

CHAIRMAN
Peter A. Bradford



COMMISSIONERS

Cheryl Harrington

STATE OF MAINE
PUBLIC UTILITIES COMMISSION
242 State Street
State House Station 18
Augusta, Maine 04333
(207) 289-3831

March 1, 1984

Senator John E. Baldacci, Co-Chairman
Representative Harry L. Vose, Co-Chairman
Joint Standing Committee
on Public Utilities
Maine Legislature
Statehouse
Augusta, Maine 04333

Dear Senator Baldacci and Representative Vose:

On February 1, 1984, the Public Utilities Commission provided the Joint Standing Committee on Public Utilities with the fiscal information required by Sections 17 and 18 of Title 35, M.R.S.A. At this time, we are transmitting to the Committee copies of the Commission's full Annual Report. The information provided previously is included as Section III.

Please do not hesitate to call if you have any questions regarding the materials contained in the attached Report.

Sincerely,

Peter A. Bradford/cgr
Peter A. Bradford
Chairman

PAB/gjp
Enclosure

cc: Senator Judy E. Kany
Senator Jerome A. Emerson
Rep. Patrick McGowan
Rep. Harlan Baker
Rep. Vinton T. Ridley
Rep. Stephen M. Bost
Rep. Zachary E. Matthews
Rep. Norman E. Weymouth
Rep. Eugene J. Paradis
Rep. Roger N. Roderick
Rep. Harriet L. Robinson
Haven Whiteside, Legislative Assistant
Julie Jones, Legislative Assistant
Tom Duffy, Committee Clerk (2 copies)
Paul A. Fritzsche, Public Advocate

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

FROM THE
MAINE PUBLIC UTILITIES COMMISSION

Public Utilities Commission
Information Resource Center
State House Station 13
Augusta, ME 04333 0018

March, 1984

PUBLIC UTILITIES COMMISSION
ANNUAL REPORT
(March, 1984)

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I. INTRODUCTION.

The Maine Public Utilities Commission is required by State law to report annually "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 Section III, below, current fiscal year data (FY 1983/1984) is presented, together with the agency's projected budget for the second year of the biennium (FY 1984/1985). This section was provided to the Joint Standing Committee on Public Utilities on February 1, 1984, as required by 35 M.R.S.A. §§17 and 18.

In addition to providing the required fiscal information that was submitted to the Committee on February 1, 1984, the Commission is also transmitting background information pertaining to the PUC (purpose, function, organization, and personnel), Commission activities in 1983, major regulatory issues being considered by the Commission, and other directly-related information.

The Commission is comprised of Peter A. Bradford as Commission Chairman, and Cheryl Harrington and David H. Moskovitz, Commissioners. Chairman Bradford had previously served a term as Commissioner (1971-1977) and Chairman (1974-1975), and then, following a term on the federal Nuclear Regulatory Commission and a brief tour as Public Advocate, was reappointed July, 1982, as Chairman of the PUC.

Commissioner Harrington was also appointed in July, 1982, and previously served as Chief of the Consumer Fraud and Antitrust Division of the Attorney General's Office.

Commissioner Moskovitz was appointed in February, 1984, upon the resignation of Commissioner Ralph H. Gelder. He previously served nearly five years in the PUC Legal Division and since September, 1983, as the PUC's Director of Technical Analysis. He has academic qualifications both as a lawyer and as an engineer.

Nineteen eighty-three was an extremely busy year for the Maine Public Utilities Commission. The Commission faced a series of difficult problems including an extremely heavy caseload, 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 regarding the cost of utility service. Indeed, in 1983, the Commission docketed 362 new proceedings, an increase of approximately 30% over the 1982 figures. As the Annual Reports for the two most recent previous years have indicated, the level of Commission activity by the start of the 1980's had increased fourfold over the level of a decade before. The implication of these figures for Maine consumers is discussed in more detail in Section IVA.

This Report is organized into eight sections, of which this brief introduction is Section I. Section II focuses on the

Commission's basic purpose, function, organization and personnel. Section III responds to the statutory requirement that the Commission report on its budget and expenditures for the previous and forthcoming fiscal years. Section IV details Commission activities in 1983, focusing upon docket statistics, rate case data, and Consumer Assistance Division data.

Section V discusses major issues currently before the Commission, including discussion of issues identified to be of particular interest to the Joint Standing Committee on Public Utilities during the first regular session of the 111th Maine Legislature. The Report concludes with Section VI. The Commission will provide any additional information sought by the Committee.

II. PUBLIC UTILITIES COMMISSION: PURPOSE, FUNCTION,
ORGANIZATION, AND PERSONNEL.

The Maine Public Utilities Commission was established in 1913 by the Maine Legislature, which delegated to the Commission its power to regulate public utilities. The scope of the delegation is defined by the powers expressly conferred by statute, plus all implied and inherent powers necessary to execute its express powers and functions.

Over the past 70 years, the law under which the Public Utilities Commission operates has changed considerably, especially in the last decade. Title 35 of Maine Revised Statutes Annotated (M.R.S.A.) is the basis of the Commission's legal existence, although some statutes other than Title 35 confer additional responsibilities on the Commission.

The Commission has basically one overall program -- the regulation of public utilities. Section 51 of 35 M.R.S.A. focuses on the requirement that every regulated public utility "is required to furnish safe, reasonable and adequate facilities" (service) at "just and reasonable" rates. The Commission has the delegated responsibility to ensure that regulated public utilities proceed in accordance with this and all the other requirements of Sections 1 through 3322 of

Title 35.* Presently, the Commission's jurisdiction extends to 148 water utilities, 17 electrical utilities, 19 telephone and telegraph utilities, 4 water carriers; 6 radio common carriers, and 1 natural gas utility. The scope of public utility regulation includes oversight of all rates, construction, practices, customer requirements, the reasonableness of all expenses, approval of security issuances, investigations of safety problems, and numerous other areas.

Recently, the PUC Subcommittee of the Audit and Program Review Committee required that the Commission identify its basic program objectives and related program priorities. It was noted at that time that the Public Utilities Commission is an independent, regulatory agency, and not a department of state administering a variety of categorical programs. As such, the overriding program objective of the Public Utilities Commission was stated as consisting of an effort to fulfill as completely as possible the statutory requirements of Title 35. In essence, this task is tantamount to offsetting the monopoly utility marketplace by seeking to achieve the rates and conditions of service that would prevail in competitive, free market circumstances. In addition to its overall objective of complying fully with Title 35's requirements, the Commission

*

Commission jurisdiction over Sections 631 through 1645 of Title 35 was essentially removed in 1981, effective January 1, 1982, as a result of Public Laws (1981), Chapter 469.

also seeks to avoid: (1) unexplained consumer costs substantially above national or regional averages, (2) unexplained cost increases much above relevant increases in the consumer price indexes and inflation rates, and (3) cases more than one year old on the Docket without good reason.

To meet the above-stated objectives, the Commission has established the following major priorities:

- (a) Protection of consumers from overcharges.
- (b) Protection of consumers from unfair treatment.
- (c) Assuring reasonable utility planning and construction programs.
- (d) Assuring a reasonable opportunity for utilities to earn fair returns.
- (e) Assuring adequate consumer information about the rate and services available to them.
- (f) Avoiding Federal actions with adverse impacts on Maine.
- (g) Assuring responsive and efficient utility management practices.

Title 35 has undergone significant revision during the past decade. Indeed, in the three years since January, 1981, the Legislature has enacted some 84 chapters of public law affecting Title 35, as well as 22 directly relevant private and special laws. In 1983, alone, the first regular session of the 111th Maine Legislature enacted 38 public law chapters and 15 private and special laws which impacted upon the PUC.

In recent years the Legislature has been generally responsive in providing increased resources to meet the increased requirements in Title 35. Nonetheless, the assignment of tasks to the Commission in recent years (coupled with serious funding shortfalls until the mid-1970's) has outstripped the agency's capabilities. The result is a Commission which is currently under-funded and under-staffed in terms of the tasks and responsibilities set forth in Title 35.

Presently, the Commission consists of 3 Commissioners and 54 authorized staff positions. The Commission has organized itself into four professional/technical divisions and two additional administrative units. These include the Legal Division, the Finance Division, the Technical Analysis Division, the Consumer Assistance Division, the Secretary's Office (Administrative Division) and the Commissioners' Office. Exhibit A which follows directly depicts the present organizational structure and staffing of the Public Utilities Commission.

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

COMMISSION

Chairman - Bradford, Peter A.
 Commissioner - Harrington, Cheryl
 Commissioner - Moskovitz, David H.

SECRETARY'S OFFICE

Secretary - Roundy, Charles G.
 Assistant Secretary - Walo, Marjorie Marcotte
 Administrative Aide -
 Administrative Secretary - Martin, Martha
 Clerk Steno III - Arata, Kelly
 Accountant II - Robichaud, Raymond
 Clerk III - Broad, Mary
 Clerk Typist II - Wesley, Prudence

WORD PROCESSING SECTION

Word Proc. Supervisor - LeClair, Nancy
 Word Processor - Goodwin, Glenda
 Word Processor - Pelletier, Gloria
 Word Processor - Beaulieu, Melody
 Word Processor - Clark, Gilda

HEARINGS REPORTERS

Hearings Reporter - Briggs, Elaine
 Hearings Reporter - Thibodeau, Carmen
 Hearings Reporter - Kaler, Marilee

CONSUMER ASSISTANCE DIVISION

Consumer Asst. Super. - Ronan, Timothy
 Consumer Asst. Spec. - Niles, Mary
 Consumer Asst. Spec. - Christie, Cherrill
 Consumer Asst. Spec. - Leibowitz, Rayna
 Consumer Asst. Spec. - Bero, Elizabeth

FINANCE DIVISION

Director - Paine, Elizabeth
 Utility Financial Analyst - Gurney, Eugene
 Utility Financial Analyst - Lowery, James
 Utility Financial Analyst -
 Utility Financial Analyst -
 Utility Accountant III - Nott, Kenneth
 Utility Accountant III - MacDonald, Merle
 Utility Accountant III - Cusick, Howard
 Utility Accountant II - Carver, David
 Clerk Steno III - Potter, Betty

LEGAL DIVISION

General Counsel - Donahue, Joseph
 Attorney-Examiner - Ballou, Peter
 Attorney-Examiner - Brockway, Nancy
 Attorney-Examiner - Buckley, James
 Attorney-Examiner -
 Attorney-Examiner - Samp, Cushing
 Attorney-Examiner - Kenway, Kimball
 Attorney-Examiner - Furber, William
 Attorney-Examiner -
 Examiner-Attorney -
 Examiner-Attorney - Nagusky, Beth
 Senior Legal Secretary - Nason, Sarah

TECHNICAL ANALYSIS DIVISION

Director of Technical Analysis (vacant)
 Clerk Steno III - Jennifer Dalbeck

ENGINEERING

Senior Utility Engineer - Parker, Clarence
 Utility Engineer - DiProfio, David

PLANNING

Senior Utility Planner - Johnson, Daniel
 Utility Planner - Leonard, Norman
 Utility Planner - Beedy, Adelbert
 1 Vacant Utility Planner (unassigned)

RATES

Senior Rate Analyst - Twombly, Guy
 Rate Analyst - Hammond, Raymond
 1 Vacant Rate Analyst (unassigned)

A. Legal Division.

The Legal Division provides hearing examiners and staff attorneys in formal proceedings before the Public Utilities Commission and assists in preparing and presenting Commission views on legislative proposals. Additionally, the Legal Division represents the Commission before Federal and State Courts and other regulatory agencies (such as the Federal Communications Commission, and the Federal Energy Regulatory Commission). Legal services are provided by the Public Utilities Commission's Legal Division on all legal aspects of the matters within the Commission's jurisdiction from major rate cases to individual consumer complaints. Joseph G. Donahue, as General Counsel, directs the activities of the PUC Legal Division.

The Legal Division has 12 authorized positions, including the General Counsel, 8 Attorney-Examiners, 2 Examiner-Attorneys and a Senior Legal Secretary. Currently, 9 of the PUC's Legal Division positions are filled and 3 are vacant (including two Attorney-Examiner positions and an Examiner-Attorney's position).

B. Finance Division.

The Finance Division has the responsibility of undertaking financial investigations and analyses of specific telephone, electric, gas and water utilities, and of conducting general financial studies pertaining to Maine public utilities.

The Finance Division analyzes all applications of public utilities to issue stocks, bonds or other securities, and advises the Commission regarding these matters. Additionally, the Finance Division is called upon to prepare testimony and other material concerning revenue requirements and/or cost of capital in rate proceedings, and may also be called upon to prepare material concerning rate base, expenses, depreciation, rate design and other financial issues.

The Finance Division consists of 10 positions including the Director of Finance, 4 Utility Financial Analysts, 4 Utility Accountants and a Clerk Steno III. Currently, 2 of the Financial Analyst positions are vacant. Liz Paine directs the activities of the Finance Division as Director of Finance.

C. Technical Analysis Division.

The Commission's Technical Analysis Division merges the previous Electric Engineering Division, Telecommunications Engineering Division, and Water and Gas Engineering Division. These former "Divisions" were very small, consisting of either two or three Engineers each. Prior to 1978, the Utility Accountants were also assigned to the previous engineering divisions. David Moskovitz served as the Commission's first Director of Technical Analysis since September, 1983, until his recent appointment as Commissioner.

The Technical Analysis Division is responsible for analyzing the technical aspects of all Commission proceedings

including, but not limited to utility rate filings, rate design investigations, proceedings involving the review of utility construction plans. The Division also becomes involved in load forecasting matters and consumer complaints. Together with the Finance Division, the Technical Analysis Division provides expert testimony in litigated proceedings.

As presently constituted, the Division consists of a Director of Technical Analysis, a Senior Utility Planner, a Senior Rate Analyst, 3 Utility Planners, a Senior Utility Engineer, 2 Rate Analysts, a Utility Engineer, and a Clerk Steno III. Presently, the Director's position, together with 1 Rate Analyst and 1 Utility Planner, are vacant.

D. Consumer Assistance Division.

The Consumer Assistance Division receives, analyzes and responds to complaints from Maine utility customers. Particularly, the CAD is involved in the administration and implementation of Chapter 81 of the Commission's Rules, "Disconnection and Deposit Regulations for Residential Utility Service." In 1983, the CAD dealt with more than 4,400 individual consumer contacts.

The CAD is the principal point of interface between the Commission and the public. Although administratively attached to the Secretary's Office, the Consumer Assistance Division operates as the entity which deals with all informal consumer complaints which come before the Commission. The

Consumer Assistance Division consists of a Supervisor and 4 Consumer Assistance Specialists. Timothy J. Ronan, Sr., serves as Supervisor of the Consumer Assistance Division.

E. Secretary's Office/Administrative Division.

The Secretary's Office is essentially equivalent to an "Administrative Division" of the Commission. Included within the Administrative Division is the Secretary's Office, the Word Processing Section, the Hearing Reporters' Section, and (administratively attached) the Consumer Assistance Division. There are 6 positions within the Secretary's Office itself, including the Secretary, Assistant Secretary, Accountant II, Clerk III, Clerk Typist II, and Administrative Assistant. Additionally, the Word Processing Section includes a Supervisor and 4 Word Processing Operators. The Hearing Reporters' Section includes 3 Hearing Reporters' positions. The Consumer Assistance Division has been previously discussed. Charles G. Roundy serves as Secretary of the Commission.

F. Commissioners' Office.

The Commission consists of the Chairman and two Commissioners. Additionally, there is an Administrative Secretary and a Clerk Steno III (Secretary to the Commissioners) position. Ultimate administrative authority resides with the Commission. For most administrative matters, the Commissioners

have authorized the Chairman to act on behalf of the Commission. The Secretary acts on behalf of the Commission in day-to-day administrative operations of the Commission.

III. PUBLIC UTILITIES COMMISSION FISCAL INFORMATION.

The Maine Public Utilities Commission is required by Section 17, 35 M.R.S.A., 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 State fiscal years, which begin on July 1 and end the following June 30. This Report covers the prior fiscal year (FY 1983) which ended June 30, 1983, the current fiscal year (FY 1984), and the second fiscal year of the current biennium (FY 1985).

Exhibit B provides information regarding the "Sources of PUC Funding," tracing actual expenditures for Fiscal Year 1982 and Fiscal Year 1983. Additionally, this exhibit presents the basic General Fund and Regulatory Fund amounts budgeted for Fiscal Years 1984 and 1985. In recent years, the Commission has moved from multiple-source funding to two basic sources of income, the State's General Fund and the PUC Regulatory Fund (which is raised through an assessment levied on the gross operating revenues of the regulated utilities). Under legislation passed in the spring of 1983, the PUC is currently authorized to raise \$1.46 million annually through the Regulatory Fund assessment. The agency's General Fund appropriation is \$684,992 for the current fiscal year and \$700,977 for FY 1985.

Exhibit C provides a more complete picture of total PUC revenues, including the information provided in Exhibit B, together with a full accounting of balances and encumbrances carried forward for each fiscal year since FY 1981. The significance of the additional information presented in Exhibit C is highlighted by the \$321,372 difference between the basic agency budget for FY 1984 (\$2,183,327) and the actual total revenues available in FY 1984 (\$2,504,699). A significant portion of this difference are encumbrances carried forward, including \$185,060 in the Regulatory Fund, \$20,883 in the Decommissioning Fund and \$2,000 in the Purchase Power Fund. Additionally, other balances were carried forward into FY 1984 as identified on Exhibit C.

Exhibit C also indicates revenue from the "Decommissioning Fund," the "Purchase Power Fund," and the recently-established "Reimbursement Fund." These consist essentially of filing fees and reimbursement expenses paid by utilities under legislation enacted in recent years. 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

"Reimbursement Fund" was authorized by Chapter 229 of Public Law (1983) "An Act Authorizing the Public Utilities Commission to Expend Revenues Collected as Filing Fees or Expense Reimbursements," and was enacted to facilitate the collection and expenditure of filing fees authorized under 35 M.R.S.A., Sections 13A, 13B, and 3358, and other expense reimbursements. The Legislature's rationale in authorizing these filing fees was that the establishment of additional work tasks for the Commission had not been taken into account in prior budget considerations.

As noted previously, the Commission is required by 35 M.R.S.A., Section 17, to provide fiscal information on an annual basis to the Legislature's PUC Committee. Section 18 of Title 35 further requires a specific reporting regarding filing fees and expense reimbursements, including those authorized by 35 M.R.S.A., Sections 13A, 13B, and 3358. Exhibit D presents data regarding filing fees received, expended or reimbursed for the 18-month period beginning July 1, 1982 through December 31, 1983.

The Commission received a filing fee of \$35,000 from Maine Yankee Atomic Power Company with the filing of its Decommissioning Finance Plan and all but \$300 of this amount has been encumbered and expended for professional consulting assistance.

The Commission has received a total of \$62,528 into the Purchase Power Fund under the authority granted by Section 13B

(Title 35) in three separate transactions. These include CMP filing fees of \$59,188, in connection with the 1983 New Brunswick Power Purchase and \$2,747 filing fee with the 1982 Hydro-Quebec Interconnect request. Bangor Hydro-Electric Company also paid a \$593 filing fee in the Hydro-Quebec Interconnect proceeding. Exhibit D presents detail regarding expenditures that will total \$4,780 expenses in connection with processing the New Brunswick Power Purchase request of CMP. These expenses were for special newspaper legal advertisements and consultant expenses, and a small amount of STA-CAP. As indicated by Exhibit D, all remaining balances are to be reimbursed during the third quarter of the current fiscal year, including \$54,408 of the New Brunswick Power Purchase filing fee.

The Legislature has authorized General Fund and Regulatory Fund revenues for the basic PUC operational budget of \$2,183,327 in FY 1984 and \$2,160,977 in FY 1985. The agency's actual expenditures by major categories for the past two fiscal years, and anticipated expenditures for the current and forthcoming fiscal years, are shown in Exhibit E. In traditional fiscal data presentations, the "consultants" sub-category would be included within "All Other," but it is broken out and presented separately here because it represents a significant expense to the Commission. The Commission employs outside consultants to assist with complex regulatory issues. Traditional three-category budget data is presented in Exhibit F for Fiscal

Years 1984 and 1985, for the General Fund and the Regulatory Fund.

In 1983, the Legislature authorized a \$160,000 increase in the Regulatory Fund assessment to a total of \$1,460,000. The Commission is currently seeking, through L.D. 1910, to further increase the Regulatory Fund assessment by \$200,000 in 1984, for use initially in FY 1985. This change would increase Regulatory Fund resources in FY 1985 to a total of \$1,660,000.

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

	<u>FY 1984/1985</u>
Personal Services	\$127,392
All Other	46,025
Capital Expenditures	26,583
TOTAL	<u>\$200,000</u>

In summary, the additional \$127,392 for "Personal Services" would fund six critically needed clerical and two analyst positions beginning in FY 1985. Proposed increases in the "All Other" budget category would be used as support funds for the new positions. The increase in Capital Expenditures will allow the Commission to purchase a word processing system that is currently being leased.

Exhibit G presents the current Regulatory Fund budget figures for FY 1985, together with the proposed \$200,000 increase. The bottom section presents broad budget categories (Personal Services, Consulting, All Other, and

Capital) reflecting both the currently approved budget and the projected revised budget (assuming requested increases are approved).

Exhibit H depicts the growth of the PUC Regulatory Fund since it was established in 1979. It is seen that the Regulatory Fund has increased from an initial annual assessment of \$150,000, to its present level of \$1,460,000, for Fiscal Years 1984 and 1985. (It should be noted that the initial assessment in 1979 (for use in FY 1980), of \$75,000, was for a 1/2-year basis.) In 1981, an additional \$300,000 was added to the assessment, to offset a loss of \$300,000 from the PUC General Fund Account for support of the Public Advocate's Office starting in FY 1982. Also, in 1981, the Legislature authorized an increase in the 1982 assessment of \$450,000, to offset, beginning in Fiscal Year 1983, revenues lost to the PUC as a result of transportation deregulation and the loss of the Transportation Fund.

Regular use of the Transportation Fund was made through December 31, 1981, and then \$225,000 was allocated from the Transportation Fund to the PUC Regulatory Fund as PUC "transitional funding" for the period January 1 to June 30, 1982.

Then, in 1982, the Legislature also authorized an additional \$400,000 Regulatory Fund increase, starting in FY 1983, to make up for shortfalls resulting from an underestimate of the negative fiscal impact of the loss of the Transportation Fund and the loss of federal funds under two

grant programs (Water Utility Assistance Program and Public Utilities Regulatory Policy Act). Hence, the 1982 assessment for use in Fiscal Year 1983 was \$1.3 million.

In 1983, the Legislature further authorized an increase of \$160,000 in the Regulatory Fund, bringing the 1983 assessment for expenditure in Fiscal Year 1984 to \$1,460,000. Presently, under L.D. 1910, the Commission is seeking an additional \$200,000 increase in the PUC Regulatory Fund.

Data has been presented which the Commission considers to be fully responsive to the fiscal reporting requirements of 35 M.R.S.A., Sections 17 and 18. Additional information will be provided to the Committee, upon request. Exhibits B, C, D, E, F, G, and H, follow directly.

Exhibit B

SOURCES OF PUC FUNDING
(EXPENDED AND BUDGETED)

<u>REVENUE SOURCE</u>	<u>FY 1982 EXPENDITURES*</u>	<u>FY 1983 EXPENDITURES*</u>	<u>FY 1984 BUDGETED</u>	<u>FY 1985 BUDGETED</u>
General Fund	\$ 630,443	\$ 624,221	\$ 684,992	\$ 700,977
Regulatory Fund**	622,930	1,169,369	1,498,335	1,460,000
Transportation Fund***	493,953	-0-	--	--
Decommissioning Fund	-0-	14,117	--	--
Federal Funding (Brought Forward)				--
Federal Water Grant	22,127	597	--	--
PURPA Grant	<u>248,513</u>	<u>-0-</u>	<u>--</u>	<u>--</u>
Total Expenditures/Funding	<u>\$2,017,966</u>	<u>\$1,808,304</u>	<u>\$2,183,327**</u>	<u>\$2,160,977</u>

* Data presented for FY 1982 and FY 1983 represents PUC income actually expended in those years.

** FY 1984 Budget includes the reallocation balance of \$38,335. FY 1984 data does not include additional revenues that are reflected on Exhibit C, to include Regulatory Fund balance forward (\$52,048); Purchase Power Fund balance forward (\$60,528); encumbrances forward (\$207,943); and Federal funds forward (\$853). See Exhibit C for total revenues presentation.

*** Transportation was deregulated in January, 1982. Accordingly, 18 positions were transferred to Regulatory Fund in January, 1982, together with \$225,000 in transitional funding through June 30, 1982.

PUBLIC UTILITIES COMMISSION - FUNDING ACTIVITY BY ACCOUNT

<u>REVENUE SOURCES</u>	<u>FY 1981</u>	<u>FY 1982</u>	<u>FY 1983</u>	<u>FY 1984</u>	<u>FY 1985</u>
POSITION COUNT		(77)	(54)	(57)	(57)
<u>GENERAL FUND</u>		\$ 630,443	\$ 603,966	\$ 684,992	\$ 700,977
Encumbrances brought forward		2,278	1,138	-0-	-0-
<u>REGULATORY FUND</u>		450,000	1,300,000	1,498,335	1,460,000
Encumbrances brought forward		14,091	74,965	185,060	-0-
Balance brought forward		78,946	31,500	52,048	-0-
From Trans., Safety Fund		225,000	-0-	-0-	-0-
<u>TRANSPORTATION DIVISION</u>		509,790	-0-	-0-	-0-
Encumbrances brought forward		18,589	-0-	-0-	-0-
<u>FEDERAL FUNDS</u>		-0-	-0-	-0-	-0-
Water Utilities Project		-0-	-0-	-0-	-0-
Encumbrances brought forward		2,195	-0-	-0-	-0-
Balance brought forward		20,616	685	88	-0-
<u>PURPA GRANT</u>		-0-	-0-	-0-	-0-
Encumbrances brought forward		69,593	-0-	-0-	-0-
Balance brought forward		159,692	765	765	-0-
<u>DECOMMISSIONING FUND</u>		-0-	35,000	-0-	-0-
Encumbrances brought forward		-0-	-0-	20,883	-0-
<u>PURCHASE POWER FUND</u>		-0-	64,528	-0-	-0-
Encumbrances brought forward		-0-	-0-	2,000	-0-
Balance brought forward		-0-	-0-	60,528	-0-
TOTAL REVENUES		<u>\$2,181,233</u>	<u>\$2,112,547</u>	<u>\$2,504,699</u>	<u>\$2,160,977</u>
TOTAL EXPENDITURES	\$2,046,081	\$2,017,966	\$1,808,304		
ENCUMBRANCES CARRIED FORWARD	\$ 106,746	\$ 76,103	207,942		
FUNDS CARRIED FORWARD TO NEXT FY	\$ 259,254	\$ 32,950	\$ 113,429		
FUNDS TO BE REALLOCATED	\$ 0	\$ 38,335	\$ 0		
FUNDS LAPSED TO GENERAL FUND	\$ 518	\$ 17,287	\$ 37,138		
FUNDS LAPSED TO TRANS. SAFETY FUND	\$ 0	15,837	\$ 0		

Exhibit D

FY 1983 and 1984 - FILING FEES AND EXPENSE
REIMBURSEMENT REPORTING PERIOD OF 7/1/82 TO 12/31/83

1/27/84

	<u>FY 1983</u>	<u>1/2 Year FY 1984</u>
<u>DECOMMISSIONING FUND</u>		
Balance brought forward	\$ 0	\$ 0
Encumbrances brought forward	0	22,907
Funds received	35,000	0
Less expended	12,093	22,607
6/30/83 balance	<u>\$22,907</u>	
12/31/83 balance		\$ 300
<u>PURCHASE POWER FUND</u>		
Balance brought forward	\$ 0	\$60,528
Encumbrances brought forward	0	2,000
Funds received	62,528	0
Less expended	0	4,780
6/30/83 balance	<u>\$62,528</u>	
12/31/83 balance		\$57,748

Detail of Purchase Power Fund

	CMP*	BHE*	CMP**
Receipts FY 1983	\$2,747	\$593	\$59,188
6/30/83 balance	<u>\$2,747</u>	<u>\$593</u>	<u>\$57,188</u>
Encumbrance balance			\$ 2,000

Expenses to 12/31/83

Newspaper Ads			\$ -1734
Whitfield Russell (Consultant)			\$ -1843
Clark Drummie (Consultant)			\$ -1035
STA-CAP			<u>\$ -168</u>
12/31/83 balance***	<u>\$2,747</u>	<u>\$593</u>	<u>\$54,408</u>

REIMBURSEMENT FUND

Balance brought forward	\$ 0	\$ 0
Encumbrances brought forward	\$ 0	\$ 0
Funds received	\$ 0	\$ 445
Less expended	<u>\$ 0</u>	<u>0</u>
6/30/83 balance	\$ 0	\$ 0
12/31/83 balance		\$ 445

* Filing fees received from CMP and BHE in connection with MPUC Docket Nos. 81-143 and 81-149 (Hydro-Quebec Interconnect).

** Filing fees received from CMP in connection with MPUC Docket No. 83-27 (New Brunswick Power Purchase).

*** All balances shown will be reimbursed in 3rd Qtr. of FY 1984.

USES OF PUC FUNDING

<u>MAJOR EXPENSE CATEGORY</u>	<u>1981/'82 EXPENDITURES*</u>	<u>1982/'83 EXPENDITURES*</u>	<u>1983/'84 BUDGETED**</u>	<u>1984/'85 BUDGETED**</u>
<u>State Funding:</u>	(77)	(54)	(57)	(57)
Personal Services	1,376,411	1,251,713	1,640,942	1,679,590
Consultants	313,902	283,552	280,735	248,060
All Other Expenses	300,072	261,438	246,650	219,827
Capital	<u>27,581</u>	<u>11,601</u>	<u>15,000</u>	<u>13,500</u>
Total State Funding	2,017,966	1,808,304	2,183,327	2,160,977

*

Actual expenditures.

**

Amounts budgeted.

Exhibit F

PUC BUDGETS: FISCAL YEARS 1984 AND 1985

	<u>Fiscal Year 1984</u>		
	<u>General Fund</u>	<u>Regulatory Fund</u>	<u>Agency</u>
Personal Services	\$639,603	\$1,001,339	\$1,640,942
All Other	45,389	481,996	527,385
Capital	<u>0</u>	<u>15,000</u>	<u>15,000</u>
Totals	<u>\$684,992</u>	<u>\$1,498,335</u>	<u>\$2,183,327</u>

	<u>Fiscal Year 1985</u>		
	<u>General Fund</u>	<u>Regulatory Fund</u>	<u>Agency</u>
Personal Services	\$651,628	\$1,027,962	\$1,679,590
All Other	49,349	418,538	467,887
Capital	<u>0</u>	<u>13,500</u>	<u>13,500</u>
Totals	<u>\$700,977</u>	<u>\$1,460,000</u>	<u>\$2,160,977</u>

Exhibit G

PUC REQUESTS FOR 1985

	<u>1985 BUDGET</u>	<u>ADD'L REQUESTS</u>	<u>(PROPOSED) 1985 REVISED BUDGET</u>
<u>Revenue Sources</u>			
Gen. Fund	\$ 700,977	\$ -0-	\$ 700,977
Reg. Fund	<u>1,460,000</u>	<u>200,000</u>	<u>1,660,000</u>
Total Funding	\$2,160,977	\$200,000	\$2,360,977
 Positions	 (57)	 (8)	 (65)

USES OF FUNDS

	<u>1985 BUDGET</u>	<u>ADD'L REQUESTS</u>	<u>(PROPOSED) 1985 REVISED BUDGET</u>
<u>MAJOR EXPENSE CATEGORIES:</u>			
Personal Ser.	\$1,679,590	\$127,392	\$1,806,982
Consultants*	248,060	46,025	294,085
All Other	219,827	-0-	219,827
Capital	<u>13,500</u>	<u>26,583</u>	<u>40,083**</u>
Totals	\$2,160,977	\$200,000	\$2,360,977

*

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

**

Capital category does not include an additional \$13,000 line item transfer being requested from General Fund "All Other" to "Capital" to facilitate purchase of a word processing system (currently leased).

PUC REGULATORY FUND
ASSESSMENT DETAIL FROM FUND CREATION TO PRESENT

For Use in FY	Mailing Date/ Due Date	Annual Revenues Electric	Telecomm.	Water	Gas	CBITD	Total Revenues (Utilities)	Assessment Factor	Net Amount Assessed by (PUC)	Gross Assessment
FY 1980	11/1/79-1/1/80	\$186,278,293	\$139,683,694	\$24,086,603	\$6,749,736	\$ -	\$356,798,326	.000210	\$ 74,816	(Nearest \$10) \$ 75,000
FY 1981	5/1/80-7/1/80	206,762,413	153,652,974	25,465,331	7,374,962	-	393,255,680	.000381	149,830	(Nearest \$10) 150,000
FY 1982	5/1/81-7/1/81	216,243,682	165,108,544	28,421,070	8,932,172	-	418,705,468	.00035824	149,796	(Nearest \$10) 150,000
FY 1982	6/81-8/1/81	216,243,682	165,108,544	28,421,070	8,932,172	-	418,705,468	.0007165	299,983	(Nearest \$5) 300,000
FY 1983	5/82-7/1/82	462,967,673	182,050,133	32,220,884	14,428,444	803,933	692,471,067	.00187733	1,299,996	(Nearest \$1) 1,300,000
FY 1984	5/83-7/1/83	508,830,895	194,922,674	36,808,287	19,308,123	959,425	760,829,404	.00170866	1,299,999	(Nearest \$1) 1,300,000
FY 1984	6/83-8/1/83	508,830,895	194,922,674	36,808,287	19,308,123	959,425	760,829,404	.00021030	159,984	(Nearest \$3) 160,000

IV. COMMISSION ACTIVITIES IN 1983.

A. General.

Nineteen eighty-three was an extremely busy year for the Maine Public Utilities Commission. During the year, the Commission processed and closed out 328 individual proceedings, the highest number ever. However, the Commission also experienced a 30% increase in the filing of new proceedings during 1983, resulting in an increased caseload.

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. An approximate indication of the Commission's importance to Maine citizens is shown by the fact that Maine's four major utilities (Central Maine Power, Bangor Hydro-Electric, Maine Public Service, and New England Telephone) had 1982 intrastate revenues of \$665.6 million. Altogether, the PUC has regulatory jurisdiction over 190 public utilities, including 148 water utilities, 25 telecommunication utilities, 15 electrical utilities, and 2 gas utilities. Overall, all utilities under PUC jurisdiction had total 1982 gross intrastate operating revenues of \$760.8 million. Maine State Government's "General Fund" revenues in FY 82/83 were \$689 million (estimated). Hence, the utilities regulated by the PUC had

1982 intrastate revenues exceeding the State of Maine's FY 82/83 General Fund revenues by more than 10%.

Since the population of Maine is 1,125,027 (1980 census), these total utility revenues represent \$676 per person or approximately \$2,706 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 82/83 expenditures were \$1,867 million. Thus, Maine is spending approximately \$2 million to regulate \$761 million. Put another way, each \$10,000 spent on utility regulation regulates \$3,805,000 in utility revenues, a significant discrepancy. On a per capita basis, the cost of regulation of the utilities under the jurisdiction of the Maine Public Utilities Commission was \$1.78 per Maine resident.

B. Caseload.

It was noted in last year's Report that the combined caseloads for 1981 and 1982 was more than four times as large as the combined two-year total for 1971-1972.* As noted above,

*

The combined 1981-1982 caseloads totalled 568 dockets, whereas a decade before the combined 1971-1972 totals were 135.

in 1983, there was an approximate 30% increase in new dockets (over the 1982 total), resulting in a total of 362 new docketed proceedings. Hence, even though the Commission processed to conclusion 328 proceedings during the past year (a 21% increase over the 271 cases concluded in 1981), still the Commission's backlog increased during 1983 by 34 to a total of 189 cases pending before the Commission as of December 31, 1983. Of those cases concluded in 1983 (328), 229 represented cases filed in 1983, and 99 were cases filed prior to 1983.

As noted in last year's Report, since mid-1982, the Commission has been making a consistent effort to eliminate older proceedings on the Docket. As of December 31, 1983, 133 of the 189 cases pending on the Docket were 1983 filings, and the remaining 56 cases had been docketed prior to 1983. Of those 56 cases docketed prior to 1983, 33 were 1982 dockets, 6 were 1981 dockets, 5 were 1980 dockets, and 12 were docketed prior to 1980. Whereas at the beginning of 1982, the oldest case on the Docket dated from January, 1973, by the end of 1983, the oldest case on the Docket was filed in September, 1976. More importantly, more than three dozen cases docketed in the 1970's had been processed off the Docket during the 18-month period which concluded with the end of 1983.

The Commission is empowered by law to deal with a variety of filings from utilities and others affected by utilities. Exhibit I categorizes the 362 new proceedings docketed in 1983 by type and by utility category. The largest

categories were tariff filings (88), filed contracts or agreements (60), rate filings (50), applications for approval of securities (42), and requests for waivers or exemptions (27).

As noted in Section II, above, the basic purpose of the Maine Public Utilities Commission is to ensure that public utilities provide safe, adequate and reasonable service at just and reasonable rates. No single section of Title 35 describes the purpose and operation of the Maine Public Utilities Commission. Section 51 comes the closest to encapsulating the agency's overall purpose.*

Reference to just a few of the more important sections of Title 35 will illustrate vital areas of Commission responsibility and operation. A significant portion of Commission operations are governed by a relatively few, basic sections of Title 35. To illustrate, Section 61 requires every public utility to file with the Commission schedules showing all service provided by within the State. Section 61 also requires every public utility to file with, and as part of its tariff schedules, all rules and regulations that in any manner affect the rates charged or to be charged for any service provided. Section 64 requires that no change shall be made in any schedule, except upon 30 days' notice to the Commission prior to

*

See Central Maine Power Company v. Public Utilities Commission, 414 A.2d 1217, 1225 (Me. 1980).

the effective date, unless the Commission allows less than 30 days for good cause shown. Section 65 pertains to noticing requirements for such schedules. Section 69 grants the Commission authority to suspend the proposed schedules first for a three-month period and then, if necessary, for an additional five-month period for hearing and investigation as to their justness and reasonableness.

Section 311 empowers the Commission to temporarily alter, amend, or (with the consent of the public utility concerned) suspend any existing rates, schedules, or orders relating to or affecting the public utilities. This is a vital authority allowing the Commission to respond quickly to emergency situations.

Section 296 allows the Commission on its own motion to conduct an investigation of any rate, charge, service or other matter relating to any public utility.

Section 291 provides the means for customers to bring formal complaints against public utilities alleging, "that any of the rates, tolls, charges or schedules or any joint rate or rates of any public utility that are in any respect unreasonable or unjustly discriminatory, or that any regulation, measurement, practice or act of said public utility is in any respect unreasonable, insufficient or unjustly discriminatory, or that any service is inadequate or cannot be obtained." The Commission is in reactive stance with respect to §291 complaints, as it is with respect to §64 tariff filings. A

recently-enacted statute requires the Commission to respond to §291 complaints within a nine-month period, similar to the time required for Commission response to §64 filings.

A spot examination of the Commission's Docket last September revealed the extent to which the few sections cited directly above impact upon the agency's program and workload. As of September 14, 1983, there were 162 proceedings on the PUC Docket. Of those, 22 had been initiated as §291 complaints, 21 had been initiated as §296 Commission investigations, and 41 had been §64 filings. Additionally, of the 41 §64 filings listed, 34 had been suspended at least once under the authority of §69. These few illustrative examples indicated at that time the degree to which the Commission's program operations were governed by a few sections of Title 35 and the extent to which the Commission's operation is reactive to filings by utilities and/or customers and other interested parties. A review of the 1983 dockets overall indicates a similar point.

Exhibit I also presents data regarding the breakout of dockets by type of utility. In terms of utility categories, 130 of the 362 proceedings docketed last year related to telecommunications utilities, reflecting significant changes in telecommunications (which will be discussed in the issues section to follow). Otherwise, 92 proceedings related to electrical utilities, 87 to water utilities, 30 to gas

Exhibit I

1983 Docketed Cases

A Further Breakdown by Type of Utility

	<u>Elec.</u>	<u>Water</u>	<u>Tel.</u>	<u>Gas</u>	<u>W. Carrier</u>	<u>Total</u>
Rate	2	15-§72 24-§64	7	1	1	50
Tariffs	8	1(83-339)	78		1	88
Securities	14	23	3		2	42
Contracts or Agreements	24	2	9	25		60
Waivers or Exempts	9	7	6	1	4	27
Advisory Rulings	4	2	2			8
§296*	6	3	3		1	13
§291*	2	1				3
§298*	1					1
PC&N**	1		7		2	10
§104*		3	6			9
CAD Appeal CGA***		2		3		2 3
Chapter 34****	6					6
Chapter 36****	8					8
EAS	5		2			7
Misc. Boundary	2	4	2		4	12 5
Total	<u>92</u>	<u>87</u>	<u>130</u>	<u>30</u>	<u>15</u>	<u>354</u>

+ 5 Rulemakings
 2 Voided Nos.
 1 83-287
8 = 362

*

Refers to 35 M.R.S.A. sections listed.

**

Petitions for Public Convenience and Necessity.

Cost of Gas Adjustment cases.

Chapter 34 proceedings relate to fuel adjustment filings and Chapter 36 proceedings relate to cogeneration avoided cost proceedings.

utilities, and 15 to water carriers.*

The Commissioners and Staff devoted a considerable amount of time during 1983 to formal public hearings, which were conducted in 61 separate proceedings, totalling 162 days of hearings.** These hearings required the attendance and participation of the hearing examiner, associated advisory staff, advocacy staff, hearings reporter, and usually the Commissioners themselves. A few 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 51 days of hearings (32% of the total), those including rate cases for Central Maine Power Company (28 days), New England Telephone Company 10 days in 1983, following approximately 20 days in 1982 on the same proceeding), and Continental Telephone Company (13 days).

In addition to the public hearings, the Commissioners last year held 88 separate formal deliberative sessions (so-called "agenda meetings"), consisting of 52 regularly scheduled agenda meetings and 36 special agenda meetings. The Commissioners normally hold regular agenda meetings on Wednesday

*

The other 8 dockets being non-specific to a single class of utilities.

**

Additionally, there were 11 days of depositions, requiring Staff and Hearing Reporters.

mornings, and they typically deliberate on 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 conducted 18 deliberative sessions over 9 days on the Central Maine Power Company rate case (Docket No. 82-266), totalling 19 1/2 hours. In the New England Telephone Company rate case (Docket No. 82-124), the Commission conducted 15 deliberative sessions over 9 days for a total of almost 19 hours.

In all, the agency held 261 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.

C. Consumer Assistance Division.

The Commission's Consumer Assistance Division (CAD) has primary responsibility for dealing with consumer complaints against utility service, charges and practices, and has the directly related mission of attempting to mediate a resolution to situations where customers are having difficulty in staying current on payment for utility services.

Previously, it was noted that the Commission docketed 362 new proceedings in 1983, while completing processing on 328 cases. Consumer Assistance cases coming before the CAD are not included within these statistics, except in those rare instances where a CAD case cannot be resolved to customer and utility satisfaction and in which an appeal is filed directly with the Commission. In 1983, only 2 of the formally docketed 362 Commission proceedings were the result of appeals of CAD decisions.

The CAD has an immense caseload. In 1983, the Division received 4,428 requests for assistance, including 190 cases carried forward from 1982. Of the 1983 cases received, the Division closed out 4,288 cases in 1983, leaving 140 to be carried forward into 1984. This compared with 4,759 requests processed by the CAD during 1981, of which 4,713 were closed. In 1982, CAD received 4,811 cases.

It should be noted that the slight apparent decrease in CAD cases in 1983 is more artificial than real, since brief informational contacts in 1983 were not recorded within the Division to the extent previously done. And, as will be indicated below, consumer contacts for 1981, 1982, and 1983, have averaged approximately 3 times the numbers for 1975 and 1976, when these statistics began to be compiled.

Exhibit J presents data on the types of concerns that the Division handled last year. Cases processed by the CAD included 1,509 complaints about utility service, 715 about bills, 1,472 about disconnections (including 499 winter disconnect waiver requests from utilities), 132 about problems with deposits, 258 general complaints regarding utilities, 139 general information requests (partial recording), and 63 other miscellaneous complaints.

1983
GRAND TOTAL COMPLAINTS CLOSED
(TELEPHONE, ELECTRIC, WATER AND GAS)
CONSUMER ASSISTANCE DIVISION

I.	<u>Service</u>			
	S1	Request for New Service.....	560	
	S2	Request for Service Repairs.....	395	
	S3	Service Charges/High Usage.....	406	
	S4	Line Extensions.....	65	
	S5	Directory Listing.....	33	
	S6	Extended Area Service.....	12	
	S7	Outages.....	6	
	S8	Meter Checks.....	32	= 1,509
II.	<u>Billings</u>			
	B1	Payment Arrangements.....	503	
	B2	Overbilled.....	145	
	B3	Underbilled.....	3	
	B4	High Tolls.....	1	
	B5	Cost-Aid in Construction.....	13	
	B6	Mileage.....	0	
	B7	Request for or Granted Rebate.....	26	
	B8	Fuel Adjustment.....	4	
	B9	Estimated Billings-Budget Payment Plan..	20	= 715
III.	<u>Disconnect</u>			
	D1	Notices.....	536	
	D2	Disconnections.....	437	= 973
IV.	<u>Deposits</u>			
	P1	Request for.....	115	
	P2	Payment of.....	1	
	P3	Request for Refund of.....	16	= 132
V.	<u>Miscellaneous</u>			
	M1	General Protest.....	258	
	M2	Customer-Owned Equipment.....	38	
	M3	Request for Waiver.....	21	
	M4	Winter Disconnect Waivers.....	499	
	M5	General Information.....	139	
	M6	WATS Calls - Unproductive	0	
	M7	Energy Conservation Loan Program.....	4	= 959
		TOTAL COMPLAINTS CLOSED IN 1983	4,288	
		PLUS COMPLAINTS OPEN AS OF 12/31/83	140	
		GRAND TOTAL COMPLAINTS RECEIVED IN 1983	4,428	

By utility category, in 1983, some 1,710 people had concerns about telephone companies, 2,357 about electrical utilities, 191 about water utilities and 170 about a gas company (Northern Utilities, Inc.).

The number of consumer requests for assistance filed with the Division has grown dramatically over the past decade. 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	4,673
1982	4,811
1983	4,428*

In addition to assisting consumers with a variety of service, billing, disconnect, deposit and other concerns, the Division involved itself in adjusting/waiving customer charges in 210 complaints last year. As a result, the utilities involved returned \$94,934.70 in refunds and credits to customers. Directly below is reflected data which reflects adjustments for consumers, 1979 to 1983:

<u>Year</u>	<u>Amount</u>	<u>No. of Consumers</u>
1979	\$261,170.37	242
1980	(1980 Data Not Available)	
1981	\$ 61,703.71	-
1982	\$ 60,606.24	207
1983	\$ 94,934.70	210

*

Reflects recording change noted above.

See also Exhibit K, which breaks the 1983 adjustments out by utility and utility type.

The CAD 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 numerous formal meetings, including consumer complaint meetings, informational meetings, CAD-conducted training seminars and PUC hearings. With the impacts of AT&T divestiture proceedings being felt, together with other vital regulatory issues, including electrical utility conservation programs, the level of CAD activity will probably increase in 1984.

Exhibit K

CONSUMER ASSISTANCE DIVISION - 1983
CUSTOMER CHARGES ADJUSTED/WAIVED

TELEPHONE:

New England Telephone	\$10,835.96	(78)
Continental Telephone	523.80	(8)
Unity Telephone	70.00	(1)
Oxford County Telephone	16.47	(1)
Hampden Telephone	230.00	(1)
Bryant Pond Telephone	5.21	(1)
Somerset Telephone	96.50	(3)
Community Service Telephone	753.20	(3)
China Telephone	<u>6.00</u>	(1)
TOTAL:	\$12,537.14	(97)

ELECTRIC:

Central Maine Power Company	\$12,713.04	(80)
Eastern Maine Electric Coop.	338.90	(1)
Swans Island	89.57	(2)
Bangor Hydro	1,965.49	(9)
Maine Public Service	145.00	(2)
Houlton Electric	<u>1,069.52</u>	(1)
TOTAL:	\$16,321.52	(95)

WATER:

Portland Water District	\$35,019.75	(4)
Caribou Water	15.00	(1)
Berwick Water	116.11	(1)
Skowhegan Water	11,281.00	(1)
York Water	<u>16,000.00</u>	(1)
TOTAL:	\$62,431.86	(8)

GAS:

Northern Utilities	\$ 3,644.18	(10)
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GRAND TOTAL:	\$94,934.70	(210)
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D. Rate Case Decisions (1983).

In 1983, the PUC decided 47 general rate cases, in which electric, telephone, water and gas utilities had requested increases totaling \$120.5 million.* The Commission allowed \$39.8 million in rate increases, rejecting \$81.5 million. Exhibit L presents overall 1983 rate decision data by utility category. Exhibits M, N, and O present specific data on individual rate cases, grouped by utility categories (electrical, telecommunication, and water).

The exhibits pertaining to electrical rate changes do not reflect changes in fuel charges passed on to consumers. Nonetheless, a significant portion of total electrical billings represents the cost of fuel. For the major electrical utilities, fuel adjustment changes are processed in accordance with Chapter 34 of the Commission's Rules. As Exhibit P indicates, fuel revenues accounted for approximately \$263 million of the approximate \$573 million in gross operating revenues of the Central Maine Power Company, Bangor Hydro-Electric Company, and Maine Public Service Company (combined). Exhibit P charts the historic proportionate ratio

*

Data base is for rate proceedings concluded in 1983, which includes some rate cases actually filed in 1982, as well as those filed and concluded in 1983. Does not include proceedings filed in 1983, which were not concluded by December 31, 1983.

of fuel revenue to gross revenues for Maine's 3 largest electric utilities since 1981.

Although precisely comparable data has not been compiled, there has been a general upward trend in the total rate increases requested and granted for all regulated public utilities in recent years. Exhibit Q presents this data since 1978. The figures for 1979 do not include transportation, water or gas rates, which to some extent hinders comparisons. Furthermore, the 1982 and 1983 figures no longer reflect transportation, which was deregulated at the end of calendar year 1981. A trend can be discerned, however, from the following figures: rate increase requests totalled \$55.7 million in 1978, \$60.6 million in 1980, \$94.2 million in 1981, \$140.5 million in 1982, and \$120.5 million in 1983. Amounts granted by the Commission respectively were \$26 million in 1978, \$37.4 million in 1980, \$60.6 million in 1981, \$75.1 million in 1982, and \$39 million in 1983. Over the six-year period (1978 - 1983), utilities have requested \$478.6 million in rate increases, have been awarded \$246 million, and have been denied \$232.6 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 -- resulting generally in 21 months between rate filings. Legislation enacted in 1982 now allows utilities to make one rate filing every 12 months.

Two major proceedings were concluded in 1983, accounting for approximately 85% of total rate increase requests that were decided last year and 55% of rates granted. These were: New England Telephone Company's rate case (Docket No. 82-124), where \$49.8 million was requested and \$11.4 granted (including \$833,000 remanded by the Law Court) and Central Maine Power Company's rate case (Docket No. 82-266), where \$53 million was originally requested, and \$11.1 million was granted in new rates. On October 13, 1983, New England Telephone filed another rate case in the amount of \$50 million, which must be decided by July 12, 1984.

PUC RATE CASE DECISIONS (1983)

<u>Category</u>	<u>Cases</u>	<u>\$</u> <u>Requested</u>	<u>\$</u> <u>Granted</u>	<u>Difference</u>
Electric	5	55,650,731	12,832,948	42,817,783
Telephone	5	50,704,900	12,565,196*	38,139,704
Water				
District & Municipal	23	7,567,913	7,488,519	79,394
Investor-Owned	14	6,617,216	6,121,231	495,985
Gas	<u>0</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
TOTALS (1983)**	47	120,540,760	39,007,894*	81,532,866

* Includes \$833,000 remanded by Law Court to NET in M.P.U.C. Docket No. 82-124, case originally decided in April, 1983, remand decided in September, 1983.

**

All statistics in this and immediately subsequent exhibits reflect a data base of strictly those PUC rate cases concluded in 1983, some of which were filed in 1982. Not included in these statistics are cases filed in 1983, that were still pending on January 1, 1984.

1983 ELECTRIC 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>
Eastern Maine Electric Coop. Docket No. 82-182 Decree Date - 6/17/83	1,058,633	553,150	N/A	N/A
Houlton Water Company Docket No. 82-196 Decree Date - 6/28/83	836,858	799,007	N/A	N/A
Kennebunk Light & Power Dist. Docket No. 82-251 Decree Date - 9/14/83	685,944	416,791	N/A	N/A
Central Maine Power Co. Docket No. 82-266 Decree Date - 12/6/83	53,000,000*	11,064,000	12.30	15.07
Stonington & Deer Isle Power Co. Docket No. 82-241 Decree Date -	<u>69,296</u>	<u>**</u>	-	-
TOTALS (5 cases)	55,650,731	12,832,948		
		Difference--\$42,817,783		

* CMP's original revenue request was for \$53 million and the rates it filed produced that amount. Although it did not file new rates, in its rebuttal testimony, CMP reduced its revenue request to \$39 million.

** Request voluntarily withdrawn - 7/27/83.

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

1983 TELEPHONE RATE CASES

<u>Date</u>	<u>Company</u>	<u>Docket Number</u>	<u>Amount Requested</u>	<u>Amount Granted</u>	<u>Overall Return</u>	<u>Return on Equity</u>	<u>Date Completed</u>
12/83	Somerset Tel.	83-35	\$ 516,319	\$ 299,545	8.44	14.50	9/14/83
25/83	Warren Tel.	83-85	81,111	46,651	12.84	13.00	9/14/83
27/83	Community Ser. Tel.	83-64	243,297				10/12/83 - Withdrawn by Co.
1/3/82	Unity Telephone	82-245	78,173				8/05/83 - Withdrawn by Co.
27/82	New England Tel.	82-124	49,786,000	11,386,000	11.31	13.11	4/26/83 - Appealed
				<u>833,000</u>			9/83 - On remand from Law Ct.
	TOTALS		<u>\$50,704,900</u>	<u>\$12,565,196</u>			

1983 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</u> <u>Date</u>
82-95 Morrill Water Co.	2,198	2,198	10.00	-	1/27/83
82-96 Biddeford and Saco Water Co.	2,276,816	2,229,790	11.60	-	2/17/83
82-126 Camden & Rockland Water Co.	1,871,813	1,750,029	12.63	14.0	2/23/83
82-185 Kennebunk, Kennebunkport & Wells Water Dist.	2,549,350	2,469,956	N/A	N/A	5/25/83
82-264 Machias Water Co.	108,606	103,087	10.36	12.5	6/1/83
82-265 Northeast Harbor Water Co.	90,312	87,855	10.60	12.5	6/1/83
82-270 Seal Harbor Water Co.	72,544	66,329	9.07	12.5	6/1/83
82-274 Farmington Water Dept.	282,422	282,422	N/A	N/A	2/1/83
83-14 Port Clyde Water Dist.	13,510	13,510	N/A	N/A	2/15/83
83-29 Caribou Water Works	805,153	669,438	12.54	14.75	11/3/83
83-30 Eastport Water Co.	314,004	286,272	12.54	14.75	11/3/83
83-31 Greenville Water Co.	150,560	125,411	12.54	14.75	11/3/83
83-32 Mechanic Falls Water Co.	149,887	129,602	12.54	14.75	11/3/83
83-33 Millinocket Water Co.	506,580	447,503	12.54	14.75	11/3/83
83-57 South Berwick Water Dist.	201,919	201,919	N/A	N/A	4/1/83
83-58 Lincoln Water Dist.	270,860	270,860	N/A	N/A	4/1/83
83-62 Buckfield Water Dept.	15,534	15,534	N/A	N/A	3/16/83
83-63 Canton Water District	18,000	18,000	N/A	N/A	3/16/83
83-90 Starks Water Dist.	3,332	3,332	N/A	N/A	5/1/83
83-100 Boothbay Harbor Water Dept.	272,786	272,786	N/A	N/A	5/18/83
83-103 Madawaska Water Dist.	223,876	223,876	N/A	N/A	5/27/83
83-111 Bucksport Water Co.	128,099	121,094	12.00	-	11/2/83
83-117 Andover Water Dist.	25,130	25,130	N/A	N/A	7/1/83
83-129 Guilford & Sangerville Water Dist.	139,400	139,400	N/A	N/A	7/1/83
83-148 Lewiston Water Dept.	1,100,580	1,100,580	N/A	N/A	7/15/83
83-161 Berwick Water Dept.	127,402	127,402	N/A	N/A	7/1/83

	<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>
83-165 Rangeley Water Co.	116,424	78,403	13.00	-	9/20/83
83-186 Searsport Water Dist.	PENDING - STILL ON DOCKET				
83-207 Lubec Water & Electric Dist.	122,600	122,600	N/A	N/A	9/4/83
83-208 Brunswick & Topsham Wat. Dist.	1,146,400	1,146,400	N/A	N/A	9/10/83
83-229 Belfast Water Dist.	322,600	322,600	N/A	N/A	10/28/83
83-231 Phillips Water Co.	24,220	24,220	12.15	-	10/13/83
83-234 Patten Water Dept.	20,397	20,397	N/A	N/A	11/1/83
83-310 Harrison Water Dist.	62,725	62,725	N/A	N/A	1/1/84
83-315 Winthrop Water Dist.	188,251	188,251	N/A	N/A	1/1/84
83-320 Winterport Water Dist.	79,780	79,780	N/A	N/A	1/1/84
83-322 Rumford Water Dist.	228,514	228,514	N/A	N/A	1/1/84
83-328 Pittsfield Water Dept.	152,545	152,545	N/A	N/A	1/1/84
TOTALS	<u>14,185,129</u>	<u>13,609,750</u>			

FUEL IN ELECTRIC RATES

Company	1981 Gross Revenue	1981 Fuel Revenue	1981 % Fuel	1982 Gross Revenue	1982 Fuel Revenue	1982 % Fuel	% Change in Fuel Revenue	1983 Gross Revenue*	1983 Fuel Revenue*	1983 % Fuel	% Change in Fuel Revenue
Central Maine Power	\$377,683,579	\$193,078,785	51.1	\$401,335,812	\$183,724,000	45.8	(4.8)	\$456,117,000	\$213,673,000	46.8	16.3
Bangor Hydro-Electric	80,603,814	48,270,396	59.9	80,603,813	39,494,290	49.0	(18.2)	83,622,648	37,359,269	44.7	(5.4)
Maine Public Service	29,205,611	12,735,897	43.6	31,059,322	12,132,825	39.1	(4.7)	33,007,069	11,633,158	35.2	(4.1)
	\$487,493,004	\$254,085,078		\$512,998,947	\$235,351,115			\$572,746,717	\$262,665,427		

* Unaudited Figures.

NOTE: Above data indicates proportionate ratio of fuel revenue to gross revenue for Maine's three largest electrical utilities for 1981-1983. Not included is data for twelve smaller electrical utilities which, when combined, account for less than 3% 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, and \$15.8 million in 1982.

PUC RATE CASE DECISIONS (1978-1983)
(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****	140.5 million	75.1 million	65.4 million
1983	<u>120.5 million</u>	<u>39.0 million</u>	<u>81.5 million</u>
6-YEAR TOTALS	\$478.6 million	\$246.0 million	\$232.6 million

*

All data pertains to cases concluded in years listed. Data presented by years are not directly comparable, as noted in following footnotes. Data presented does not include fuel adjustment increases depicted in Exhibit P.

**

1979 data reflect absence of major rate cases, as well as absence of data for water, gas, and transportation utilities. Major utilities now generally file one new rate case per year.

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).

E. Summary.

As noted in the preceding segments of Section IV, 1983 was an extremely busy year for the Maine Public Utilities Commission. New proceedings were docketed at a record pace, significant rate increase requests came before the Commission, and a series of complex regulatory issues faced the Commission, including the impacts of AT&T divestiture, electric power generation planning issues, and a host of other vital issues impacting upon Maine consumers. The coming year seems likely to be equally busy. One can speculate that 1984 will be an even busier issue for the Maine PUC. Section V, which follows, deals with some of the principal regulatory issues currently before the Commission.

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 in 1983 are summarized below.

A. Electric Utilities.

Electric utilities' activities continued to represent a major part of the Commission's work in 1983. Maine's largest electric company, Central Maine Power Company (CMP), had a major rate increase request decided by the Commission last year. The CMP case was decided on December 6, 1983. Fuel adjustment cases for CMP (CMP had two fuel clause cases decided), BHE, and MPS were also completed in 1983. Short-term avoided energy cost proceedings accompanied each of these fuel adjustment proceedings.

Several major issues surfaced in the CMP rate proceeding 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, the

difficulty of financing the construction of new generating facilities, and the reasonableness of the utility's commitments to Seabrook Units 1 and 2, and Millstone Unit 3. The Commission also considered the effects of the cancellation of Pilgrim Unit 2, on CMP and CMP's ratepayers. Similar problems are likely to challenge the utilities and the Commission in 1984.

In September of 1983, the Commission issued its final Decision in an investigation arising from the false testimony of a senior officer of Central Maine Power Company. The Commission investigation led to the dismissal of the Senior Vice President and to the resignation of Central Maine Power Company's President. The Commission accepted the Company's plea of nolo contendere to a finding of contempt and accepted its agreement to the imposition of a \$20,000 fine.

The actions of the Company were also reported to the Attorney General in accordance with 35 M.R.S.A. §8, which resulted in the convictions in District Court of the Senior Vice President and the Company.

Other important issues before the Commission in 1983 included the approval of a major out-of-state power purchase by CMP, further consideration of electric rate design issues, approval of short-term and long-term avoided cost rates, and plans for financing the decommissioning of Maine Yankee. The Commission will continue to emphasize the importance of alternative energy sources and conservation when evaluating utilities' load forecasts and generation plans. Two years ago,

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. These Programs were expanded at the direction of the Commission in 1983, to include appliance rebates and a much more extensive Weatherization Program.

1. Financial Status of Electric Utilities.

Maine's large electric utilities continue to face difficult financial situations due to their construction programs. Growth in electric sales has slowed, but costs continue to increase, and the electric utilities have 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 programs 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 sizeable 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 seek to 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 assert that 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. Many groups, however, respond by questioning the wisdom of the construction programs. They allege (and the PUC has agreed) that alternatives involving cogeneration, load management, and conservation have not been adequately considered. Ratepayers are angry at rising rates and the prospects of paying for cancelled generating plants, 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 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 Maine electric companies developed much of 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, six planned nuclear plants were cancelled. Today, the only major generating stations being built in New England are Millstone Unit 3 and Seabrook Units 1 and 2. Furthermore, the cost of these projects have far exceeded the original estimates.

At a special meeting of the Seabrook joint owners on September 8, 1983, the joint owners unanimously voted to reduce expenditures for Unit 2 to the lowest feasible level until fuel-loading for Unit 1, currently estimated for early 1985. On August 22, 1983, the Connecticut Department of Public Utility Control ordered two Connecticut participants to "make every effort to disengage" from Unit 2. The deferral of Unit 2, until at least 1988, will increase its cost substantially.

A substantial amount of Seabrook is now for sale. No buyers have come forth at any price. Maine Public Service Company contacted all the New England electric utilities and many utilities outside of the New England area in an attempt to sell 50% of their interest. Central Maine Power Company announced in May, 1983, that it wanted to sell 50% of Unit 1,

100% of Unit 2, and 50% of Millstone nuclear plant Unit 3. Public Service Company of New Hampshire, the lead participant, has yet to reduce its ownership from 35 to 28%, as ordered by the New Hampshire Public Utilities Commission.

With deferrals, cost overruns, increased conservation, emerging cogeneration, and large quantities of less expensive Canadian power available, the cancellation of Seabrook Unit 2 is increasingly likely.

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 investors 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 for, and as the financing costs of the investment in a plant under construction grows, the internal cash flow and quality of earnings are further reduced.

In the past year, the riskiness and, therefore, financial difficulties of electric utilities constructing nuclear plants have increased. In the wake of the Washington Public Power Supply System's default on bonds issued in support

of 2 cancelled nuclear units, investors have become extremely nervous about investing in utilities with nuclear plants under construction. A very distinct two-tier market has developed in the past six months between nuclear and non-nuclear utilities which has adversely affected Maine's utilities. In the summer of 1983, Maine Public Service Company encountered considerable difficulty in issuing common stock and long-term debt, while Central Maine Power Company's bonds were downgraded to the lowest investment grade level.

2. The "Prior Approval" Issue.

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 expanded that request to cover investments in facilities outside the State. In 1983, the Commission reviewed and approved a proposed long-term purchase of 100 megawatts of capacity and related energy from the New Brunswick Electric Power Commission. In accordance with the requirements of state law, CMP's application included a filing fee of approximately \$59,188. Only \$4,780 of the filing fee was

expended by the Commission to review the application and the remainder (\$54,408) will be returned to the Company.

3. 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. To date, the Commission has barred utilities from collecting the financing costs of CWIP from ratepayers. Instead, these

financing costs 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. In this manner, 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 1983, a rate case involving Central Maine Power Company presented the Commission with several issues regarding CWIP and AFUDC. The Commissioners evaluated the Company's financial condition in light of its construction program. The Commission determined that the financial condition of Central Maine Power Company did not warrant a rate increase 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 1982 decisions in the MPS and BHE rate cases to defer tax benefits associated with plant financing costs, so that today's ratepayers do not benefit from them. The Commission ruled that, to ensure the financial integrity of Maine Public Service and Bangor Hydro-Electric, those tax deductions should benefit customers when the plants begin producing power rather than while the plants are being built.

4. Cost of Cancelled Plants.

During 1983, the Legislature enacted a bill which limited the Commission's ability to permit the immediate commencement of recovery in rates for a cancelled generating facility. (P. L. 1983, c. 243, enacting 35 M.R.S.A. §52-A).^{*} Chapter 243 states:

The Commission shall not, with respect to any cancelled or abandoned electric generating facility, issue any order concerning the

*

At the time of the enactment of Chapter 243, the Commission's policy with respect to cancelled plants was to allow the immediate commencement of an amortization of the non-AFUDC portion of the investment over a period of five years. The utility was not allowed to recover the AFUDC associated with the plant and the unamortized balance was excluded from rate base. Central Maine Power Company, Re: Proposed Increase in Rates, Docket Nos. 81-127 and 81-206, Decision and Order (March 27, 1982), pp. 26-31, 45-46. However, the Commission indicated in Docket Nos. 81-127 and 81-206 that if the application of this policy was not inflexible, but included an assessment of the financial impact on the utility.

recovery from ratepayers of all or any portion of the cost of that facility until after the date last announced for completion of the plant by the lead participant. This section does not apply if an electrical company can establish, as part of proceeding initiated by it under Section 64, that it will be unable to perform its public service or attract necessary capital on just and reasonable terms, absent a commission order at the conclusion of the proceeding under Section 64 authorizing the current recovery of all or a portion of the cost from ratepayers.

The first and only case to date which has been subject to Section 52-A is Central Maine Power Company, Re: Proposed Increase in Rates, Docket No. 82-266, Decision and Order (Dec. 6, 1983), Opinion and Subsidiary Findings (Dec. 15, 1983), pp. 109-117. In that case, CMP sought authorization to recover in rates from its customers its entire \$14.5 million investment in the cancelled Pilgrim 2 nuclear power plant. The Commission held that Section 52-A prohibited the issuance of an order in that case allowing recovery of Pilgrim 2 to commence, because CMP failed to establish "that it will be unable to perform its public service or attract necessary capital on just and reasonable terms, absent a commission order ... authorizing the current recovery of all or a portion of the cost from ratepayers." Although the Commission did not make a finding as to the "date last announced for completion of the plant by the lead participant" it did find that on the basis of the record in the case the last date announced for the completion of Pilgrim 2 by Boston Edison, within the meaning of Section 52-A, is no

later than April, 1987. Central Maine Power Company has not appealed the Commission's Decision in Docket No. 82-266.

5. 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 in 1984. An Examiner's Report was issued in May of 1983 in the CMP case and the Commission is in the process of deliberating in that proceeding. An Order, with opportunities for the parties to except, is expected to be issued during 1984 in the BHE case. 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 an early phase.

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 high voltage transmission system. Similarly, 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 "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 requested additional time to prepare their testimony and briefs. 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.

6. Decommissioning Maine Yankee.

On September 15, 1982, Maine Yankee Atomic Power Company submitted its Decommissioning Financing Plan to the Commission in accordance with the Nuclear Decommissioning Financing Act, 35 M.R.S.A. §§3351-3359 (P. L. 1981, c. 688). The Act requires the Commission to issue an order on the proposed financing plan within 180 days after the Commission finds Maine Yankee's application to be complete. On November 12, 1982, the Commission informed Maine Yankee of certain deficiencies in its proposed decommissioning plan. All but one of the deficiencies has now been remedied. Maine Yankee is still in the process of securing the "fully executed decommissioning financing agreement between the licensee and each owner, evidencing each owner's acceptance of its respective share of the ultimate financial responsibility for decommissioning," required by 35 M.R.S.A. §3353(2)(A).

Although the filing of a Decommissioning Financing Plan has not been completed, the Commission has proceeded to hire consultants and the Staff has been engaged in an analysis of the Company's proposal through the discovery process. Maine Yankee's original financing plan was based upon the assumed total decommissioning cost of \$67 million, as found by the Commission in Central Maine Power Company, Re: Proposed Increase in Rates, Docket No. 80-25, Decision and Order (October 31, 1980), and adopted by the FERC in the Maine Yankee decommissioning financing case which was decided in August, 1982. On June 30, 1983, Maine Yankee supplied the Commission with a revised engineering and economic study, which concluded that the cost of decommissioning the plant (based on prompt dismantlement and removal) is \$125,799,000 in 1983 dollars, including a 25% contingency allowance. On August 29, 1983, the Commission issued an Order Approving Stipulation for Interim Decommissioning Financing Plan, in accordance with 35 M.R.S.A. §3353(5)(B). The interim plan is based upon the FERC-approved plan for Maine Yankee (FERC Docket No. ER82-15-000).

Maine Yankee apparently has recently secured the agreement of all sponsors to an amendment to the Maine Yankee power contract, which will obligate them to their pro rata share of decommissioning expense. FERC approval of the amendment is now required before it can be filed with the PUC. Nonetheless, the Staff's analysis and discovery are continuing, in anticipation of the completion of the filing.

In March, 1983, the Maine Public Utilities Commission intervened in the FERC decommissioning case of Vermont Yankee Nuclear Power Corporation (Docket No. ER83-343-000). (Central Maine Power Company owns 4% of Vermont Yankee.) Although the Commission has not been able to actively participate in this proceeding, it has received copies of all correspondence and settlement proposals for its information and monitoring. The Vermont Yankee case has resulted in a proposed settlement which the Commission has reviewed and, finding it to be reasonable, has indicated orally its consent to the proposed agreement.

7. Avoided Cost Rates.

During the fourth quarter of 1983, the Commission decided that Central Maine Power Company's proceeding involving the establishment of standard long-term contract rates at CMP would be required to pay to cogenerators and small power production facilities (a written Order was issued on January 9, 1984). This decision is a key element of the Commission's efforts to implement Maine's small power production facilities at 35 M.R.S.A. §§2321, et seq. Before adjusting for line losses, the avoided cost rates calculated by the Commission are shown in Exhibit R.

Exhibit R

LEVELIZED LONG-TERM RATES

A	B	C	D
YEAR	Annual Total Avoided Costs ¢/KWH	Net Present Value Through Year Shown	Levelized Rate for 1983 Through Year Shown
1983	4.90	4.3684	
1984	6.28	9.3596	
1985	5.35	13.1503	
1986	6.13	17.0225	
1987	5.90	20.3450	5.67
1988	8.80	24.7630	
1989	14.11	31.0782	
1990	14.28	36.7761	
1991	14.34	41.8772	
1992	13.71	46.2250	8.24
1993	13.43	50.0219	
1994	14.94	53.7874	
1995	15.12	57.1849	
1996	15.96	60.3820	
1997	17.09	63.4341	9.40

SOURCES: Column B -- Table II.
 Column C -- Net present value of cumulative cash flows in Column B.
 Column D -- Levelized rate that, if paid in each year, will yield the same net present value shown in Column C. Where n = number of years, i = discount rate of 12.17%, and x = net present value of Column B, the levelized rate is

$$x \div [(1 - (1+i)^{-n}) \div i].$$

The decision has added a level of certainty to an otherwise-uncertain area which has in turn resulted in a substantial quantity of additional cogeneration and small power production development in the State.

A similar proceeding involving Maine Public Service Company was decided in the first quarter of 1984. The corresponding Bangor Hydro-Electric proceeding is still pending.

8. Seabrook.

The Seabrook nuclear power plant has figured prominently in a number of proceedings before the Commission. As shown in Exhibit S, each of Maine's major electric utilities has a substantial commitment to the Seabrook units.

Exhibit S

OWNERSHIP OF SEABROOK UNITS BY MAINE UTILITIES

Central Maine Power Company	139 MW
Bangor Hydro-Electric Company	50 MW
Maine Public Service Company	33.6 MW
Eastern Maine Electric Cooperative, Inc.	5 MW

The event that has brought Seabrook to the forefront is the significant increase in the total cost of the project, now estimated by CMP to be in excess of \$10 billion and the expected in-service date which in many years beyond the original plans.

In Maine Public Service Company,
Re: Investigation of Power Supply, Docket No. 81-114, the Commission concluded that given the revised cost estimates of the Seabrook facilities (at the time the cost estimate was approximately \$7 billion) and the delayed schedule that Maine Public Service Company should dispose of one-half of its interest in Seabrook facilities. Maine Public Service Company is continuing its efforts to reduce its ownership in Seabrook units but thus far has been unsuccessful.

The pending CMP investigation, Central Maine Power Company, Re: Investigation of Power Supply, Docket No. 82-112, will determine whether continued ownership in the Seabrook units is an economic interest of Central Maine Power Company's ratepayers. In a report filed by Central Maine Power Company on February 17, 1984, consultants retained by the Company concluded that the continuation of the Seabrook Unit 2 facility is no longer in the interest of the Company or its ratepayers.

9. CMP Reorganization.

In 1982, Central Maine Power Company filed an application for approval of a proposed reorganization of the Company, including the creation of a holding company, Maine Industries, that would own 100% of the stock of CMP and other newly-created subsidiaries. This filing and many of the issues raised by the application were discussed in the Commission's last Annual Report at pages 50-52.

In accordance with a stipulation entered into by all parties to the proceeding, CMP withdrew the application. The stipulation was approved by the Commission, thus disposing of the case.

10. Line Extensions.

As people build homes and businesses at locations that are not already served by an electric, telephone, or water utility, the utilities authorized to serve the area will be asked to extend their existing lines to the new locations. The term used to describe these situations is "line extension."

Utilities' policies and rates governing line extensions with respect to water utilities are governed by Commission rule. With respect to telephone and electric utilities, line extension rates and policies are governed by individual tariffs and wide differences exist among the utilities. A substantial number of complaints received by the Commission each year relate to line extensions. To reduce the

number of complaints and to establish a uniform policy applicable to all utilities, the Commission has commenced an investigation that will lead to a generic line extension rulemaking proceeding in 1984.

11. Conservation Programs.

Amendments to the Electric Rate Reform Act in 1982 explicitly vested with the Commission the power and the responsibility to order programs whereby electric utilities would finance or subsidize conservation measures undertaken by ratepayers. Residential loan programs were ordered into effect by the Commission in the Fall of 1982 for the three major electric utilities in Maine, Central Maine Power Company, Bangor Hydro-Electric Company and Maine Public Service Company. The programs allow residential electric space heat or electric hot water heat customers to finance the purchase of eligible conservation measures costing from \$250 to \$2,000 with 6% conservation loans. The programs also provide that certain low-income customers can borrow up to \$750 at 0% interest. Among eligible conservation measures are insulation, wood stoves, and load management devices for electric space heat customers, and heat pump hot water heaters and solar water heaters for electric hot water customers.

These programs were not actually operating until 1983. During the first year, the programs were not as successful as hoped or anticipated. Through December 31, 1983,

Central Maine Power Company had made sixty-six 6% loans and seven 0% loans, Bangor Hydro had made thirty-nine 6% loans and no 0% loans, and Maine Public Service had made three 6% loans and no 0% loans.

As part of the original decision and orders in the residential loan programs, the Commission directed the three utilities to investigate proposed programs in three areas where the potential for energy conservation seemed promising: a Water Heater Jacket Program for electric hot water customers, an Appliance Rebate Program for replacement of high energy-using appliances, and a loan program for commercial customers. A great deal of time and effort was spent in 1983 by the Commission Staff working with the three utilities and other State agencies, such as the Office of Energy Resources and the Division of Community Services, to develop these programs. Even though many details were agreed to by the Staff, the Public Advocate, and the companies, nine days of hearing on Conservation Programs were held by the Commission in 1983.

The program which is generally considered the one with the greatest potential for widespread public participation is CMP's Weatherization Program. The concept of the Program is the efficient delivery on a large-scale basis of water heater wrapping services, combined with the delivery of relatively low-cost weatherization and infiltration-reduction "seal-up" measures. The conservation measures are installed by private

contractors, chosen by the company through a competitive bidding process.

This program started simply as a Water Heater Jacket Program and that remains its primary focus. For a \$5 service call charge, electric hot water heater customers may have installed a water heater jacket, a low-flow shower head, and two sink aerators. The customer may instead pick up those measures from the company and install them himself or herself at no charge. An electric customer can also have installed any weatherization or infiltration-reduction measure at the contractor's cost. CAP agencies are to administer a similar program to eligible low-income customers. Low-income electric hot water customers may receive the hot water conservation measures at no charge. Any customer qualifies as low income if he or she is eligible for fuel assistance or weatherization assistance funds. Preparations for the Weatherization Program have been taking place for months and the Program is expected to actually get underway by January, 1984.

The Weatherization Program will provide a vehicle for promoting the residential loan program. By getting the contractor into the customer's home, on-the-spot promotion of conservation measures available through the loan program can take place. So it is hoped that the anticipated strong response to the Weatherization Program will lead to more favorable levels of participation in the residential loan program.

In conjunction with the Weatherization Program and changes to the residential loan program, CMP eliminated the fee to its residential energy audit program. The response to the free audit has been extremely positive and as a side benefit has prompted renewed interest in the loan programs. This presents another opportunity for promotion and increased participation in the residential loan program.

Maine Public Service will offer a program involving the free installation of water heater jackets for electric hot water customers. At the time of installation, a Company employee will also offer to turn down the water heater thermostat and perform a relatively simple walk-through audit of the premises.

Bangor Hydro-Electric Company has a program similar to CMP's Weatherization Program in the planning stage.

Both Central Maine Power and Maine Public Service Company are in the process of implementing an Appliance Rebate Program. The Program calls for a rebate of \$10 to \$50 when a residential customer purchases a replacement appliance which qualifies as energy-efficient. Eligible appliances include refrigerators, refrigerator-freezers, freezers, water heaters, and air conditioners.

Loan programs targeted at commercial customers have also been filed with the Commission by CMP and MPS. The CMP program has had hearings, argument, recommendations, and deliberations by the Commission. The program will be a pilot

program targeted at various commercial customers where the expected electric energy savings is great. The eligible conservation measures are more than the hot water conservation and space heating insulation and alternative heating measures available to residential customers. For instance, one measure expected to save much energy is more efficient electrical lighting. Any measure expected to result in significant electrical savings will be eligible. A final decision in the CMP case was issued on February 29, 1984, and the program should be up and running in the spring. Maine Public Service's proposal has been on hold pending the resolution of the CMP commercial loan program and is expected to be resolved shortly and should be in operation soon after CMP's. Bangor Hydro also has a commercial loan program in the works, although its program is still at the planning stage.

To summarize, 1983 saw the first year of operation of the residential loan programs. The initial response has been disappointing, yet with some changes implemented during 1983 and renewed promotional efforts by the utilities, hope remains for significant electric energy savings. New Conservation Programs have been explored and are in the process of being implemented. The new programs present additional opportunity for cost-effective electrical savings by permitting greater participation of electric utility ratepayers. Although Conservation Programs are a relatively new utility endeavor, both in Maine and nationwide, these

Commission-ordered Conservation Programs should lead to a significant reduction of kilowatt-hour consumption and the accomplishment of the goals of the Electric Rate Reform Act: postponement of the need for expensive, new electrical generating facilities, reduction in the overall costs of providing utility service, and more efficient utilization of finite resources.

In a letter dated April 6, 1983, the Commission stated that it would include in its Annual Report "a specific discussion of its treatment of electric utility requests for rates to recover their expenses associated with the Conservation Loan Programs." During 1983, the Commission received requests for rate increases to recover conservation expenses from Central Maine Power Company and Maine Public Service Company. The Commission granted the former and denied the latter.

In its rate case, Central Maine Power Company, Re: Proposed Increase in Rates, Docket No. 82-266, Decision and Order (December 6, 1983), Opinion and Subsidiary Findings (December 15, 1983), Central Maine Power Company requested an adjustment to its expenses of about \$120,000 to recover its annual cost in the Conservation Loan Program. The Commission accepted CMP's proposed adjustment without dispute. Although the Commission had stated in its Decision and Order No. 2 in Central Maine Power Company, Re: Conservation Loan Program, Docket No. 82-145 (August 31, 1983), that CMP should seek a rate increase for its expenses associated with the Weatherization

Program and the Appliance Rebate Program in the context of the ongoing rate case, Docket No. 82-266, no such request was made in Docket No. 82-266. The Commission recently issued a Procedural Order in Docket No. 82-145, which provides a procedure by which CMP may seek recovery of its costs associated with the Weatherization and Appliance Rebate Programs without the necessity of doing so in the context of a general rate increase case.

Maine Public Service Company requested a rate increase of about \$100,000, at the time the Commission ordered the implementation of its Appliance Rebate and Water Heater Jacket Programs. Maine Public Service Company, Re: Conservation Loan Program, Docket No. 82-153, Decision and Order No. 2 (November 3, 1983). The Commission denied MPS's request, finding that there was not adequate justification for the Commission to deviate from its principle prohibiting single-issue rate cases. The Commission had requested the parties to address the possibility of a rate increase being granted after the achievement of some level of success in the Conservation Loan Program. However, no party made a specific proposal. Maine Public Service Company is also subject to the Procedural Order discussed in the previous paragraph, under which it will be able to request a rate increase to cover the cost of its ongoing Conservation Programs.

12. Winter Disconnect Rule.

On October 31, 1983, the Commission issued a Notice of Rulemaking and Hearing, thereby proposing a few revisions to the Winter Disconnection Rule. 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 into 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 are generally lower. The Commission also requires electric and gas utilities to warn customers of 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.

A hearing on the proposed Rule was held on November 15, 1983, and the Commission subsequently voted to adopt some of the proposed changes. The most significant change

is the addition of a special rule for small utilities, i.e., utilities with 10,000 or fewer residential customers. These smaller utilities will be allowed to use more abbreviated and simplified version of the Winter Disconnection Rule. The Commission is implementing this special rule on a trial basis and has provided that its provisions may be terminated if more than 1% of the utilities' residential customers bill the utilities' decisions.

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 362 cases filed with the PUC during 1983, 130 (or 36%) were from telecommunication utilities. Likewise, nearly 39% (or 1,770) of the 4,428 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. Court Divestiture Decision/Restructuring the Industry.

Under a court-approved settlement between AT&T and the Justice Department, American Telephone and Telegraph Company was split up into eight components on January 1, 1983, including a new AT&T and seven regional operating companies. The new AT&T consists of the long lines toll service, Bell labs, Western Electric. In addition, the new AT&T sells and leases telephone equipment through a new subsidiary. Local telephone service is now provided by the seven new and independent regional operating companies. New England Telephone Company has become part of NYNEX, which now serves New England and New York.

New England Telephone Company will continue to provide local exchange service and toll calls within an area code. Longer distance calls are now prorated by companies, including the new AT&T, which are subject to competition. In addition, NET no longer owns any of the telephones in customers' premises. Customers now have the choice of leasing telephones from AT&T or buying their own telephones.

It is likely that long distance toll rates will go down as a result of the advent of competition. It is also widely believed that long distance toll rates had substantially

subsidized local exchange rates for many years. As a result of the loss of the subsidy, local exchange rates may experience upward pressure in coming years.

2. NET Depreciation Represcription in 1984.

In November of 1983, New England Telephone and Telegraph Company filed a proposal with the Federal Communications Commission to increase its depreciation expense in the State of Maine by approximately \$32 million. The Maine Commission is participating in negotiations with the Company and the Federal Communications Commission which will result in revised depreciation expense to be recovered by NET from its Maine ratepayers. This proceeding is expected to conclude in the second or third quarter of 1984.

If the Company's proposal is approved, the Company's rates would increase by approximately \$3.70 per line, per month.

3. 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. Considerable progress was made in 1982 on the approximately 20 EAS dockets outstanding from the late 1970's, as was detailed in last year's PUC Annual Report.

Presently, the Commission has four petitions for EAS (including seven requested routes) on its Docket. Three cases are ready for customer polling and the fourth is in the economic study stage.

4. Local Measured Service.

New England Telephone and Telegraph Company now offers a local measured service option in four of its exchanges. Local measured service is a form of basic exchange service that charges customers on the basis of the number of calls, duration of calls, distance, and time of day. On two occasions, the Company has proposed to expand the offering to other exchanges. These proposals were opposed by many intervenor groups, the Public Advocate, and, in part, by the Commission Staff. The Commission rejected the Company's proposals and, in so doing, specified a number of concerns and issues that the Company should address before local measured service offerings are expanded. To address these controversial issues in detail, the Commission initiated an investigation in July, 1983. Hearings on these issues are scheduled throughout the first half of 1984, and an initial decision is expected in July.

5. Intrastate Competition.

In 1983, the Commission received a complaint against New England Telephone filed by Kennebec Systems Reach

Cooperative. Kennebec Reach desired to purchase intrastate WATS and Fx services from NET and resell those services to customers of Kennebec Reach. (Kennebec Reach was organized as a cooperative, thus proposed to "share" the services with members of the cooperative.) The complaint alleged that NET's tariffs prohibited the resale or sharing of NET's services and that the prohibition was unreasonable. Because the Company's rationale for including the prohibition rested on the then-existing rate design, the Commission consolidated a portion of the complaint case with the pending NET rate case which included substantial rate design proposals.

The Commission found (1) that the prohibitions contained in NET's tariffs were unreasonable and ordered that they be eliminated; (2) that NET's WATS rates be redesigned to accommodate resale; (3) that within six (6) months, NET file restructured Fx rates; (4) that within the same six (6) months' period that NET and independent telephone companies consider and resolve toll settlement problems caused by resale of Fx services and that Kennebec Reach seek necessary approvals, if any.

These decisions are preliminary steps toward Commission consideration of competition in intrastate toll services. Subsequent to this decision, a subsidiary of an independent telephone company has applied to the Commission for authority to resell NET's intrastate toll service and to provide a competitive intrastate toll service. This application will be processed in 1984.

6. 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 studied 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. On September 26, 1983, the Joint Board issued its recommendations for resolution of remaining issues in the proceeding to the FCC. The FCC requested further public comments on the recommendations. Comments were filed by the Commission. In addition, Maine's comments which departed from the Joint Board's in at least one significant respect pertaining to assistance to states with relating high costs and low income, such as Maine, were transmitted by Maine's delegate to the Joint Board Staff.

Notwithstanding our efforts and the similar efforts of other states and parties, the FCC adopted the Joint Board's recommended decision without substantial modification. The most significant aspect of the decision changes the method of allocating certain fixed telephone plant costs between the federal and state jurisdictions. It is the portion allocated to the federal jurisdiction that the FCC has decided to collect through customer access charges. Congress is now considering legislation which will reverse the FCC's decision.

7. Access Charges (FCC Docket No. 7872).

In December, 1982, the FCC adopted an access-charge plan. Under the plan, intrastate phone company customers would pay through local rates, charges which were formerly collected through interstate toll rates. These charges are termed as access charges.

In August, 1983, the FCC, upon reconsideration of its December, 1982 access charge order, issued a new order prescribing modifications to its previous user access fee. It changed the first-year access charges from \$4 per residential line per month to a requirement that the charge be a flat \$2 per month. Business line charges will vary from a minimum flat charge of \$4 per month to \$6 per month.

Originally set to take place on January 1, 1984, the first-year implementation of the order has been delayed

until the middle of 1985 for residential customers and April of 1984 for all other customers.

Congressional reaction to this FCC decision has been quite strong, with many members concerned about whether their constituents can continue to afford telephone service. Several bills were introduced in response to the order and Congress plans to resume work on legislation in January.

8. Expensing of Station Connections (FCC Docket No. 79-105).

The FCC, as part of its deregulation effort, issued an order late in 1982, which changed the accounting treatment for station connection costs -- the costs of connecting a customer's telephone to the local network. 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 is treated as an immediate expense, and not as capital, and previously capitalized inside wire is being written off over ten years. Since implementation of this order became effective, several regulatory commissions, including Maine, have approved tariffs providing subscribers an option to construct, own and maintain inside wire or to the work

done by others. These tariffs should produce savings to customers who do their own installation and maintenance.

9. 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 like other operating expenses, 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 permitted the use of 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. (See discussion below for related court actions)

10. NET Rate Cases (1983 and 1984).

a. NET's July, 1982 Filing.

NET filed for a \$49.8 million increase in July of 1982. After many weeks of hearings, the Commission, on

April 26, 1983, granted NET a rate increase of \$11.386 million, an increase representing 7% of NET's 1981 revenues. The Company's filing provoked a comprehensive review by the Commission of NET's cost of service, leading to investigations of such matters as the proper treatment of the gross receipts tax for working capital purposes, excess Western Electric profits, amortization of excess deferred taxes, the proper treatment of New York City Utility taxes payed by AT&T, as well as a reasonable level of profits for NET's stockholders. Determining a proper level of revenues for NET was complicated by the upheaval in the Telecommunication industry, which was only beginning to reach a critical stage at the time the case was being heard. For example, the Commission could not determine with precision the number of employees to be transferred from NET to AT&T, the value of the facilities to be sold to AT&T, or a proper level of expenses to reflect NET's participation in the new Central Services Organization. As discussed more fully below, these problems have persisted and grown more significant in the rate case currently underway.

Although it granted a rate increase to NET, the Commission allocated the extra revenues in such a way that the price for basic exchange service did not rise. Instead, the Commission increased telephone rentals by 10%, dedicated private line facilities by about 35%, intrastate toll service by 3% and WATS by 5%.

In the course of setting a proper revenue level, the Commission rejected NET's proposed depreciation rates, despite the fact that the Federal Communications Commission had directed states to use those rates. NET sued the Commission in Federal Court seeking an order directing the Commission to use the FCC specified rates. The Commission contended in this suit that the FCC did not have the authority to set depreciation rates to be met by intrastate ratepayers. Although Judge Cyr of Bangor agreed with the Commission's position and refused to grant NET a preliminary injunction, the case was subsequently transferred to Judge Carter. Judge Carter agreed with NET's position and granted a permanent injunction allowing the higher depreciation rates to go into effect. That order is now on appeal by the PUC before the First Circuit Court of Appeals in Boston.

NET appealed several non-depreciation-rate issues arising from the 1982-83 rate case to the Maine Supreme Judicial Court. In a decision issued on January 9, 1984, the Law Court upheld the Commission unanimously on all points.

b. NET's October, 1983 Rate Filing.

The Law Court's opinion rejecting NET's appeal was announced on the first day of hearing in PUC Docket No. 83-213, NET's \$43 million rate filing now under investigation. The case, which was initiated by NET in October

of 1983, must be decided by the Commission by mid-July of this year. The case finds NET in a posture quite different from that existing largely as a result of the court-ordered breakup of the Bell System effective January 1, 1984. First, NET is no longer owned by AT&T, but instead by NYNEX, one of seven regional holding companies, which also owns the New York Telephone Company. Second, the License Contract, pursuant to which AT&T had performed a wide variety of services for NET, was cancelled and replaced in part by contracts with a large Central Services Organization (budget: \$75 million per year) and a Regional Service Organization maintained by NYNEX. Third, NET no longer sells or rents telephones -- a function to be taken over by unregulated providers.

As in the previous case, assessing NET's revenue needs will be a difficult process chiefly because of the uncertainties injected by divestiture. Information concerning the number of NET's employees, the facilities retained by NET as well as the revenues to be received is not complete as yet. Consultants retained by the Commission to assist the Commission Staff have described many of these problems in testimony filed with the Commission. The Staff consultants have recommended an increase of roughly \$15 million.

Again at issue in this case is the question of rate design -- how any increase should be parcelled out among customer classes. Because of FCC action, the Commission can no longer allocate any increase to telephone rentals, as it did in

the last case, since NET no longer operates in this market. NET proposes to allocate most of the increase to basic service -- the price charged for providing dial tone in the business or home. NET claims that basic service has been subsidized in the past by different aspects of the telephone business, and must now be priced more in accordance with cost. The Public Advocate has proposed that the Commission enact a seventy-five cent tax on phone service, with the proceeds to be used to subsidize basic service for Maine's poorest citizens. Hearings on this proposal and others will take place in early March.

11. Telecommunications Equipment Plan for
Hearing-Impaired and Speech-Impaired.

In 35 M.R.S.A. §2361(3)(4), enacted by P. L. 1983, c. 531, creates a "Telecommunications Equipment Fund," which may be used for the purchase, lease, upgrading, installation, maintenance and repair of special telecommunications equipment for the deaf, hearing-impaired or speech-impaired. The Office of Deafness in the Bureau of Rehabilitation in the Department of Human Services is required to develop a plan annually to make special communications equipment available to deaf, hearing-impaired and speech-impaired persons, and to distribute monies from the Telecommunications Equipment Fund. The plan shall be developed by the Office of Deafness and approved by the Commission annually, no later than January 1st, after appropriate notice

and hearing. The law further requires that the Commission shall include a progress report on this program in its Annual Report to the Joint Standing Committee on Public Utilities.

On December 6, 1983, the Office of Deafness filed with the Commission a "plan for the dissemination of telecommunications devices for the deaf." A hearing was held on January 4, 1984, to consider whether the Commission should approve the plan as filed or whether revisions should be made. (The hearing was originally scheduled for December 22, 1983, but had to be postponed due to stormy weather and dangerous travelling conditions.) The Office of Deafness was the only formal party to the proceeding; neither the Commission Staff nor any other party intervened. All of the witnesses at the hearing testified in support of the plan and the Office of Deafness agreed to three minor changes in the language of the proposed plan. On January 11, 1984, the Commission issued its Order approving the plan, as modified by the three changes. Office of Deafness, Re: Plan for Dissemination of Telecommunications Devices for the Deaf, Docket No. 83-329, Decision and Order (January 11, 1984).

The plan which was approved by the Commission provides for the use of the \$40,000 appropriated from the General Fund for Fiscal Years 1983-1984 and 1984-1985, by P. L. 1983, c. 531, Section 3. The plan, which was not opposed

at the hearing, budgetted the \$40,000 for Fiscal Year 1983-1984 as follows:

1.	Payments and repair of TDD equipment	\$ 4,000
2.	Ring signallers required for those who receive TDD's under the Cost Sharing Program (20 at \$55 each)	\$ 1,100
3.	Purchase of 58 TDD's at \$600 each	\$34,800
4.	Postage and supplies	\$ 100
	TOTAL	<u>\$40,000.</u>

Most of the funds will be used for the purchase of TDD's by the Office of Deafness of TDD's, which will then be loaned (at zero cost) to hearing-impaired and speech-impaired persons. Eligible recipients will be assigned various priority status depending upon their age, living arrangements, and economic status. The Commission found the proposed plan to be consistent with Chapter 531, and to be reasonable.

Social issues involved in the distribution of funds and equipment under the Telecommunications Equipment Plan are largely beyond the purview of the Commission's economic and service jurisdiction over telephone utilities. In the future, as the Commission and the Office of Deafness gain more experience with the Telecommunications Equipment Plan and any potential problems are worked out, the Commission may be likely to propose legislation to terminate its responsibility to conduct a hearing and approve the plan on an annual basis. The proposal, review, hearing, and approval of the plan might best be conducted by the Office of Deafness in a rulemaking-type proceeding such as those conducted on an annual basis by the

Division of Community Services on the Maine State Plan for the Home Energy Assistance Program (HEAP).

12. Legislative Subcommittees.

The Legislative Joint Standing Committee on Public Utilities conducted two studies in 1983; one on public power and a second on telecommunications. Members of the Commission and its Staff assisted the subcommittees with technical advice throughout the study periods.

C. Water Utilities.

The Commission has some regulatory jurisdiction over all the states 149 water utilities of which forty-three are investor-owned and the rest are municipal or quasi-municipal. Of the thirty-eight water cases processed in 1983, twenty-three were filed under the provisions of 35 M.R.S.A. §72, 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." Several flaws which had surfaced in the application of Section 72 were dealt with last year in Chapter 214, Public Laws, 1983. The "Section 72 process on the whole has worked well and has substantially reduced the time required to set new rates for publicly-owned water utilities.

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 its field surveillance of management and operating practices. Because the Commission is less directly involved in 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 as serious problems arise.

Changes in reasonable service lives of the various components of water utility plant under current conditions, plus the addition of modern technology to some aspects of water utility operations, has prompted inquiry into proper depreciation rates. The Commission plans to open a rulemaking case to formally revise the present schedule of depreciation rates which have been in effect since 1957.

Although the overall number of water utilities remains relatively stable, a trend toward increase in the number of publicly-owned utilities through sale of investor-owned water companies to municipalities or newly-formed water districts continues to be evident. One holding company that several years ago had nineteen subsidiaries now has seven while another investor-owned group, formerly consisting of seven divisions, now includes only five.

D. Gas Utilities.

The cost of natural gas to the consumer has fluctuated somewhat during the year, advancing January to mid-year and declining as the year drew to a close. At year-end, a projected further per cent decrease is being considered, due to changes in purchasing practices by the pipeline suppliers and to retroactive settlements of several supplier rate cases at the federal level. Volatility in the heating oil market had caused many industrial customers with dual fuel capability to switch to oil as an energy source. In response to this, contracts for gas service on an interruptible basis at a rate tied to a small increment over the posted price of heating oil have been allowed. Further innovations in this area of natural gas service will undoubtedly be considered during the next year.

E. One-Year Prohibition on Rate Filings.

35 M.R.S.A. §64, second paragraph, was amended by P. L. 1983, c. 19 (L.D. 212, "An Act to Clarify the Time During Which a Utility is Restricted From Filing a Rate Case Under the Public Utility Law"), to provide that the one-year prohibition on rate filings would not apply where the proceeding initiated by the prior filing was terminated without a final determination of the utility's revenue requirement. During the work session on L.D. 212, the Chairman directed that the Commission shall include in its Annual Report a report on how many cases occurred in which a utility filed a rate case which was dismissed and it

subsequently refiled within less than one year pursuant to this legislation. This reporting requirement was confirmed in a letter from the Commission to the Legislative Assistant dated March 23, 1983.

The Commission hereby reports that during 1983 and through the date of this Report, there were no rate case filings initiated by a utility within less than one year of a prior rate filing that was terminated without a final determination of the utility's revenue requirement.

VI. CONCLUSION.

In this Report, we have attempted to provide the Joint Standing Committee on Public Utilities with detailed information pertaining to the activities of the Maine Public Utilities Commission over the past year. The Commission met its statutory reporting requirements on February 1, 1984, with the provision to the Committee of a briefer report entitled "Public Utilities Commission Fiscal Information." This fulfilled the requirements of 35 M.R.S.A. §§17 and 18. That report has been re-presented (with slight modifications) as Section III of the present Report.

Within Section V, directly preceding, the Commission has fulfilled its requirement with respect to any specific information requested to be included within the Report by the Committee during the first regular session of the 111th Maine Legislature.

The Commission continues to work closely with the Joint Standing Committee on Public Utilities on legislative issues affecting the Public Utilities Commission. Joseph G. Donahue, General Counsel for the Commission, is the primary legislative liaison representative of the Commission. Additionally, the Commission is currently undergoing its "Sunset Review" by the Audit and Program Review Committee, and will be working closely with that Committee throughout 1984 and into 1985.

Additionally, Commission Staff have worked closely with legislative subcommittees on the topics of telecommunications policy and public power policy. The Commissioners also are cooperating and assisting where appropriate and possible the Special Legislative Investigating Committee on Public Utilities.

In Section III, above, there is detailed information regarding the Commission's fiscal condition. The Commission has requested additional revenues in the amount of \$200,000, for the second year of the current biennium. The Commission is hopeful that a careful review of the present Report will indicate the considerable workload faced by the Commission, and the need for these additional financial resources, and the 8 positions which would be funded under this \$200,000 increase. The Commission stands ready to provide any additional information necessary to the Joint Standing Committee on Public Utilities.