Carryover Bill**

LD 1278 – **An Act to Ensure Equitable Support for Long-term Energy Contracts**

- Would amend the long-term contracting and community-based renewable energy pilot program (35-A MRS § 3604) statutes so that ratepayers of the investor-owned T&D utilities share equally in the costs and benefits of long-term energy contracts entered into pursuant to these statutes

- Benefits flow from contracts that have below market rates and costs flow from contracts that have above market prices

- Would apply to both future and existing contracts

- Contains an assessment-remittance mechanism as the means for the PUC to allow for the equitable allocation of long-term contract benefits/costs

- As a general matter – the policy goals sought to be achieved through long-term contracts – either in terms of lowering market prices or new renewable resource development – largely flow to all of the State’s ratepayers and so there is a sound rationale for attempting to allocate their costs more generally and equally

- The assessment-remittance mechanism appears to be a workable regulatory means to accomplish the goal of the bill, however, the Committee may want to provide the PUC with the flexibility to use other mechanisms that could accomplish the goal in a more efficient manner