

REPORT TO THE
JOINT STANDING COMMITTEE
ON PUBLIC UTILITIES,
MAINE LEGISLATURE

FROM THE
MAINE PUBLIC UTILITIES COMMISSION

February 1, 1983

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Public Utilities Commission
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February 1, 1983

PUBLIC UTILITIES COMMISSION
ANNUAL REPORT

Table of Contents

I.	INTRODUCTION.....	1
II.	COMMISSION PERSONNEL, ORGANIZATION AND ACTIVITIES.....	3
III.	RATE CASE DECISIONS (1982).....	13
IV.	PUBLIC UTILITIES COMMISSION FISCAL DATA.....	23
V.	MAJOR ISSUES BEFORE THE PUBLIC UTILITIES COMMISSION.....	28
VI.	CONCLUSION.....	72

I. INTRODUCTION

The Maine Public Utilities Commission is required by State law to "report annually before February 1st, to the Joint Standing Committee of the Legislature having jurisdiction over public utilities on its planned expenditures for the year and on its use of funds in the previous year." In addition to providing the required fiscal data, the Commission is transmitting background information designed to provide understanding of the agency, its function and its performance.

The year 1982 saw continued intense activity at the PUC. In early summer, Governor Joseph E. Brennan nominated Peter A. Bradford as Commission Chairman and Cheryl Harrington as a Commissioner. Both were confirmed by the Senate, and took office July 26. Chairman Bradford and Commissioner Harrington replaced, respectively, Commissioner Lincoln Smith, whose term had expired, and Commissioner Diantha A. Carrigan, who had resigned. Former Chairman Ralph H. Gelder has continued to serve as a Commissioner.

During the past year, the Commission faced a series of difficult problems including an extremely heavy case load, larger and more frequent rate filings, regulatory and rate design issues made more complex by federal regulation and activity, implications for the State resulting from the breakup of American Telephone & Telegraph Company, and increased consumer concerns spurred by the deepening economic recession.

This Report is organized into six sections, of which this introduction is Section I. Section II focuses on the Commission's basic activities, organization and personnel. Section III provides statistical data relating to rate decisions in 1982 and provides limited comparative data with 1978, 1979, 1980, 1981, and 1982.

Section IV responds to the statutory requirement that the Commission report on its budget and expenditures. Section V discusses several major issues which the Commission expects to face in 1983 and beyond.

The final section focuses on the Commission's current problems and needs and on legislation being considered by the 111th Maine Legislature which would affect the agency. As noted in the cover letter, the Commission stands ready to provide any additional information requested by the Committee.

II. COMMISSION ACTIVITIES, ORGANIZATION AND PERSONNEL

The Maine Public Utilities Commission has regulatory jurisdiction over all water, electrical and telecommunication public utilities operating in the State, as well as jurisdiction over natural gas operations of Northern Utilities, Inc. in the Portland and Lewiston areas. The three Commissioners are appointed by the Governor, who designates one as Chairman. The Commission as an agency consists of the three Commissioners and 51 allotted staff positions. Currently, 46 staff positions are filled, with one offer outstanding. An approximate indication of the Commission's importance to Maine citizens is shown by the fact that Maine's major utilities (Central Maine Power, Bangor Hydro-Electric, Maine Public Service, and New England Telephone) had 1981 intrastate revenues of \$610.5 million. Overall, all utilities under PUC jurisdiction had total 1981 intrastate revenues of \$692.5 million. Maine State Government's "General Fund" expenditures in FY 81/82 were \$639.6 million.

Since the population of Maine is 1,125,027 (1980 census), these total utility revenues represent \$615.50 per person or approximately \$2,462 per family of four. These amounts are, of course, not all direct billings. They include the utility component of all goods and services. The impact is lessened somewhat by collection from summer residents and by double

counting (electric rates include telephone costs and vice versa). Nevertheless, the impact of utility rates on Maine citizens is clearly substantial.

The PUC's FY 81/82 expenditures were \$2.018 million. Thus, Maine is spending \$2 million to regulate \$692.5 million. Put another way, each \$10,000 spent on utility regulation regulates \$3,430,000 in utility revenues,* a significant discrepancy. On a per capita basis, the "cost of regulation" over those utilities under the jurisdiction of the Maine Public Utilities Commission is \$1.79 per Maine resident.

During the past two years a total of 568 cases have been docketed, 286 in 1981 and 282 in 1982. Precise past comparisons are not available, but this two-year total is undoubtedly the largest in the Commission's history. By way of contrast, the Commission docketed 135 cases in 1971-72.

Although 271 cases had been closed in 1981, 149 remained on the docket at the end of that year. During 1982, the Commission decided 281 cases, and carried 150 forward into 1983.

In 1982, the Commission and staff have eliminated many of the oldest proceedings on the docket and have dismissed numerous cases. At the beginning of 1982, the oldest case on the docket had been filed in 1973. As of this Report, the oldest on the

*

Each dollar spent on utility regulation in Maine, therefore, regulates \$343 in utility revenues.

docket was filed in 1976. This work has been offset by the many new filings, so there has not yet been a significant reduction in the overall number of cases on the docket.

The Commission is empowered by law to deal with a variety of filings from utilities and others affected by utilities. Exhibit A (p. 11) categorizes the 282 new proceedings docketed in 1982 by type. The largest categories are rate filings (53), tariff filings (52), and applications for approval of securities (33). Data has also been compiled (and is available from the Commission) regarding the types of filing according to utility group. For example, all 52 of the tariff filings were telecommunication filings, 39 of the 53 rate filings were for water utilities, and 23 of 33 security applications were from water utilities.

The 282 formal cases filed with the Commission last year included 108 by telecommunication utilities, 76 by water utilities, 73 by electrical utilities, 12 by gas utilities, 9 by water carriers and 4 miscellaneous (not specific to any utility class) filings.

The PUC staff is organized into the Administrative Division (headed by Secretary Charles Roundy), the Legal Division (headed by General Counsel Joseph Donahue), the Finance Division (headed by Director of Finance Elizabeth Paine), the Engineering Division (to be headed by the Director of Engineering when that position is filled), and the Consumer Assistance Division (directed by Supervisor Timothy Ronan).

The Legal Division consists of twelve positions, including the General Counsel, ten staff attorneys (eight Attorney Examiners and two Examiner Attorneys), and a Senior Legal Secretary. Currently, two of the Attorney Examiner positions are vacant.

The Finance Division consists of ten positions, including the Director of Finance, four Utility Accountants, four Financial Analysts, and one Clerk Steno III. All these positions are filled currently.

The Engineering Division consists of eight positions, including the new Director of Engineering (which the Commission is proposing to convert to a Director of Technical Analysis), and seven other engineering slots, of which one is currently vacant. Until the Director of Engineering position is filled, the division will continue to consist of three sections, each headed by a Chief Utility Engineer. The Commission is committed to hiring a director as soon as possible, and to upgrading and possibly adding other engineering positions.

The Consumer Assistance Division consists of five positions, including the Supervisor and four Consumer Assistant Specialists. Administratively, the Consumer Assistance Division is under the Secretary of the Commission.

The Administrative Division consists of sixteen positions, including the Secretary of the Commission, Assistant Secretary, Accountant, Clerk III, Receptionist, five Word Processors, three

Hearing Reporters, Administrative Secretary, Clerk Steno III, and Administrative Aide (vacant). The Administrative Division provides a variety of support services to the Commissioners and other staff. The division is comprised of a Word Processing Section, which includes a Supervisor and four Word Processors, a Hearing Reporters Section, the Secretary's Office, the Commission's Administrative Secretary and a newly created Clerk Steno III, who works with the Administrative Secretary.

The Commissioners and staff devoted a considerable amount of time during 1982 to formal public hearings. Such sessions were conducted in 44 separate cases, totaling 159 days of hearings. These hearings require the attendance and participation of the hearing examiner, associated advisory staff, advocacy staff, hearings reporter, and usually the Commissioners themselves. Some hearing days lasted less than an hour while others consisted of day and night sessions, considerably longer than the normal eight-hour day. Three proceedings accounted for 65 days of hearings (41% of the total): Maine Public Service Company's power supply investigation and associated rate case, the current New England Telephone Company general rate case, and the Central Maine Power Company long-term avoided cost/cogeneration proceeding.

In addition to the public hearings, the Commissioners last year held 82 separate formal deliberative sessions (so-called "agenda meetings"), consisting of 49 regularly scheduled agenda

meetings and 33 special agenda meetings. The Commissioners normally hold regular agenda meetings on Wednesday mornings, and they typically consider a half-dozen or more individual proceedings at those sessions. The agenda meetings require the presence and participation of the Commissioners, the Secretary or Assistant Secretary, and advisory staff. Public meetings on particularly complex and difficult cases often involve several days of deliberation. For example, the Commissioners deliberated for several days on both the Central Maine rate case which was decided in the spring of 1982, and on the Maine Public Service Company power supply and rate cases, which were finally determined in November, 1982.

In all, the agency held 241 separate hearings or Commission meetings during the past year, requiring the attendance and participation of numerous Commission personnel. Many of these sessions lasted a full day and some lasted longer. These figures do not begin to indicate the amount of work necessary to prepare for these sessions.

One of the busiest locations at the Commission is the Consumer Assistance Division (C.A.D.). As previously noted, the division has five authorized positions, including the Supervisor and four Consumer Assistance Specialists. Because the fifth position was only added in late 1982 and because of two separate illnesses, the division went through much of the year with only three people available to handle the workload. Consumers last

year filed 4,783 requests for assistance with the division, which also had 28 requests left from 1981. The division closed 4,621 cases in 1982, leaving 190 to be resolved this year. This compared with 4,759 requests processed by the C.A.D. during 1981, of which 4,713 were closed.

Exhibit B (p. 12) presents data on the types of concerns that the division handled last year. Consumers lodged 1,205 complaints about utility service, 618 about bills, 2,284 about disconnections (including 917 winter disconnect waivers), 223 about problems with deposits, 233 general complaints about their utilities, and 58 miscellaneous complaints.

By utility category, 1,334 people had concerns about telephone companies, 2,957 about electrical utilities, 184 about water utilities and 146 about a gas company (Northern Utilities, Inc.).

The number of consumer requests for assistance filed with the division has grown dramatically over the past eight years. The table below shows the number lodged annually since 1975, the first year statistics were kept:

<u>YEAR</u>	<u>REQUESTS FOR ASSISTANCE</u>
1975	1,754
1976	1,604
1977	2,161
1978	2,624
1979	2,438
1980	3,359
1981	4,759
1982	4,811

In addition to assisting consumers with a variety of service, billing, disconnect, deposit and other concerns, the division actually intervened in 207 complaints last year. As a result, the utilities involved returned \$60,606 in refunds and credits to customers. The C.A.D. staff investigates most complaints over the telephone, usually making several calls to the customer and utility before an issue is resolved.

Additionally, the division last year participated in 34 formal meetings, including consumer complaint meetings, informational meetings, C.A.D. conducted training seminars and PUC hearings.

The Report so far has described the personnel resources available to the Commission, and some the agency's major activities. Implicit in any accounting of hearing days or deliberative sessions is the considerable involvement of staff from the Legal Division, Engineering Division and Finance Division. The Commission is especially proud of the outstanding service provided by members of the legal staff, who as hearing examiners (advisory team) and staff advocates generally take the lead in major cases requiring Commission consideration. Professional staff from the Legal Division, Engineering Division and Finance Division are often called upon to assist in complex C.A.D. cases as well. The Commission strongly believes that the State receives an excellent return from the money spent on the PUC staff.

PROCEEDINGS DOCKETED IN 1982

Advisory Ruling.....	5
Appeals	4
Complaints.....	6
Conservation Loan Program.....	3
Contracts.....	10
Emergency Rates.....	3
Fuel Clause.....	3
Investigations.....	12
Miscellaneous.....	38
Petitions.....	8
Public Convenience and Necessity.....	6
Rates.....	53
Reorganization.....	2
Rulemakings.....	4
Securities.....	33
Waivers.....	17
Cost of Gas.....	2
Flash Cut.....	12
Tariffs.....	52
Requests for Investigation.....	2
\$298.....	2
Schedule.....	3
Request for Rulemaking.....	1
Transportation Catch All.....	1
Total	<u>282</u>

CONSUMER ASSISTANCE DIVISION
CASES PROCESSED AND CLOSED OUT DURING 1982
(TELEPHONE, ELECTRIC, WATER & GAS COMBINED)

I. <u>Service</u>			
S1	Request for New Service.....	415	
S2	Request for Service Repairs.....	243	
S3	Service Charges/High Usage.....	409	
S4	Line Extensions.....	60	
S5	Directory Listing.....	36	
S6	Extended Area Service.....	11	
S7	Outages.....	7	
S8	Meter Checks.....	24	= 1,205
II. <u>Billings</u>			
B1	Payment Arrangements.....	483	
B2	Overbilled.....	76	
B3	Underbilled.....	9	
B4	High Tolls.....	1	
B5	Cost-Aid in Construction.....	19	
B6	Mileage.....	4	
B7	Request for or Granted Rebate.....	5	
B8	Fuel Adjustment.....	2	
B9	Estimated Billings-Budget Payment Plan..	19	= 618
III. <u>Disconnect</u>			
D1	Notices.....	694	
D2	Disconnections.....	673	
D3	Winter Disconnect Waivers.....	917	= 2,284
IV. <u>Deposits</u>			
P1	Request for.....	196	
P2	Payment of.....	4	
P3	Request for Refund of.....	23	= 223
V. <u>General</u>			
G1	General Protest Concerns.....	233	= 233
VI. <u>Miscellaneous</u>			
M1	Customer Owned Equipment.....	13	
M2	Request for Waiver.....	16	
M3	General Information.....	25	
M4	Energy Conservation Loan Program.....	4	= 58
Cases Closed in 1982.....		4,621	
Cases Unresolved at the End of 1982.....		190	
Total Requests Received in 1982.....		4,811*	

* Includes 28 cases carried forward from 1981 and 4,783 new requests for assistance.

III. RATE CASE DECISIONS (1982)

In 1982, the PUC decided 48 general rate cases, in which electric, telephone, water and gas utilities had requested increases totaling \$140.5 million. The Commission allowed \$75.1 million in rate increases, rejecting \$65.4 million. Exhibit C (p. 15) presents overall 1982 rate decision data by utility category. Exhibits D, E, F and G (pp. 16 - 21) present specific data on individual rate cases. Exhibit D-1 (p. 17) presents data pertaining to fuel adjustment proceedings.

Although precisely comparable data have not been compiled, there has been a general upward trend in the total rate increases requested and granted for the past five years. Exhibit H (p. 22) presents this data. The figures for 1979 do not include transportation, water or gas rates, which to some extent hinders comparisons. Furthermore, the 1982 figures also do not reflect transportation, which was deregulated at the end of 1981. A trend can be discerned, however, from the following figures: rate increase requests totaled \$55.7 million in 1978, \$60.6 million in 1980, \$94.2 million in 1981 and \$140.5 million in 1982. Amounts granted by the Commission respectively were \$26 million in 1978, \$37.4 million in 1980, \$60.6 million in 1981 and \$75.1 million in 1982. Over the five-year period (1978 - 1982), utilities have requested \$358.1 million in rate increases, have been awarded \$207 million, and have been denied \$151.1 million.

Both the number of rate cases filed and the amounts requested have accelerated in recent years. In addition, a greater number of parties have participated in these complex proceedings. Despite the phase-out of the PUC's Transportation Division at the end of 1981 and the partial deregulation of public water districts, these overall trends are expected to continue, particularly since utilities are now allowed to file for general rate increases annually. Before 1982, a utility could not file for a new increase until at least twelve months after the PUC had decided the company's previous rate case.

One major rate request is already before the Commission this year and another is to be filed soon. New England Telephone Company currently has a \$50 million rate case in process and Central Maine Power Company has notified the Commission that during February, 1983, it will file for a \$57 million rate increase. At a combined total of \$107 million, these two cases amount to more than 76% of the total amount requested by all utilities in 1982.

PUC RATE CASE DECISIONS (1982)

<u>Category</u>	<u>Cases</u>	<u>\$ Requested</u>	<u>\$ Granted</u>	<u>Difference</u>
Electric	4	88,752,985	46,265,477	42,487,508
Telephone	1	21,500,000	-0-	21,500,000
Water				
District & Municipal	28	9,624,636	9,574,799	49,837
Investor-Owned	14	4,433,054	3,997,658	435,396
Gas	<u>1</u>	<u>16,156,118</u>	<u>15,232,952</u>	<u>923,166</u>
TOTALS (1982)	48	140,466,793	75,070,886*	65,395,907

* Does not include \$1,706,000 remanded by Law Court to NET in M.P.U.C. Docket No. 80-142, case originally decided in 1981, remand decided in October, 1982.

1982 ELECTRIC RATE CASES

	\$ <u>Requested</u>	\$ <u>Allowed</u>	<u>Return on Rate Base</u>	<u>Return on Equity</u>
Central Maine Power Co. Docket No. 81-127 Decree Date - 3/27/82	69,300,000*	31,895,000	12.3	15.4
Bangor Hydro-Electric Co. Docket No. 81-136 Decree Date - 4/8/82	15,457,791	12,009,944	13.7	16.4
Union River Electric Coop. Docket No. 81-148 Decree Date - 3/22/82	419,544	417,276	N/A	N/A
Maine Public Service Co. Docket No. 82-5 Decree Date - 11/24/82	<u>3,575,650</u>	<u>1,943,257</u>	13.3	16.5
TOTALS (4 cases)	88,752,985	46,265,477		
				Difference--\$42,487,508

* Approximately \$15 million of this was appealed to the Law Court, and in a remand decision issued on January 14, 1983, no additional rates were granted by the Law Court.

NOTE: This list does not include temporary rate decisions, fuel clause adjustments, or investigations.

FUEL IN ELECTRIC RATES

<u>COMPANY</u>	<u>1981 GROSS REVENUE</u>	<u>1981 FUEL REVENUE</u>	<u>1981 % FUEL</u>	<u>1982 FUEL REVENUE</u>	<u>% CHANGE IN FUEL REVENUE</u>
Central Maine Power	377,683,579	193,078,785	51.1	180,697,317	(6.4)
Bangor Hydro-Electric	80,603,814	48,270,396	59.9	39,494,290	(18.2)
Maine Public Service	<u>29,205,611</u>	<u>12,735,897</u>	43.6	<u>9,976,596</u>	(21.7)
	487,493,004	254,085,078		230,168,203	

NOTE: Above data indicates proportionate ratio of fuel revenue to gross revenues (1981) for Maine's three largest electrical utilities. Also presented is data indicating impact of Chapter 34 proceedings affecting these three electric utilities in 1982. All three experienced declines in fuel revenues.

Not included is data for twelve smaller electrical utilities which when combined account for less than 10% of total electrical sales in Maine. These twelve smaller utilities are not involved in Chapter 34 proceedings, as their fuel charges change automatically on a monthly basis, based upon historical cost data. Combined gross revenues of the twelve smaller electric utilities were \$14.2 million in 1981, of which greater than 50% were fuel revenues.

1982 TELEPHONE RATE CASES

<u>Name of Company</u>	<u>Amount Requested</u>	<u>Amount Granted</u>	<u>Overall Return</u>	<u>Return on Equity</u>
New England Telephone and Telegraph Co. Docket No. 82-6 Decree Date - 5/11/82	\$21,500,000	-0-	--	--

* Does not include \$1,706,000 remanded by the Law Court to New England Telephone Company in M.P.U.C. Docket No. 80-142, case originally decided in early 1981, and remand decided in October, 1982. Approximately \$14 million had previously been granted and approximately \$25 million was outstanding on appeal, of which \$1.7 million was remanded.

1982 WATER RATE CASES

	<u>\$</u> <u>Requested</u>	<u>\$</u> <u>Allowed</u>	<u>Return on</u> <u>Rate Base</u>	<u>Return on</u> <u>Equity</u>	<u>Decree Date</u>
81-92 Caribou Water Works Corp.	711,048	626,730	12.86	15.5	1/21/82
81-93 Eastport Water Co.	290,457	258,979	12.86	15.5	1/21/82
81-94 Greenville Water Co.	134,112	113,027	12.86	15.5	1/22/82
81-95 Mechanics Falls Water Co.	133,602	120,919	12.86	15.5	1/22/82
81-96 Millinocket Water Co.	443,455	419,096	12.86	15.5	1/22/82
81-284 North Yarmouth Water Dist.	23,926	23,926	N/A	N/A	\$72
81-98 Belfast Water Dist.	242,533	225,417	N/A	N/A	2/9/82
81-124 Kingfield Water Dist.	DISMISSED				3/18/82
81-232 Van Buren Water	WITHDRAWN				\$72
82-21 Old Town Water Dist.	605,559	605,559	N/A	N/A	\$72
82-29 Kittery Water Dist.	996,300	996,300	N/A	N/A	\$72
81-153 Sanford Water Dist.	722,962	716,273	N/A	N/A	4/15/82
82-35 Gray Water Dist.	109,500	109,500	N/A	N/A	4/9/82
82-46 Fort Fairfield Utility Dist.	192,498	192,498	N/A	N/A	\$72
82-60 York Water Dist.	786,900	786,900	N/A	N/A	\$72
81-236 Maine Water Company	1,232,227	1,147,376	12.89	N/A	6/3/82
82-74 Winthrop Water Dist.	144,245	144,245	N/A	N/A	\$72
82-25 Maine Water Co.-Wiscasset Div.	FIRE PROTECTION CHARGES ONLY				
81-198 Cornish Water Co.	73,143	56,164	13.67	14.0	6/3/82
82-13 Cornish Water Co.	WITHDRAWN				
82-87 Auburn Water Dist.	833,151	833,151	N/A	N/A	6/9/82
82-14 Van Buren Water Dist.	192,428	183,696	N/A	N/A	5/12/82
82-90 Brunswick & Topsham Water D.	924,640	924,640	N/A	N/A	\$72
82-97 Kingfield Water Dist.	28,085	28,085	N/A	N/A	\$72
82-98 Norridgewock Water Dist.	38,625	38,625	N/A	N/A	\$72
82-106 Highland Water Co.	1,792	1,792	11.9	14.0	6/6/82
82-115 East Boothbay Water Dist.	107,879	107,879	N/A	N/A	\$72
82-119 Bridgton Water Dist.	110,519	110,519	N/A	N/A	\$72
81-247 Houlton Water Co.	308,700	319,025	7.89	7.23	8/5/82

	<u>\$</u> <u>Requested</u>	<u>\$</u> <u>Allowed</u>	<u>Return on</u> <u>Rate Base</u>	<u>Return on</u> <u>Equity</u>	<u>Decree Date</u>
81-249 Fryeburg Water Co.	133,000	133,688	12.30	14.0	8/11/82
82-121 Jay Village Water Dist.	PRIVATE FIRE PROTECTION RATE ONLY				
82-127 Bangor Water Dist.	1,608,959	1,608,959	N/A	N/A	\$72
82-140 North Jay Water Dist.	27,878	27,878	N/A	N/A	\$72
82-141 Dover & Foxcroft Water Dist.	107,254	107,254	N/A	N/A	\$72
82-154 Clinton Water Dist.	107,811	107,811	N/A	N/A	\$72
82-155 Augusta Water Dist.	1,300,000	1,300,000	N/A	N/A	\$72
82-158 Dexter Utility Dist.	95,979	95,979	N/A	N/A	\$72
82-70 Hampden Water Dist.	193,795	176,495	N/A	N/A	5/5/82
82-192 Pittsfield Water Works	123,210	123,210	N/A	N/A	\$72
82-67 Ellsworth Water Co.	389,534	332,363	12.79	15.5	11/5/82
82-68 Skowhegan Water Co.	581,984	468,499	12.79	15.5	11/5/82
82-194 Patten Water Dept.	LATE PAYMENT CHARGES ONLY				

NOTE: The notation "\$72" in the Decree Date column indicates that the rates went into effect by operation of law, and no formal decree document was issued by the Commission. However, the Commission does continue to review each \$72 filing and does formally act upon each in public agenda sessions.

<u>TOTAL WATER CASES (12 MONTHS)</u>	<u>REQUESTED</u>	<u>ALLOWED</u>	<u>DIFFERENCE</u>
District and Municipal (28 Cases)	9,624,636	9,574,799	49,837
Investor-owned (14 Cases)	4,433,045	3,997,658	435,396
<u>TOTALS (42 Cases)</u>	<u>14,057,690</u>	<u>13,572,457</u>	<u>485,233</u>

1982 GAS RATE CASES

	<u>\$</u> <u>Requested</u>	<u>\$</u> <u>Allowed</u>	<u>Return</u> <u>on Rate</u> <u>Base</u>	<u>Return</u> <u>on</u> <u>Equity</u>
Northern Utilities, Inc. Docket No. 82-15 Decree Date - 06/25/82	16,156,118	15,232,952	12.51	N/A
Northern Utilities, Inc. Docket No. 82-253 Decree Date - 12/30/82	COST OF GAS ADJUSTMENT			

PUC RATE CASE DECISIONS (1978-1982)
(All Utility Categories)*

<u>Year</u>	<u>Rate Increases Requested</u>	<u>Rates Allowed</u>	<u>Difference</u>
1978	\$ 55.7 million	\$ 26.0 million	\$ 29.7 million
1979*	7.1 million	7.9 million	(.8 million)
1980	60.6 million	37.4 million	23.2 million
1981***	94.2 million	60.6 million	33.6 million
1982****	<u>140.5 million</u>	<u>75.1 million</u>	<u>65.4 million</u>
5-YEAR TOTALS	\$358.1 million	\$207.0 million	\$151.1 million

*

Data presented by years are not directly comparable, as noted in following footnotes. Data presented does not include fuel adjustment increases depicted in Exhibit D-1.

**

1979 data reflect absence of major rate cases, as well as absence of data for water, gas, and transportation utilities.

Data for 1981 do not include transportation utilities, data regarding which were included in 1978 and 1980 figures.

Data for 1982 do not include transportation utilities. Commission lost jurisdiction over nearly all transportation utilities on December 31, 1981, pursuant to Chapter 469 of Public Law (1981).

IV. PUBLIC UTILITIES COMMISSION FISCAL INFORMATION

As noted previously, the Commission is required to report annually to the Joint Standing Committee on Public Utilities on its planned expenditures for the year and on its use of funds for the previous year. All fiscal information in this Report is based on the State's fiscal year, which begins July 1 and ends June 30. The data covers the fiscal year which ended June 30, 1982, the current fiscal year (FY 1982/83), and both years of the coming biennium (FY 83/84 and FY 84/85).

The sources of PUC funding are presented in Exhibit I (p. 26). During the period covered, the Commission moved from multiple-source funding to two basic sources of income, the State's General Fund and the Regulatory Fund, which is raised through charges levied on regulated utilities.

A Federal Department of Energy grant under the Public Utilities Regulatory Policy Act (PURPA) represented a substantial source of funding for PUC consultants from 1979 until the end of 1982 when the grant stopped. At the end of 1982, a grant from the Federal Water Utilities Assistance Program also ended. The Commission lost its dedicated revenues from the State Transportation Fund on June 30, 1982, because the Commission had relinquished its authority to regulate transportation.* In

*

The Commission relinquished regulatory jurisdiction over transportation on December 31, 1981, but Chapter 469 of Public Law (1981) provided for Commission funding from the Transportation Fund through June 30, 1982.

addition, the Commission's General Fund appropriation declined by \$300,000 in 1981 as a result of the establishment and funding of the Public Advocate's Office.

However, money available to the Commission through the Regulatory Fund has increased with legislative approval in recent years, to compensate for revenues lost as a result of federal grant close-outs, Public Advocate Office funding, and the non-availability of Transportation Fund resources.

The Commission is currently funded solely through the General Fund and the Regulatory Fund. Under legislation passed in the spring of 1982, the PUC is authorized to raise \$1.3 million annually through the Regulatory Fund assessment, and the agency's General Fund appropriation is \$603,966 for the current fiscal year.

Exhibit I (p. 26) also indicates revenue from the new "Decommissioning Fund" and the "Purchase Power Fund." These are filing fees paid by utilities under legislation enacted in the spring of 1982. The Decommissioning Fund was authorized by Chapter 688 of Public Law (1982), "An Act to Ensure Funding for the Eventual Decommissioning of any Nuclear Power Plant." The Purchase Power Fund was authorized by Chapter 673 of Public Laws (1982), "An Act Requiring Public Utilities Commission Approval for the Purchase of Portions of Electrical Generating Facilities by Electrical Companies or Fuel Conversion and Electrical Generating Facilities." The Legislature's rationale in

authorizing the new fees was that these laws created additional work for the Commission that had not been taken into account in prior budget considerations.

The State Budget Bureau has provided the Commission with targeted General Fund amounts for both years of the forthcoming biennium, and the budget data presented for fiscal years 83/84 and 84/85 includes those figures as well as anticipated Regulatory Fund income.

Section VI of this Report presents information supporting the Commission's request for increases in the Regulatory Fund of \$150,000 during FY 83/84 and \$200,000 during FY 84/85.

The agency's actual and anticipated expenditures by major categories for the past, current and next two fiscal years are shown in Exhibit J (p. 27). In traditional fiscal data presentations the "consultants" sub-category is included as an "All Other" expense, but it is broken out and presented separately here because it represents a vital expense to the Commission. The agency employs outside consultants to assist in complex regulatory issues. Unless the Legislature approves the Commission's request for small increases in the Regulatory Fund during fiscal years 1983/84 and 1984/85, PUC funding will remain static through FY 1984/85.

SOURCES OF PUC FUNDING

<u>REVENUE SOURCE</u>	<u>1981/82 EXPENDITURES*</u>	<u>1982/83 BUDGETED</u>	<u>1983/84 BUDGETED</u>	<u>1984/85 BUDGETED</u>
<u>State Funding:</u>				
General Fund	630,443 (22)	603,966 (22)	684,992 (22)	700,977 (22)
Regulatory Fund**	622,930 (14)	1,406,466 (32)	1,300,000 (32)	1,300,000 (32)
Transportation Fund***	493,953 (41)	-0-	-0-	-0-
Decommissioning Fund****	-0-	35,000	-0-	-0-
Purchase Power Fund****	-0-	3,340	-0-	-0-
Total State Funding	1,747,326 (77)	2,048,772 (54)	1,984,992 (54)	2,000,977 (54)
<u>Other Funding:</u>				
Federal Water Grant	22,127	-0-	-0-	-0-
PURPA	248,513	-0-	-0-	-0-
Other Funding Total	270,640	-0-	-0-	-0-
TOTAL	<u>2,017,966</u>	<u>2,048,772</u>	<u>1,984,992</u>	<u>2,000,977</u>

* Data presented represents PUC income actually expended in FY 81/82.

** 82/83 Budget includes encumbrance balance brought forward of approximately \$75,000 and 7% brought forward - \$31,500.

*** Transportation was deregulated 1/82. Accordingly, 18 positions were transferred to Regulatory Fund 1/82.

**** Represents income from "filing fees" authorized by 2nd Session, 110th Maine Legislature.

Exhibit J

MAJOR EXPENSE CATEGORY	USES OF PUC FUNDING			
	<u>1981/82 EXPENDITURES</u>	<u>1982/83 BUDGETED</u>	<u>1983/84 BUDGETED</u>	<u>1984/85 BUDGETED</u>
<u>State Funding:</u>	(77)	(54)	(54)	(54)
Personal Services	1,376,411	1,325,591	1,486,125	1,513,284
Consultants	313,902	443,826	242,400	229,000
All Other Expenses	300,072	256,355	248,067	249,493
Capital	<u>27,581</u>	<u>23,000</u>	<u>8,400</u>	<u>9,200</u>
Total State Funding	2,017,966	2,048,772	1,984,992	2,000,977
	(77)	(54)	(54)	(54)

V. MAJOR ISSUES BEFORE THE MAINE PUBLIC UTILITIES COMMISSION

General.

The Commission and its staff regularly deal with complex issues having profound implications both for the State's public utilities and its people. Electric utilities have dominated Commission activity for the past few years, but several recent federal decisions are propelling telecommunication issues to the forefront. The major issues affecting electric, telecommunication, water and gas utilities in Maine are summarized below.

A. Electric Utilities.

Electric utilities continued to be the focus of the majority of the Commission's work in 1982. Maine's three largest electric companies, Central Maine Power Company (CMP), Bangor Hydro-Electric Company (BHE), and Maine Public Service Company (MPS), all had major rate increase requests decided by the Commission last year. The CMP, BHE and MPS cases were decided on March 27, April 8, and November 30, 1982, respectively. Fuel adjustment cases for CMP, BHE, and MPS were also completed.

In addition, the three utilities all requested permission from the Federal Energy Regulatory Commission (FERC) during 1982 to increase rates to their wholesale customers,

which are smaller Maine electric utilities. The PUC intervened in these cases to ensure that the public was adequately represented and that FERC was informed of particular problems involving these cases which might not otherwise have come to its attention. The BHE and MPS cases were settled before the end of the year.

Several major issues surfaced in the CMP, BHE and MPS rate proceedings before the Maine Commission last year. These included the effects of inflation on operating and maintenance costs, the effects of high interest rates on capital costs, and the difficulty of financing the construction of new generating facilities. These problems are likely to continue to challenge the utilities and the Commission in 1983.

Other important issues before the Commission this year will include requests for approval of out-of-state power purchases, the proposed CMP corporate reorganization, electric rate design issues, the proposed Hydro-Quebec Interconnection, avoided cost rates, and plans for decommissioning Maine Yankee. The Commission will continue to emphasize the importance of alternative energy sources and conservation when evaluating utilities' load forecasts and generation plans. Last year CMP, BHE and MPS, with the assistance of the Office of Energy Resources and the Public Advocate, began conservation loan programs for their residential customers. The Commission ordered the utilities to set up such programs under authority

granted to the PUC by the Legislature in 1982. The PUC also ordered these utilities to develop similar loan programs for commercial customers in 1983. The cost of the loan programs is expected eventually to be retrieved through savings in fuel and in avoidance of the need for new generating equipment. A discussion of specific electrical utility issues follows.

1. Financial Status of Electric Utilities.

Maine's electric utilities, like others across the country, currently face difficult financial situations. Growth in electric sales has slowed, but costs continue to increase, and utilities need to borrow large amounts to finance construction programs. Utilities must raise this money in the nation's financial markets, by issuing stocks and selling bonds. In the past few years, inflation and construction delays have pushed the costs of many projects much higher than anticipated, and instability in the money markets has made it much more difficult to borrow at attractive rates. For utilities committed to sizable construction programs, the resulting financial strain has eroded earnings and made them far less attractive as investments. As a result, they must pay even more to borrow money, because investors seek higher returns to compensate for the added risk of investing in a less healthy company. Utilities then raise their rates to reflect this increased cost of borrowing.

In this situation, everyone is unhappy. Utility shareholders believe their investments are being confiscated through the issuance of additional shares below book value and are upset when earned returns are low. Utility officials are displeased when they believe the Commission is not allowing them to charge rates high enough to maintain the financial health of their companies and to permit needed construction programs. Ratepayers are angry at rising rates, resentful of the monopoly status of the utilities, and confused by the laws and principles under which the Commission must act in setting rates. The Commission finds itself asked to make increasingly difficult decisions in numerous complex cases. Because electric rates have tended to rise even faster than inflation, even fair regulation seems unjust to many citizens facing economic hardship. The Legislature, in turn, receives more and more proposals for changes in utility laws and in the Commission.

The Commission must struggle with these problems and try to find solutions that are fair to both ratepayers and shareholders, that keep the utilities financially sound, and that reflect a full and fair assessment of the wisdom of the construction programs which the utilities have undertaken.

Most New England electric companies developed their current construction programs in the early 1970's, before the full impact of the oil price increases was felt. Consequently, their load forecasts, which showed a need for

additional generating capacity, in many instances projected substantially higher rates of growth in demand for power than actually occurred in recent years. As reality turned out to differ from the forecasts, five planned nuclear plants were cancelled. Today, the only major generating stations being built in New England are the Millstone Unit 3 and Seabrook Units 1 and 2. The fate of Seabrook 2 is open to question.

Even with the cancellations, however, the investment in the remaining plants is substantial and is placing great strain on Maine's major electric companies. Utilities allege that this strain is increased by the Commission's policy against allowing utilities to earn a return on plant under construction but not yet in service. This is the issue of "construction work in progress," or "CWIP." The consequence is that utilities must borrow large sums of money to finance construction from lending institutions rather than from customers on the theory that customers should not pay for a plant until it is serving them. These borrowing costs must be paid out of net earnings, and as the cost of the investment in a plant under construction grows, the net earnings are further depleted.

In extreme cases, utilities find themselves in such poor financial condition that they may not legally sell bonds, or cannot issue additional stock without severely diluting the value of the stock held by existing shareholders,

or are unable to borrow funds on even a short-term basis because lenders fear they will not be repaid. All these problems affected Maine Public Service Company. Accordingly, the Commission in late 1982 ordered MPS to sell 50% of its share of Seabrook I and II. While the other major electric utilities are not now in as difficult a situation as MPS, their basic financial problems are similar.

2. The "Prior Approval" Issue.

Last year, the 110th Legislature enacted an expanded prior approval law. Chapter 673 of the Laws of 1982, added §§13-B and 13-C to Title 35. These new sections broaden the Commission's power to review proposed investments by electric utilities in new generating and transmission facilities.

Under the original law, any utility planning to build a major new generating plant or transmission facility within Maine was required to obtain prior approval from the Commission. The new law expands that request to cover investments in facilities outside the State. The reasons behind this legislation were discussed in the Commission's Annual Report of a year ago.* The Report pointed out that since the original law was intended to give the Commission authority to review proposed projects

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See pages 23-26 of the Public Utilities Commission's Report to the Joint Standing Committee on Public Utilities, Maine Legislature, February, 1982.

before utilities committed large sums of money to them, and since Maine utilities can and have committed extremely large sums to out-of-state facilities, the Commission's prior approval authority should be expanded to embrace out-of-state investments.

The Commission believes that its review of proposed projects should be especially careful, stringent, and thorough. Otherwise the Commission might approve an unwise investment by a utility and then find it difficult or impossible to hold the utility responsible for making an unwise investment. In some cases, the Commission will want the services of competent and highly qualified consultants to aid in its evaluation of proposed projects.

Thus far, the only review that the Commission has undertaken under the new law involved commitments to the Hydro-Quebec Interconnection.

3. Hydro-Quebec Interconnection.

Since the Commission's power over investments was expanded to include out-of-state facilities, two Maine utilities requested, and were granted, permission to purchase interests in a proposed high-voltage transmission line. In October, 1982, both Central Maine Power Company and Bangor Hydro-Electric Company filed petitions seeking authorization to invest in a proposed high-voltage transmission interconnection between a major Canadian utility, Hydro-Quebec, and the integrated New

England electrical grid. The proposed facility would have a capacity of 690 MW and would transmit electricity over a 450 KV direct-current transmission line. The total cost of constructing the transmission line is estimated at about \$186 million. Central Maine Power Company and Bangor Hydro-Electric shares in the project are approximately 7.37% and 1.59% respectively. The Commission granted both petitions on November 12, 1982, approximately 30 days after the filing of the petitions.

4. The CWIP/AFUDC Issue.

The term "construction work in progress" (CWIP) means utility operating property that is under construction and therefore not yet providing service to ratepayers. The term "allowance for funds used during construction" (AFUDC) refers to the financing costs associated with CWIP, such as the interest costs of borrowed funds.

Generally, a portion of the rates charged by utilities covers the financing costs associated with the utility's investment in operating property. These financing costs include interest on borrowed funds and a reasonable return on equity investment.

The fundamental issue involving CWIP and AFUDC is whether current rates should also reflect the financing costs of utility property which is not yet providing service to ratepayers.

The Commission's historic policy, despite repeated utility requests to be allowed to include CWIP costs in current rates, has been that ratepayers should only pay costs associated with utility property that is producing power. So the Commission has barred utilities from collecting CWIP charges from ratepayers. Instead, these CWIP charges are added to the total cost of the plant and charged to the customers once the plant goes into operation.

When a plant begins producing power, investors receive a return on their investment and a return of their investment, including the accrued AFUDC, through rates. So the total construction costs of a plant are generally recovered during the period the plant provides service. This ensures that those who benefit from the plant are those who pay for it.

In recent years, construction budgets and financing costs have risen dramatically. This has forced the PUC to carefully weigh the costs and benefits to ratepayers were it to deviate from its long held belief that customers benefiting from a plant should be the ones to pay for it. The Commission, in several rate cases, has looked at the expected consequences to ratepayers, utilities and the public if it should change that policy.

In 1982, rate cases involving Central Maine Power, Bangor Hydro-Electric and Maine Public Service presented the Commission with several issues regarding CWIP and AFUDC.

The Commissioners evaluated each Company's financial condition in light of its construction program. They determined that the financial conditions of the three companies did not warrant rate increases to provide a cash return on CWIP, which would transfer the financing costs from future to current ratepayers.

The Commission's only departure from its overall CWIP policy involved decisions in the MPS and BHE cases to defer tax benefits associated with plant financing costs, so that today's ratepayers do not benefit from them. The Commission last year ruled that, to ensure the financial integrity of MPS and Bangor Hydro-Electric, those tax deductions should benefit customers when the plants begin producing power rather than while the plants are being built.

5. The Cost of Cancelled Plants.

Because the demand for electricity has not grown as much as had been projected, utilities have canceled a number of proposed nuclear plants in New England in which Maine utilities owned shares. Although construction had not progressed on these units, money had been spent for materials and equipment, land, work on permit and license applications, environmental tests, engineering work, and management time. Since Maine utilities are not permitted to earn a return on these investments until the plants go into operation, the AFUDC allowance equal to the amount of that return is credited to the

utility and added to the total amount invested in the project (CWIP), so that it can actually be recovered through rates when the plant goes on line.

Thus, the amount of the utility's investment at any particular time consists of two parts; the actual investment in labor and materials (capital) and the accrued interest and dividends on that investment (return on capital). When the plant goes into operation, investors recover their capital, plus the accrued AFUDC, over the life of the plant through depreciation charges, and they earn a current return on the undepreciated balance of that capital.

When a proposed plant is cancelled, there will be no useful life over which the investment can be recovered, and no customers using electricity from the plant and paying for it through rates. Instead, the only way the investment can be recouped is by amortizing it over a number of years and collecting it through rates over that time. The unrecovered balance of the invested capital may or may not be permitted to earn a rate of return during the amortization period.

In the 1980 Central Maine Power Company rate case, the Commission for the first time had to decide how the costs of a cancelled plant should be recovered. The general principle approved in that case is that investments may be recovered unless the Commission finds they were incurred imprudently. The Commission may, however, make adjustments to

balance the financial harm resulting from a cancelled investment between ratepayers and shareholders. In the 1980 case, the Commission found that CMP had demonstrated that it was not imprudent in planning to construct the plant (a nuclear plant on Sears Island), and therefore was entitled to recover the capital it had invested in the plant, amortized over five years.

The accrued AFUDC, however, was another matter. The Commission decided that although the investors were entitled to a recovery of their invested capital, they would not be permitted to recover the accrued return on that capital, and CMP was not permitted to recover the accrued AFUDC through rates. The Company appealed the decision, but the Maine Supreme Court upheld the Commission.

The Commission reasoned that although capital not imprudently invested must be returned to the utility through rates, the hardship wrought by a plant cancellation should not be borne solely by ratepayers but also by shareholders. Ratepayers were not required to pay the accrued AFUDC, nor was the Company permitted to earn a return on the unamortized balance of the invested capital during the amortization period. Thus, no return could be earned on an investment in a plant that never provided service to the ratepayers.

In the CMP case decided in March of 1982, the Commission was faced with a request by the Company to recover in rates its investments in the cancelled Montague Nuclear Power

Station in Montague, Massachusetts, and Pilgrim No. 2 Nuclear Power Station in Plymouth, Massachusetts. CMP's total investment in Montague was \$1,586,279, including \$690,985 of AFUDC and its investment in Pilgrim was \$14,522,115, including \$4,851,762 of AFUDC.

The Commission found that CMP had acted prudently in limiting its investment in Montague to the absolute minimum when it became apparent that continued construction was questionable. Therefore, the Commission adhered to its policy and allowed CMP to amortize over five years the non-AFUDC portion of its investment in Montague. But with respect to CMP's investment in Pilgrim, the Commission found that the record in the case was insufficient to determine whether CMP's actions had been prudent. Therefore, the issue was set aside for further investigation, with no recovery of the investment to be allowed until the review is finished. The Commission now expects to complete the Pilgrim investigation during the rate case CMP is planning to file in February of 1983.

While some people argue that none of the costs of a cancelled plant should be recovered from consumers, there is a risk associated with such an argument. The realities of the financial markets suggest that if utilities could not recover even their basic investment, let alone the accrued return, they would be hard pressed to borrow capital at reasonable rates, if at all. Even the kind of sharing policy implemented by the

Maine Commission is looked on with disfavor by the investment community.

This situation prompts an observation about the essential dilemma of utility regulation. That is, that while utilities have monopolies on providing service to their customers, they must compete with all other business for labor, materials, and particularly for capital. The role of the Maine PUC and of similar commissions in most states is to act as a surrogate for competition. The State permits the utility to have a monopoly in providing service, in return for submitting to regulation intended to preserve the beneficial effects of competition. These benefits include more efficient management, better service, and the lowest rates possible consistent with safe and adequate service.

This model is strained, however, when the Commission, if it were to act entirely as competition would, would have to do things that would impair the utility's financial health. This strain occurs because the worse a utility's financial condition, the greater its risk as an investment and the higher the returns investors require to compensate for this increased risk. Since utilities are generally extremely capital intensive industries, these higher borrowing costs have a great impact and cause retail rates to rise.

Consequently, unless a commission is willing to permit a utility to go bankrupt or risk even higher rates and less reliable service to its customers, a real but undefinable limit exists on how far it can go in treating the utility as if it were truly a competitive enterprise. With the three major Maine electric utilities facing difficult financial situations, the Commission finds itself closer than ever to that limit. Yet the utilities do lack the stimulus of competition, and it is vital to the whole notion of utility regulation that that stimulus be applied where appropriate, or the drawbacks of the monopoly situation will never be counteracted and all ratepayers will pay the price. Again and again in recent years, the Commission has had to judge where this limit on its ability to simulate competition lies and, as the stakes rise on all sides, that judgment becomes more difficult.

6. Rate Design.

The issue of how rates should be structured to recover the needed revenues from utility customers is complex and difficult. The Commission has completed extensive investigations of this issue for BHE and CMP, and anticipates making final decisions by mid-1983. Much testimony was presented during many hearing days in these cases, and the Commissioners hope the evidence will enable them to improve the design of retail electric rates for these companies. A similar investigation of MPS is in its early phase.

While the Commission over the years has established policies and techniques used in determining overall revenue requirements for utilities, it has not done the same for rate designs. The topic has been investigated to some degree in the past during CMP rate cases, but the Commission has never had the time and resources to conduct a full investigation and make comprehensive findings about rate design. Thanks to a Federal grant and the requirements of PURPA (the Public Utility Regulatory Policies Act, part of the 1978 National Energy Act), the Commission is now in a position to do this.

Basically, the Commission believes, and State and Federal law direct, that rates should reflect the actual cost of providing the service that the ratepayer uses. In this way, each user of electricity gets accurate information about the economic consequences of his or her use and can make the wisest decisions about using electricity. Prices that exceed the cost of providing the service discourage efficient use of electricity, while prices below cost encourage waste and unwise use of scarce resources. In addition, if some customers pay less than the actual costs, others must pay more so the utility can earn the money permitted by the Commission.

Determining what it costs a utility to serve any one customer or class of customers is not easy, and one of the major issues in the rate design cases is the question of how best to do this. Utilities try to derive these costs by

conducting "cost-of-service" studies in which all the costs incurred in providing service are allocated to various classes of customers. The intent of the studies is to group customers with similar usage characteristics, because the cost depends upon those characteristics. For example, customers who take electricity through a secondary distribution system (the system of poles and wires commonly seen along roads and highways and connecting to houses and other buildings) require a greater investment by the utility to build that distribution system than do the customers (primarily industrial) who take their electricity directly from the transmission system. Customers who use electricity during peak hours, when demands on the utility system are highest, cost more to serve than those who use electricity off peak.

The challenge to the Commission in the rate design cases is to determine the best type of "cost-of-service" study and then, once the costs are determined, to decide what rate structure will best reflect them. Rates should be understandable to customers and any changes should be put into effect in a fair and orderly fashion. Because these decisions affect the share of the utility's total revenues that each customer class must pay, many parties are participating in these cases, each seeking vigorously to protect his or her interests. This has caused some delay in the processing of these cases, as the parties have requested additional time to prepare their

testimony. Often customers in the same class do not agree on a rate design for that class. Sensible decisions in this area will result in rates that better encourage wise use of electricity, discourage waste, and allocate the costs more accurately to those who cause them.

7. Decommissioning.

Maine Yankee Atomic Power Company has filed a proposed decommissioning financing plan with the Commission for approval under legislation enacted in 1982. The proposed plan contains estimates of the cost of decommissioning the nuclear plant and guidelines for the investment of funds collected in advance to cover this cost. Maine Yankee is a single-asset corporation which owns only one generating plant. When the nuclear plant permanently ceases to generate electricity, the Company will have no electricity to sell and thus no way to raise the money needed to close it down according to Nuclear Regulatory Commission requirements. Therefore, it is reasonable that money for this purpose, which is a legitimate expense of providing service, be collected in advance and prudently invested so that adequate funds are available when needed for decommissioning. In addition, the Commission and Legislature believe it is fairer to charge these decommissioning costs to ratepayers who use the power from the plant, rather than to raise the money after the plant is closed.

The PUC participated actively in the special committee established by the Governor that drafted the legislation enacted in 1982, requiring Maine Yankee to set up a decommissioning fund and setting the basic structure for the fund. The Commission also intervened in a case at the FERC in which Maine Yankee asked for, and was eventually given, permission to begin billing decommissioning costs to its owner utilities who would pass them on to ratepayers. Central Maine Power Company is the largest shareholder of Maine Yankee. The other owners are Bangor Hydro-Electric Company, Maine Public Service Company and eight out-of-state electric companies.

The PUC decided the basic method for recovering these decommissioning costs in the 1980 CMP rate case, and Maine Yankee adopted the method in its proposal to the FERC. Maine Yankee's proposal was accepted by FERC in August, 1982, despite concerns raised by the Maine Commission and the Public Advocate that the actual amount to be collected would be inadequate because it would not cover the income taxes associated with the revenues. (See the last paragraph of this section.)

For several months after the Commission authorized CMP to collect funds for decommissioning through rates, FERC had not yet authorized Maine Yankee to bill CMP for those funds. Consequently, CMP collected some funds but never gave them to Maine Yankee. In the CMP rate case decided in March, 1982, the Commission ordered CMP to treat those funds as

if they had actually been paid to Maine Yankee. Thus, any shortfall in the amounts accrued for decommissioning as a result of Maine Yankee's failure to bill CMP for several months in 1981 would be made up from CMP's earnings and not re-billed to CMP ratepayers.

A major unresolved issue is whether the utility must pay federal corporate income taxes on money collected in advance for decommissioning. At present, because these funds are not used for current expenses (which are tax-deductible), they are taxed. This means that for every dollar Maine Yankee sets aside in its decommissioning fund, it must collect nearly two dollars to pay the taxes. Clearly, Federal legislation or a ruling by the Internal Revenue Service reversing this situation would mean that less would have to be collected through rates to pay for decommissioning, thus reducing the cost to ratepayers. Maine Yankee is seeking such a ruling.

8. Avoided Cost Rates.

Both State and Federal law encourage development of renewable, efficient and indigenous sources of electricity by requiring electric utilities to purchase power offered for sale by certain small power producers and cogenerators (defined as "qualifying facilities" in Commission rules). If the utility and the qualifying facility cannot agree on the price and terms of the sale, the Commission is required to set the price and other contract terms.

The Commission, after extensive public participation, adopted a rule to carry out its statutory duties in this area. This rule, which took effect in June 1981, permits utilities and qualifying facilities to agree on any terms they choose for the purchase and sale of electricity. If they cannot reach agreement, however, the Commission is to set the price equal to what it would cost the utility to produce the power. This is the cost which the utility avoids incurring by making the purchase, and therefore is referred to as "avoided cost." The rule provides detailed guidance for determining a utility's avoided cost. The Commission has completed the investigation of CMP's avoided short-term and long-term cost and expects to set these rates early in 1983. Investigations of BHE's and MPS's avoided costs are continuing.

The Commission believes there is significant potential for the economical development of electricity from renewable resources in Maine through small power production and cogeneration. The laws and the Commission's rule are designed to encourage such development without increasing the financial burden on either utilities or ratepayers. With the market for electric power controlled by utilities, and with a multitude of developers of small dams and cogeneration projects trying to negotiate agreements with utilities to sell their power, the Commission-established rates are the critical factor that can effectuate or frustrate the policy behind the laws. For

development of these alternate sources to continue, it is important that the Commission be consistent, fair, and predictable in its interpretation and implementation of the law and rule, and it is vital that the Commission process cases arising under its rule promptly and effectively.

9. Commission's Decision Regarding MPS's Need for Seabrook.

In September 1980, Maine Public Service Company filed for a rate increase which included a request that it be allowed to bill customers for 25% of its Construction Work in Progress (CWIP) costs for the utility's 1.46% (33.6 megawatt) interest in two nuclear units under construction at Seabrook, New Hampshire. In June 1981, the Commission denied the Company's request for CWIP and expressed concerns about the prudence of its Seabrook investment. The Commissioners ordered an investigation to determine the Company's need for Seabrook and whether the utility required "extraordinary" rates to finance its capacity and energy needs until the units begin producing power.

After a year and a half of active litigation, including two occasions when emergency rates were granted to help the Company obtain interim financing, the Commission approved a stipulation among the parties settling the case in November, 1982. The stipulation provided that Maine Public

Service now needed only about 50% (16.8 megawatts) of its Seabrook investment. The parties also agreed that the utility did not need the remaining 50% and that MPS would make a good faith effort to sell half of its investment within the next twelve months. The Commission further indicated that it did not limit the Company to disposing of only 50% of its Seabrook ownership.

Aside from its sheer complexity, the case is significant because it required the Commission to come to grips with a utility that had clearly (and without adequate planning) overprojected its generation needs to its own financial detriment. The Commission had to forge a solution consistent with the requirements of ratepayers without jeopardizing the long-run financial health of the utility. The methodology and analysis used in this investigation will likely serve as a model for future PUC reviews under 1982 legislation which requires prior Commission approval of significant electric utility investments.

10. CMP Reorganization.

Another significant matter pending before the Commission is Central Maine Power Company's application for approval of reorganization, filed under the amendment to Section 104 of Title 35 which was enacted during the last legislative session. The utility proposes setting up a holding

company that would own both the existing Central Maine Power and a proposed subsidiary, Maine Energy Resources, Inc. (MERI). MERI, which would not be regulated by the Commission, would engage in small power production activities as well as in a possible joint venture developing peat for use as a fuel. The Company believes diversification would be beneficial in the following respects: (1) it would encourage the growth of small power production facilities and therefore reduce reliance on oil-fired generation; (2) successful diversification might reduce overall investment risk and therefore would reduce overall cost of capital; (3) diversification may assist the Company in attracting and retaining high quality management; and (4) diversification would avoid the limited prospects for growth in the regulated sector. CMP also believes that setting up a holding company structure would facilitate the formation of new subsidiaries in the future; would allow a clearer line of separation between regulated and unregulated business activities; would enhance financing flexibility; would allow decentralization of the individual operating companies; would communicate to investors and potential business partners that the Company was seeking to diversify; and would provide the best mechanism for insulating the CMP's operations and ratepayers from the risks and costs associated with the non-utility enterprises.

The Commission staff opposes the reorganization on a number of grounds. These include concerns that MERI's proposed activities may, in fact, create more rather than less financial risk for the holding company, and therefore for CMP; that the involvement of MERI in small power production projects may defeat the purposes of the Small Power Production Facilities Act, 35 M.R.S.A. §§2321 et seq., and of PURPA by allowing opportunities for anti-competitive practices which would ultimately harm ratepayers; that the Commission would not be able to obtain all information necessary for the proper regulation of CMP; and that insufficient safeguards exist to assure that ratepayers would not subsidize the non-regulated activities.

In considering these issues, the Commission must determine, as required by the governing statute, whether the proposed reorganization is consistent with the interests of the utility's ratepayers and investors. The Commission expects to issue a final decision this spring.

11. Winter Disconnection Rule.

On December 7, 1982, the Commission issued a revised Winter Disconnection Rule, updating the rule which has been in effect since February, 1980. The Winter Disconnection Rule governs the disconnection of service to residential customers by electric and gas utilities from December 1 through

April 15. The rule requires that when sending a disconnect notice during that period, the utility must offer to enter a special payment arrangement with customers who declare their inability to immediately pay the full amount due. The special payment arrangement usually allows the customer to pay off the winter bill in equal installments by the subsequent November 1.

The purpose of the Winter Disconnection Rule is to protect customers who are unable to pay their electric or gas bills from disconnection during the winter, when health and safety are at stake, and allow them to spread their payments over the summer months, when bills generally are lower. The Commission also requires electric and gas utilities to warn customers of the dangers of falling behind on their bills during the Winter Disconnection Period and inform them that payment arrangements are available, regardless of whether disconnection is actually threatened.

Significant recent additions to the Winter Disconnection Rule include the policy that electric and gas utilities should contact all customers who are in arrears by more than \$50 during the Winter Disconnection Period and attempt to establish a payment arrangement and the requirement that notices be printed both in French and English in the Biddeford, Lewiston, and St. John Valley areas.

The Winter Disconnection Rule is administered by the Consumer Assistance Division. The division sets payment

arrangements when the utility and the customer fail to agree. In addition, during the Winter Disconnection Period utilities must obtain permission from the division before disconnecting customers who have declared their inability to pay but failed to enter into, or comply with, a Special Payment Arrangement. During the 1981-1982 Winter Disconnection Period, the division investigated 917 requests to disconnect and granted 391. For the 1982-83 Winter Disconnection Period, as of January 19, 1983, the Consumer Assistance Division has received 57 requests to disconnect.

B. Telephone Utilities.

General.

Recent events in Washington, D.C., affecting the telecommunications industry have had a significant impact on all telephone utilities in the country, including those under the jurisdiction of the Maine Public Utilities Commission. Additionally, there has been intense interest in telephone issues affecting consumers across the State, including the extended area service issue and the significant rate increases recently sought by New England Telephone Company. Of the 282 cases filed with the PUC during 1982, 108 (or 38%) were from telecommunication utilities. Likewise, nearly 30% (or 1,334) of the 4,621 complaints processed by the Commission's Consumer Assistance Division related to telecommunication utilities. New

technological advances in the industry pose additional issues for the Commission. Accordingly, although electric utilities have dominated Commission activity in recent years, the telecommunication utilities will require an ever-increasing share of Commission attention and resources through the 1980's.

1. Extended Area Service.

Extended area service, or EAS, refers to the extension of the toll-free local calling area to include another locality. Under current Commission requirements, a surcharge is added to the flat monthly rate for telephone service to cover the additional costs of providing EAS.

In 1978 the Commission had a substantial number of petitions from telephone customers requesting EAS. Generally, these were customers in small towns who wanted to be able to call a nearby city toll-free. The Commission held hearings and developed guidelines governing the processing of such petitions. Under the guidelines, the telephone company is first required to determine the average number of calls per customer from the petitioning exchange to the terminating exchange, and the percentage of customers making two or more such calls a month. The purpose of these calculations is to determine the interest in EAS in the exchange and to see if the threshold standard (three calls per customer per month and 40% of customers making two or more calls) is met. If a petition

does not meet the threshold levels, it is denied, but the utility is required to determine if there is any other way to meet the needs of customers who had asked for EAS.

Petitions which pass the threshold standard trigger a detailed economic study by the telephone company to determine the additional costs of providing the EAS in order to calculate the necessary surcharge. Finally, the company must poll all customers in the petitioning exchange to see if they still desire EAS at that surcharge. If more than 50% of the customers vote for EAS, it is established, and all customers in the exchange must pay the surcharge.

After substantial work, the Commission set precise standards for the economic studies and polls. Prior to 1982, a total of eight petitions for EAS routes were dismissed because of not meeting minimum traffic requirements established in the generic EAS proceeding. In 1982, the PUC began action on the 20 EAS petitions before it, which covered a total of 23 requested routes. To date, 16 petitions (18 routes) have been completely processed and dismissed after subscribers in the petitioning exchanges voted overwhelmingly against EAS. Of the four remaining petitions (involving five requested EAS routes), one case is pending receipt of polling results, one case involves the situation where the company has been ordered to poll affected customers, one involves the necessity of a company economic study, and one proceeding has resulted in the company

being ordered to implement EAS. The most recent EAS petition was filed on December 12, 1982. It can be seen that substantial progress has been made during the past year in dealing with EAS petitions before the Commission.

2. Restructuring of the Telephone Industry.

During 1982 the restructuring of the telecommunications industry continued at a rapid pace without passage of Federal legislation. The Federal Communications Commission continued its effort toward deregulation by issuing several key decisions, while the U.S. District Court in Washington, D.C. moved forward with the implementation of the consent decree in the government's antitrust suit against American Telephone & Telegraph Company. These decisions are summarized below:

a. FCC Computer II Decision, FCC Docket No. 20828.

In the Computer II decision, the FCC determined that provision of Customer Premises Equipment (CPE), which includes telephone sets and other equipment normally located on the customer's premises, should be offered separately from a telephone company's regulated services, because CPE is competitive in nature and thus unlike typical utility services. To accomplish the separation between utility and non-utility

services, the FCC said that the AT&T could offer Customer Premises Equipment only through a separate corporate entity. The FCC said phone companies not in the Bell system, however, could provide CPE without setting up separate corporations as long as they kept separate accounting records. The Federal Commission set January 1, 1983, as the deregulation date for customer premises equipment and ordered telephone companies to then stop offering, on a regulated basis, CPE acquired after December 31, 1982.

This decision was challenged by several parties, and the Maine PUC filed an amicus curiae brief to express its concerns with certain aspects of the FCC's action. The U.S. Circuit Court of Appeals in Washington, D.C. affirmed the entire decision, however, thus preempting state regulatory commissions from taking independent actions on these matters.

b. AT&T Antitrust Consent Decree.

The single most significant event in the telecommunications field in 1982 was the settlement, through a consent decree, of the government's antitrust suit against AT&T and its subsidiaries. On August 11, 1982, Judge Green of the Federal District Court issued an opinion containing findings that AT&T had engaged in anti-competitive practices that necessitated the breakup of the nationwide Bell system. In that opinion, the judge accepted the consent decree drafted by AT&T

and the Department of Justice, provided that certain modifications were made. The consent decree, which has been refiled with the required modifications, establishes the framework for a complete reorganization of the Bell system, and, hence, the telephone industry in this country. The Court is now reviewing the detailed steps necessary to accomplish the breakup of AT&T.

In accordance with the consent decree, AT&T last fall filed a plan with the Court for dividing the country into "exchange areas" or "local access and transport areas (LATA)." These LATAs will define the areas where the local Bell operating companies, which will no longer be owned by AT&T, will provide telephone service. The plan for Maine calls for a single LATA for the entire State, except for a few border communities. This Commission has participated in the Court's review of the plan by proposing that the border communities be included in the overall Maine LATA, to the extent technically feasible. Given the size of the LATAs, including Maine's, companies operating within LATAs will provide service that includes much that has traditionally been considered "long distance." Service between the LATAs, however, will be carried by AT&T and as many competing long-haul carriers as may choose to enter particular markets. While this Commission may also allow competition within the Maine LATA, that change is not required by the consent decree.

On December 16, 1982, AT&T submitted its Plan for Reorganization to the Federal District Court, pursuant to the consent decree. This plan sets forth in detail the manner in which the Bell system will be separated into independent corporations and determines the nature of the resources and markets that will be available to the divested operating companies, such as NET. Accordingly, this plan deserves special scrutiny by state utility commissions, which will be regulating the local companies after the reorganization. This Commission is now evaluating the plan and will offer comments to the Court on February 14, 1983. After AT&T and the government respond to those comments, the PUC will file reply comments.

This Commission has and will continue to inform the Court of its concerns about the implications of the antitrust settlement, wherever possible. The Commission's policy is that competition that is beneficial to Maine ratepayers in the long run should be encouraged, but not in a manner that jeopardizes the opportunity for the average telephone consumer in Maine to receive basic phone service at reasonable cost.

The complexity of the antitrust reorganization proceeding is compounded by its interrelationship with the FCC's decision in Computer II. Under the AT&T consent decree, all Customer Premises Equipment acquired by NET before

1983 except equipment used by NET for its own communications and for public coin telephones and other minor categories, will be transferred from NET to AT&T. Once NET transfers the CPE and related equipment to AT&T, however, the newly independent NET may reenter the CPE business through a separate subsidiary on an unregulated basis. Thus, early in 1984, NET may make a fresh start at providing terminal equipment. Until then, however, AT&T's new CPE subsidiary, created under the FCC order, will be the exclusive supplier of new Bell system CPE.

In short, the reorganization of the Bell system will cause fundamental changes in the manner in which both long-distance service and customer-premises equipment are provided and marketed. The Maine Commission's telephone regulatory tasks will change accordingly, and the effects of FCC rulings may become more significant for local customers. While the immediate effect of all of these changes on the rates of Maine customers is not yet known, various sources in the telecommunications field are predicting extraordinary increases. Some people estimate that local rates will double or triple. While it is not at all clear that increases that large must occur, this Commission must keep abreast of the numerous pending changes in the industry and respond to them in a manner that ensures adequate telephone service at reasonable rates.

- c. Federal-State Joint Board, FCC Docket
No. 80-286.

The FCC instituted this proceeding on June 11, 1980, to establish a Federal-State Joint Board to develop recommended revisions to its rules concerning jurisdictional separations. Separations procedures are required to allocate costs, expenses and revenues associated with telephone equipment used in common in providing both interstate and intrastate services. The FCC said revisions are needed because of the new competition in interstate telephone services and because of the FCC's decision to deregulate Customer Premises Equipment.

The Federal-State Joint Board is studying a series of separations issues arising from the FCC's proposed access-charge plan and from the Computer II decision. Early in 1982, the board took action which resulted in an FCC order requiring the gradual removal of customer premises equipment from the separations process to lessen the abrupt impact on local rates which might otherwise occur. The board has yet to complete its work, but it is expected to make a decision early this summer which will substantially decrease the proportion of local telephone equipment costs being assigned to interstate rates, thus increasing local telephone rates.

d. Access Charges, FCC Docket No. 7872.

In this docket the FCC seeks to accommodate industry changes resulting from the AT&T settlement and the evolution of competition. Its basic purpose is to develop a plan for recovering the costs allocated in the Joint Board case described above, on a basis that assigns the costs to those customers (or services) that cause them.

Last December, the FCC adopted an access-charge plan intended to meet the basic goals of a competitive long distance telecommunications system. Intrastate phone company customers will pay through local rates, charges which were formerly collected through toll rates. These changes will be known as access charges. The FCC said the plan is designed to balance the needs of a nationwide network serving many different types of customers -- including high- and low-volume users, and customers located in high-density, low-cost areas as well as those in less populated areas where the cost of providing service is high. While a written decision has not yet been issued, news reports indicate that the order requires that the minimum revenue to be collected from telephone customers in the first year is to be \$2.00 from every flat-rate residential user and \$4.00 from each business customer. There should be a reduction in charges for interstate toll service, but the net effect of this decision will be to increase charges for basic telephone service for most users.

e. Expensing of Station Connections, Docket No. 79-105.

The FCC, as part of its deregulation effort, issued an order late in 1982, which changed the manner in which station connection costs -- the costs of connecting a customer's telephone to the local network -- are accounted for. The order split station connection investment into two classes: "inside wire," or the wiring in a customer's building, and "all other," which includes the wire from the building to the pole. Prior to the FCC's order in this case, all station connections costs had been capitalized and depreciated. Under the new order, inside wire will be treated as an immediate expense, and not as capital, and previously capitalized inside wire will be written off over ten years. The result will again be to increase the level of local rates.

f. Remaining Life and Equal Life Group Depreciation Rates, Docket No. 20188.

Depreciation rates determine the rate at which investors are allowed to recover their invested capital as an expense on the books of a utility. Thus, depreciation rates affect the level of rates charged to customers. When depreciation rates go up, customers' rates go up and vice versa. The order in this FCC case permitted telephone companies to depart from the traditional "whole-life," straight

line method of determining depreciation rates and use two novel methods -- "remaining life" for existing property and "equal life group" for new property.

Several states, including Maine, could not agree with the FCC and the telephone company on proposed depreciation rates determined by this new method because they radically depart from rates produced by the previous method. These states decided to establish their own depreciation rates to be used in setting intrastate rates. But in December, 1982, the FCC ruled that when it prescribes depreciation rates and methods for telephone companies, state utility commissions must use those rates and methods in intrastate ratemaking. This Commission, however, has not yet decided whether to acquiesce in the FCC's conclusion that the states are bound to use FCC rates.

3. New England Telephone Company (NET) Rate Cases.

New England Telephone and Telegraph Company (NET) provides most telephone customers in Maine with their local exchange service, and provides virtually all of the long-distance service in the State, even to customers of independent telephone companies. NET is also the largest corporate entity regulated by the Commission, even when not viewed as part of the nationwide Bell system. During 1982, the Commission processed two general rate increase filings by NET. The Commission dismissed one and must decide the second, a request for an increase of nearly \$50 million by April, 1983.

In the first request, filed January 15, 1982, NET sought approximately \$21.5 million in additional revenues, ostensibly to recover a limited number of expense increases caused by FCC accounting changes and by wage increases.

Unfortunately, NET asked the Commission to look at these changes in isolation, without placing them in the context of a "test year," i.e., a twelve-month period for which all expenses, revenues, and investments may be analyzed and related to one another. This Commission, like most other regulatory agencies, employs the "test year" concept almost universally in evaluating the need for rate increases. Because of the absence of the test year in NET's direct case, the Commission staff moved to dismiss the proceeding. NET responded by attempting to provide a rudimentary test year analysis, months after its written testimony had been filed.

In an order issued May 11, 1982, the Commission decided two significant questions. First, NET was not allowed to supplement its written testimony with a test-year analysis, which would have been entirely different in character from the testimony the Company initially filed. This decision rests on the principle that the rule requiring prefiled testimony is designed to provide the Commission an opportunity to absorb large quantities of complex data within the limited statutory period available for processing a rate case. This ruling assures that a utility cannot prefile a superficial direct case

to start the statutory "clock" running and then introduce entirely different information, when part of the statutory period has elapsed.

With NET's late-filed test year data excluded, the Commission considered the staff's motion to dismiss on the basis of the Company's originally filed testimony. The Commission dismissed the case, stating the important principle that permanent changes in rates can be established only after a utility's "total economic situation" has been examined, i.e., after a full test year analysis of all components of the Company's earnings has been considered.

In July of 1982, the Company again filed for a rate increase, presenting a full test year analysis but also expanding its earlier request to include all aspects of its operations.* NET's July filing sought a rate increase of nearly \$50 million. In addition to a full range of traditional ratemaking issues, this case has caused the Commission and all parties to focus on the dramatic legal, organizational, and technological changes occurring in the telecommunications field.

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It should be emphasized that the Commission's dismissal of NET's earlier case by no means precludes public utilities in this State from filing rate cases that are based on a limited number of extraordinary expense changes. This can easily be accomplished without deviating from the test year method, by presenting test year information to which the limited adjustments proposed have been made.

NET has emphasized in this case the importance of modernization if it is to provide service comparable to that which is rapidly becoming possible, and expected, through new, electronic techniques for switching and transmitting telephone messages. Some parties have challenged the connection the Company seeks to draw between modernization and the proposed rate increase, while still others have questioned whether the modernization effort being mounted by NET is really needed by the average telephone consumer.

As a result of FCC action discussed elsewhere, significant portions of NET's business in Maine will be shifted to a separate, unregulated subsidiary in 1983. The extent to which this change can and should be recognized in setting future rates has added another perplexing dimension to the Commission's analysis of this rate case. Finally, the problems inherent in analyzing the Company's fair rate of return and providing an opportunity to earn it are compounded by the uncertainties that arise from the Federal District Court decree requiring the dismemberment of AT&T's system of local operating companies, of which NET is one. This fundamental reorganization of the manner in which telephone service is provided in the United States has ramifications for every aspect of this Commission's oversight of NET. At the same time, many of those ramifications cannot be quantified or fully analyzed yet, since implementation of the Court's decree continues even now.

Despite the extraordinary complexity of this rate case, the Commission has completed gathering evidence necessary to make a decision, well in advance of the April, 1983 deadline for a final order. The timely and orderly processing of this case was made possible, in part, by the Company's filing of comprehensive supporting data and complete, prefiled, written testimony at the very beginning of the case. This comprehensive filing was required by the Commission's new rate case filing rule, adopted under authority granted by this Legislature in the last session, through an amendment to 35 M.R.S.A. §64.

Under the new rules, NET was required to give two months advance notice of its intention to file this major case, thus allowing the Commission to begin seeking consulting assistance and marshaling the resources of its staff. By the time the case was filed, the PUC had nearly completed selecting consultants, had assigned staff to the case and had laid much of the groundwork to set up a hearing schedule.

As a result, hearings began far earlier than they previously have in major telephone rate cases, and it now appears that final briefs will be filed by the end of February, leaving the Commission ample time for the preparation of an examiner's report, review of that report and the record by the Commission, and preparation of a decision by April 26. While that decision will not definitively resolve the panoply of issues arising out of the revolution in the telephone field, the

revenue requirement and rate design findings made in the case will have both short- and long-run significance for virtually every telephone customer in Maine.

C. Water Utilities.

The Commission has some regulatory jurisdiction over all the State's 149 water utilities, of which 43 are investor-owned and the rest are municipal or quasi-municipal. Of the 42 water rate cases processed in 1982, 21 were filed under Chapter 438 of the Public Laws of 1981,* which permits Maine's 106 municipal and quasi-municipal water utilities to set their own rates following a public hearing. These have become known as "Section 72 filings," pursuant to 35 M.R.S.A. §72. Although several flaws have surfaced in the application of §72 which will be presented to the new Legislature for correction, the process on the whole has worked well and has substantially reduced the time required to set new rates.

Looking ahead, continued high construction costs and interest rates will require the Commission to increase its review of plans for water utility construction projects as well as increase field surveillance of management and operating practices. Because the Commission is less directly involved in

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Including one which was dismissed and one which was suspended, the suspension then subsequently being vacated.

ratemaking for water utilities than it had been in the past, it must increase its monitoring of the utilities' annual operating reports and conduct investigations if serious problems arise. For the present, the Commission should be able to manage this workload with its existing resources.

D. Natural Gas.

The cost of natural gas to the consumer has continued to rise. Retail prices are being driven up both by increases in the cost of gas from the pipeline suppliers, which reflect rolled-in increments from high priced deregulated natural gas sources, and by the rising cost of non-pipeline, supplemental gas needed to meet seasonal peaks on demand. On January 1, 1983, the Commission approved a new method for Northern Utilities, Inc. to pass on increases in the cost of gas via a new Cost of Gas Adjustment. Whereas the former system used a rolling average of past costs to effect recovery several months after the costs accrued, the new system is based on estimates of costs to be incurred during the period in which they are charged. Adjustments are to be made in the next comparable winter or summer period. This is expected to both reduce the substantial fluctuation from month to month previously experienced and to eliminate the passing through of high winter gas costs to low-use summer customers.

VI. CONCLUSION

A. General.

Previous sections of this Report have focused on recent activities of the Public Utilities Commission, personnel and organization, rate case decision data, the current and projected funding data, and major issues affecting the agency and Maine's utilities.

Several new laws* which increase the Commission's jurisdiction and responsibilities are beginning to add substantially to its workload, and new proposals before the 111th Legislature would affect the PUC in a variety of ways. The Commission will work with the Joint Standing Committee on Public Utilities during the current legislative session as specific bills develop, so it has not included its views on most of the preliminary proposals in this Report.

B. Financial Resources.

In 1982, the Legislature authorized the increase of the Regulatory Fund assessment to \$1,300,000. The Commission is

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For example: Nuclear Decommissioning Financing (35 M.R.S.A. §§3351-59), Prior Approval of Purchases or Conversions of Generating Facilities (35 M.R.S.A. §13-B), Prior Approval of Corporate Reorganizations (35 M.R.S.A. §104), Financing of Energy Conservation (35 M.R.S.A. §93(5)), Fuel Adjustment Clause for Gas Utilities (35 M.R.S.A. §132).

seeking legislation to further increase the Regulatory Fund by \$150,000 in FY 83-84 and by \$200,000 in FY 84/85. These increases are needed if the Commission is to have the resources to meet the multiplicity of demands it faces in FY 83/84 and FY 84/85. The changes would increase the Regulatory Fund in FY 83/84 to a total of \$1,450,000 and in FY 84/85 to \$1,500,000.

Additionally, pursuant to a provision added by the Legislature in 1982 to §17(2) of Title 35, the Commission is requesting the reallocation of \$38,335 which represents a surplus in excess of 7% of the Regulatory Fund assessment for the fiscal year which concluded on June 30, 1982. Under the new legislation, if the PUC does not use all its Regulatory Fund money within the fiscal year, the Legislature must reallocate surplus in excess of 7% to the PUC. Otherwise, the Commission cannot carry the money over into the next fiscal year. The Commission is requesting that this be reallocated for FY 83/84, and is targeting that amount for consultants in the "All Other" category.

In brief, these new and reallocated resources would be used as follows:

	FY 84/85	FY 85/86
Personal Services	\$113,637	\$187,362
All Other	68,098*	8,338
Capital Expenditures	6,600	4,300
TOTAL	\$188,335	\$200,000

*

Includes \$38,335 of reallocated funds and \$29,763 of newly requested funds.

The Committee will be provided with a separate detailed explanation of how the Commission would use the new revenues during the biennium. In summary, the additional \$113,637 and \$187,362 for "Personal Services" would fund two critically needed clerical positions and an Electrical Engineer beginning in FY 83/84, and a Telecommunications Engineer, a Water Engineer Technician and an additional Consumer Assistance Specialist, beginning in FY 83/84. Funds are also included to meet anticipated State employee contract increases during FY 83/84 and FY 84/85. Proposed increases in the "All Other" budget category would be used as support funds for the new positions.

Exhibit K (p. 76) presents the current Regulatory Fund budget figures for FY 83/84 together with the proposed \$150,000 increase, as well as the FY 84/85 figures with the proposed \$200,000 increase and the \$38,335 in requested reallocated funds. The bottom section presents broad budget categories (Personal Services, Consulting, All Other, and Capital) reflecting both budget submissions and the revised budget if the requested increases are approved.

C. Current Legislation.

The PUC has been in communication with the Governor's Office regarding sixteen legislative proposals in which the Commission has an interest. Most of these are "housekeeping"

measures, meaning bills to clarify or make other minor changes in Title 35 to streamline regulatory activity. As previously noted, the 110th Legislature established some major new regulatory policies last year, including laws on prior approval of utility investments in out-of-state construction projects, utility corporate reorganization, nuclear power plant decommissioning, and other issues. The next biennium will be devoted primarily to implementing these new responsibilities rather than seeking further authority.

Exhibit K

PUC REQUESTS FOR 1983/84 AND 1984/85

	<u>1983/84 BUDGET</u>	<u>ADD'L REQUESTS</u>	(PROPOSED) <u>1983/84 REVISED BUDGET</u>	<u>1984/85 BUDGET</u>	<u>ADD'L REQUESTS</u>	(PROPOSED) <u>1984/85 REVISED BUDGET</u>
<u>Revenue Sources</u>						
Gen. Fund	684,992	-0-	684,992	700,997	-0-	700,997
Reg. Fund	<u>1,300,000</u>	<u>188,335*</u>	<u>1,488,335</u>	<u>1,300,000</u>	<u>200,000</u>	<u>1,500,000</u>
Total Funding	1,984,992	188,335	2,173,327	2,000,977	200,000	2,200,977
Positions	(54)	(3)	(57)	(54)	(6)	(60)

USES OF FUNDS

	<u>1983/84 BUDGET</u>	<u>ADD'L REQUESTS</u>	(PROPOSED) <u>1983/84 REVISED BUDGET</u>	<u>1984/85 BUDGET</u>	<u>ADD'L REQUESTS</u>	(PROPOSED) <u>1984/85 REVISED BUDGET</u>
<u>MAJOR EXPENSE CATEGORIES:</u>						
Personal Ser.	1,486,125	113,637	1,599,762	1,513,284	187,362	1,700,646
Consultants**	242,400	38,335	280,735	229,000	-0-	229,000
All Other	248,067	29,763	277,830	249,493	8,338	257,831
Capital	<u>8,400</u>	<u>6,600</u>	<u>15,000</u>	<u>9,200</u>	<u>4,300</u>	<u>13,500</u>
	1,984,992	188,335	2,173,327	2,000,977	200,000	2,200,977

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Includes requested \$150,000 Regulatory Fund increase and reallocated \$38,355.

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Consultants, or "professional services," is actually a sub-category of "All Other" in State budgetary terms. It is presented separately here for explanatory purposes.

