

# STATE OF MAINE PUBLIC UTILITIES COMMISSION



## 2007 Annual Report

February 1, 2008

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## STATE OF MAINE PUBLIC UTILITIES COMMISSION

2007 was an unusually active year for the Maine Public Utilities Commission (Commission). No activity drew more attention than our review of the proposed transfer of Verizon Maine's land lines to FairPoint Communications. We responded with significant staff resources and a strong effort to solicit public views.

We remained actively engaged with energy issues – as the twin challenges of global warming and rising electricity costs reached farther into Mainer's daily lives. Investment in energy efficiency and an in-depth review of the regional structure for managing markets and building new electric transmission led the Commission's response.

The Commission also addressed public safety in 2007. Most notably, we opened a wide-ranging investigation into management practices at the state's largest natural gas company, Northern Utilities, which was plagued by a series of gas leaks.

In considering the Verizon-FairPoint proposal, a complex case important to so many Mainer's, we departed from standard practice in some key regards: We assigned several staffers and an outside consultant to analyze the case on our behalf, and we designated two special "advocacy staff" to act as independent negotiators among the parties.

The Commission proactively sought out the views of residents and businesses in all parts of the state, holding public witness hearings in Fort Kent, Bangor, Portland, and Augusta. Hundreds of citizens attended these hearings and wrote to the Commission; their views proved vital to broadening our assessment of the case.

Parties to the case submitted a negotiated settlement in mid-December. That agreement was opposed by labor intervenors, requiring a new schedule for deliberations that pushed resolution of the case into early 2008.

There were many factors to consider in this decision, including the plan's financial soundness, its implications for Verizon's workers in the state, and the stability of prices and services for customers.

We also considered the proposal's effects on Mainer's access to broadband services. The Commission is very sensitive to broadband's transformative potential for Maine's economy and will continue to forge new strategies for reaching the state goal of nearly universal broadband access by 2010.

The Commission also pressed ahead in its legal dispute with Verizon – and the federal government – over the privacy of Mainer's telecommunications. The state won partial victories, including a federal ruling that upheld our authority to protect the privacy of Mainer's served by regulated utilities. We will continue to defend the privacy rights of consumers in court and in Congress, where pertinent legislation is expected.

As these events were unfolding, Mainers, policy makers and the Commission continued to move forward on energy issues. The Regional Greenhouse Gas Initiative (RGGI) was added to the state's complement of energy solutions.

RGGI will build on momentum established by the Commission's five-year-old Efficiency Maine Program, which in 2007 averted the consumption of 87,000 Megawatt hours of electricity. That's enough to power 14,000 average Maine homes a year for the 10-year life of the measures, with an estimated lifetime economic benefit of \$101 million.

However, energy costs continued to be a significant concern and, at the request of the Legislature, the Commission studied whether the move to competition for electricity that began in 2001 has served the state well. Our work on "restructuring" suggests that stakeholders should explore the potential benefits of longer-term energy supply contracts before seeking a return to vertically-integrated generation and distribution services, or cost-of-service regulation.

In late 2006, the PUC did make an unequivocal finding that restructuring had failed in northern Maine, where only one company submitted a bid to send standard offer electricity to that territory.

In 2007, we released two reports on potential solutions for northern Maine, and our work with stakeholders continues. Possible strategies include longer-term energy contracts, and aggregating the area's electricity load with Bangor-Hydro Electric Company's for the purposes of standard offer and competitive bids.

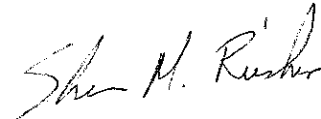
We also remain very concerned that Maine's overall energy future may be driven by forces that originate beyond the state's borders. In 2007, we continued to fight federal rules that could force Mainers to pay hundreds of millions of dollars to subsidize energy facilities elsewhere in New England.

At the Legislature's request, the Commission analyzed the costs and benefits of leaving ISO-New England -- the regional system that administers those subsidies with little accountability. We considered ways to improve governance of the ISO-NE and other market reforms that could better Maine's position. And we weighed the pros and cons of handling all of the state's electricity generation and transmission needs entirely within its own borders.

None of these moves would be easy, but we nonetheless arrived at one overarching conclusion: the *status quo* will not serve Maine's energy interests. And no matter what course the Legislature may choose, it is clear to us that there will be environmental and financial benefits to gain by cooperation with Atlantic Canada on energy issues. We look forward to continuing that conversation in 2008.



Kurt Adams  
Chairman



Sharon M. Reishus  
Commissioner



Vendean V. Vafiades  
Commissioner

## COMMISSIONERS' BIOGRAPHIES

**Kurt Adams** was appointed Chairman of the Maine Public Utilities Commission in June 2005. Chairman Adams served as Chief Legal Counsel to Governor John E. Baldacci from 2003 until his appointment. He was an attorney in the law firm of Bernstein, Shur, Sawyer & Nelson from 1997 to 2003. Chairman Adams received his Juris Doctor from the University of Maine School of Law in 1997. He also received an M.A. in International Affairs from The George Washington University in 1990 and a B.A. in Government from Skidmore College in 1988. He has extensive experience working in the energy sector with a particular emphasis on renewable energy development and energy markets. His current term expires in March 2011.

**Sharon M. Reishus** was appointed to serve as a Commissioner on the Maine Public Utilities Commission in July 2003. From 1998 until her appointment, Commissioner Reishus worked at the Cambridge Energy Research Associates (CERA) as Director, North American Power. She worked as a staff analyst at the Maine Public Utilities Commission from 1991 to 1998. Prior to 1991, Commissioner Reishus worked at Central Maine Power Company and for the Central Intelligence Agency in Washington, D.C. Commissioner Reishus received an M.B.A. in Strategic Planning from the Wharton School in 1990 and a B.S. in Applied Earth Sciences from Stanford University in 1984. Her current term expires in March 2009.

**Vendean V. Vafiades** was first appointed to serve as a Commissioner on the Maine Public Utilities Commission in January 2007 and then reappointed in March. From 1997 until her appointment, Commissioner Vafiades served as a judge for Maine's District Court, and was appointed Chief Judge in 2002. Commissioner Vafiades received her Juris Doctor from the University of Maine School of Law in 1985. Commissioner Vafiades also served as a Chief Deputy Attorney General for the state of Maine and as Counsel to the University of Maine System and as an attorney in private practice specializing in administrative, municipal and employment law. Her current term expires in March 2013.

# THE MAINE COMMISSION

## Mission Statement:

*The Maine Public Utilities Commission regulates utilities to ensure that safe, adequate and reliable utility services are available to Maine customers at rates that are just and reasonable for both customers and public utilities.*

The Maine Legislature created the Public Utilities Commission (PUC) in 1913 and the PUC began operation on December 1, 1914. Since the PUC was created, its roles and responsibilities have changed dramatically. The PUC has broad powers to regulate approximately 500 utility companies and districts that generate more than \$1.2 billion a year in electric, telephone, water, and gas utility revenues.

The PUC also responds to customer questions and complaints, grants utility operating authority, regulates utility service standards and monitors utility operations for safety and reliability and has limited authority over rates and service of ferry transportation.

Like a court, the PUC adjudicates cases and may take testimony, subpoena witnesses and records, issue decisions or orders, hold public and evidentiary hearings, and encourage participation by all affected parties, including utility customers. The PUC also initiates investigations and rulemakings, resolves procedural matters, investigates allegations of illegal utility activity, and responds to legislative directives.

The three full-time Commissioners are nominated by the Governor, reviewed by the Legislature's Joint Standing Committee on Utilities and Energy and confirmed by the full Senate, for staggered terms of 6 years. The Governor designates one Commissioner as Chairman. The Commissioners make all final Commission decisions by public vote or action of the majority.

The PUC's staff includes accountants, engineers, lawyers, financial analysts, consumer specialists, and administrative and support staff. The PUC is divided into six operating divisions. The Emergency Services Communication Bureau is part of the Administrative Division.

**The Administrative Division** handles day-to-day operational management of the PUC, with responsibilities for fiscal and personnel matters, contract and docket management, and the physical plant. This division also provides support services to the other divisions and assists the PUC in coordinating its activities. The Emergency Services Communication Bureau (ESCB) manages the E9-1-1 program development and implementation and is located within the Administrative Division.

**The Consumer Assistance Division (CAD)** provides information and assistance to utility customers to help them resolve disputes with utilities. The CAD processes complaints and in response determines what utility practices, if any, should

be corrected. The CAD also educates the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, and evaluates utility compliance with state statutes and PUC rules.

**The Finance Division** conducts financial investigations and analyses of telephone, electric, gas and water utilities' operations. This division analyzes all applications by utilities to issue securities. Finance staff advises the PUC on such matters as rate base, revenues, expenses, depreciation, and cost-of-capital.

**The Legal Division** provides hearing officers in cases before the PUC and assists in preparing and presenting PUC views on legislative proposals. This division also represents the PUC before federal and state appellate and trial courts.

**The Technical Analysis Division (TA)** advises the PUC on questions of engineering, rate design, energy science, statistics and other technical elements of policy analysis for all utility areas.

**The Energy Program** develops and carries out a statewide electric energy conservation program and manages the federal government's energy conservation efforts in Maine.



During the past year the PUC processed the following caseload:

**CASES CLOSED 2007**

CAD Appeals	29
Telecommunications	400
Conservation	3
Damage Prevention	2
E-911	1
Electric	145
Gas	17
Multi-Utility	4
Rulemakings	12
Water	87
Water Common Carrier	3
<b>Total</b>	<b>703</b>

**CASES OPENED 2007**

CAD Appeals	24
Telecommunications	371
Conservation	1
Damage Prevention	3
E-911	1
Electric	125
Gas	16
Multi-Utility	3
Rulemakings	10
Solar Energy	1
Water	92
Water Common Carrier	3
<b>Total</b>	<b>650</b>

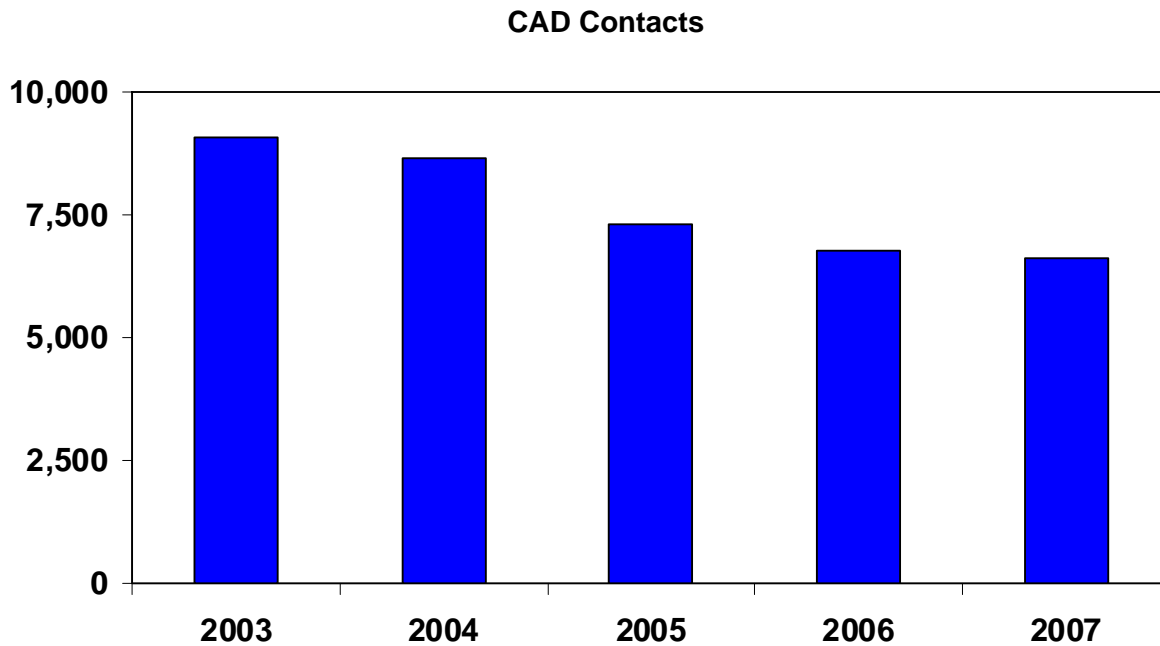
# CONSUMER ASSISTANCE

The Consumer Assistance Division (CAD) is the PUC's primary link with utility customers. The CAD is responsible for ensuring that consumers, utilities and the public receive fair and equitable treatment by educating the public and utilities about consumer rights and responsibilities and other utility-related consumer issues. The CAD also investigates and resolves disputes between consumers and utilities, and evaluates utility compliance with state statutes, PUC rules and the utilities' terms and conditions for service.

## CAD Contacts

The CAD tracks its contacts with both consumers and utilities. The contact may simply involve information and assistance, or it may lead to a consumer complaint about a dispute with a utility that the parties have been unable to resolve. In addition, an electric or gas utility may initiate contact to process a request to disconnect a customer during the winter period (November 15 to April 15).

The CAD recorded 6,604 contacts in 2007, a 5% decrease from the 6,953 contacts received in 2006. As shown in the chart below, the number of contacts has declined in each of the past 5 years.

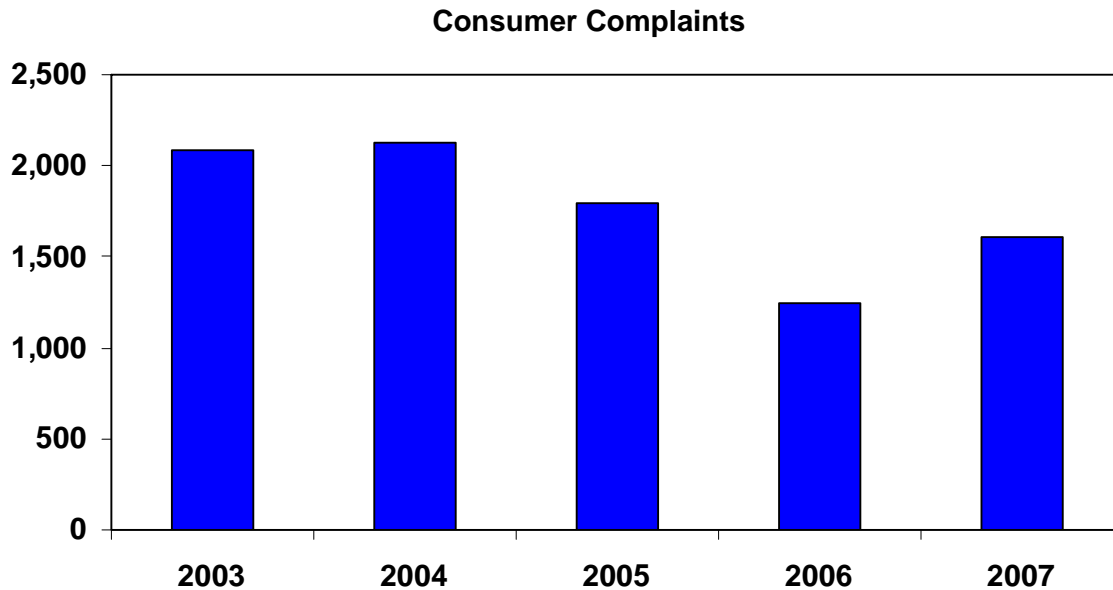


The CAD receives the majority of its consumer inquiries by telephone and strives to answer all calls live, as opposed to using an integrated voice-response system. By answering calls live, the CAD is often able to answer questions and resolve consumer complaints immediately. In 2007, 98% of the calls to the Consumer

Assistance Hotline were answered live. This is consistent with the 98% of calls answered live in 2006.

## Consumer Complaints

While consumer contacts declined in 2007, the number that became formal complaints rose. As shown in the following chart, the CAD received 1,607 complaints in 2007. This is a 29% increase from the 1,248 complaints received in 2006.

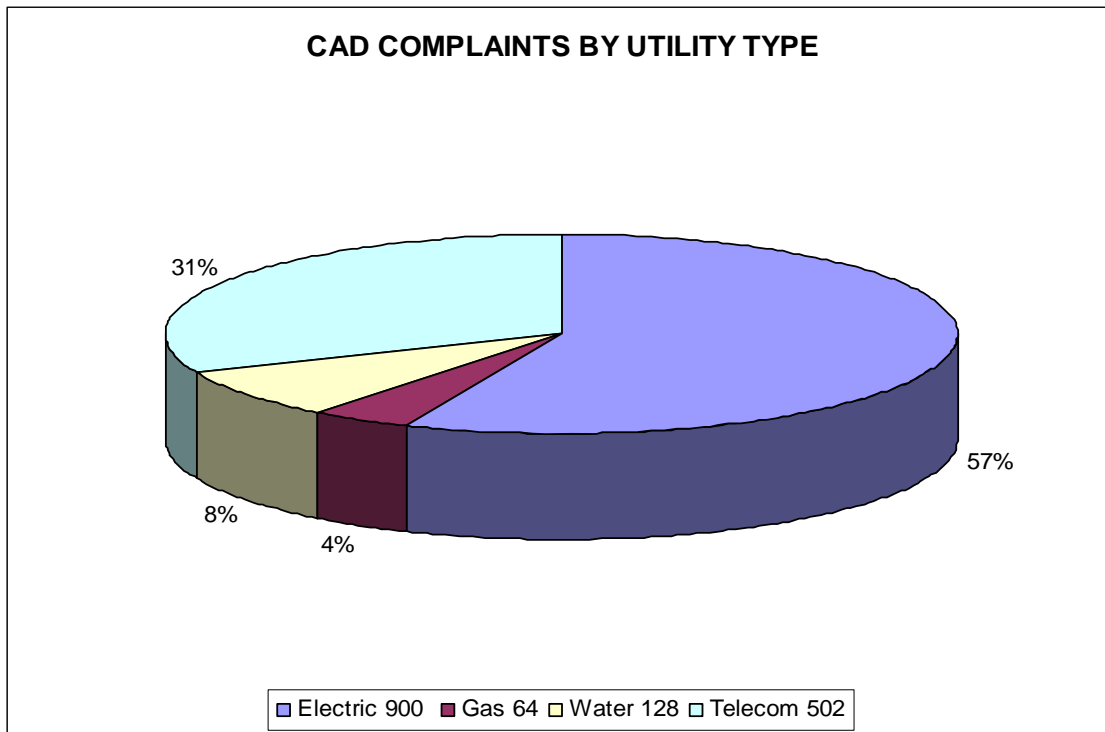


Most of the increase in complaints in 2007 concerned utility customers who were under threat of disconnected service or whose services were actually disconnected. Disconnection issues are discussed in detail below.

The CAD received 502 complaints against telecommunication providers in 2007, compared to 431 in 2006 and 876 in 2005. Much of the increase in telecommunications complaints experienced in 2007 is attributable to an increase in slamming complaints against interexchange telephone carriers, discussed further below.

The CAD received 900 complaints against electric providers in 2007, compared to 591 in 2006 and 712 in 2005. This is a 50% increase over the number of complaints received against electric utilities in 2006. The increase was caused by a significant increase in disconnection-related complaints, also discussed further below.

As shown in the following chart, complaints about electric utilities were the most common in 2007 – continuing a recent trend in which telephone utility complaints decreased as a portion of all complaints. Electricity-related complaints rose from 46% of all complaints in 2006 to 57% in 2007. Telecommunications complaints, by contrast, accounted for 31% of all complaints in 2007, as compared to 40% in 2006.



### Slamming Complaints

“Slamming” is the practice of changing a customer’s preferred telecommunications carrier without the customer’s authorization. The CAD received 47 complaints from customers in 2007 alleging that they had been slammed. That was a 62% increase over the number of slamming complaints received in 2006, marking what may be the end to a trend of decreasing slamming complaints since 2003.

Almost all the slamming complaints received in 2007 involved deceptive marketing. That was a change from past years when many slamming complaints were attributable to clerical errors made during the carrier change process.

Through these complaints, the PUC learned that carriers may employ a variety of techniques that result in slamming. Carriers have been found to use misleading computer pop-up messages, misleading online contests and misleading marketing calls, all designed to establish a customer’s authorization for a service change, whether the customer intends it or not.

Furthermore, both Federal Communications Commission and PUC rules prohibit use of advertisements, promotional materials or inducements as part of internet “letters of authorization” agreeing to a carrier change, and the company in question ceased this practice after federal and multi-state investigations were opened.

For all the verified slamming complaints received in 2007, the CAD secured full refunds for customers. In addition, the CAD forced one carrier to sign a formal agreement to refrain from any future deceptive marketing in Maine.

## **Disconnection-Related Complaints**

Sixty-two percent of the complaints received by the CAD in 2007 were from customers either under the threat of disconnection or who had actually been disconnected. This is a 29% increase over 2006. The increase appears to be driven by two factors: first, a significant increase in fuel oil costs during the third and fourth quarters of 2007 burdened the budgets of many Maine residents, forcing some to choose between paying heat or electricity bills, and, second, a change in credit collection policies at Central Maine Power (CMP) increased the number of customers who faced imminent disconnection.

This created a challenge for CAD staff. Customers under the threat of disconnection are in a crisis situation that must be addressed immediately and their calls to the CAD are necessarily time consuming. CAD staff collects large amounts of financial and other information over the phone from both the customer and the utility and must often contact various assistance agencies on behalf of the customer to find funds to prevent the disconnection. Even with the significant increase in disconnection-related calls, the CAD was able to answer 98% of all calls received live in 2007.

Finally, as detailed below, the PUC has adopted rules and programs that aim to help Maine residents maintain their utility services.

## **Electric Low-Income Assistance Programs**

On July 31, 2001, the PUC adopted Chapter 314, which established the standard design, administration and funding mechanism for the statewide Low-Income Assistance Plan to make electric bills more affordable for qualified low-income consumers.

Chapter 314 requires each of Maine's transmission and distribution utilities to create and maintain a Low-Income Assistance Program (LIAP) for its customers. Eligibility to participate in a utility's LIAP is based on a customer's eligibility for the federal Low-Income Home Energy Assistance Plan (LIHEAP), which offers energy assistance to people who fall within federal poverty guidelines. Chapter 314 also creates a central fund to finance the statewide plan and apportions the fund to each utility based on the percentage of LIHEAP-eligible households in that utility's service territory. This ensures that funds are available in the areas where the need exists. Chapter 314 further provides that the Maine State Housing Authority will administer the fund.

## **Oxygen Pump Program**

During its 2005 session, the Legislature directed the PUC to establish a program to provide financial assistance to low-income customers who, for health reasons, must use an oxygen pump for at least 8 hours a day.

As with the LIAPs, eligibility to participate in the program pursuant to Chapter 314 is based on a customer's eligibility for LIHEAP. Residents may apply for the benefit when they apply for LIHEAP at a local Community Action Program agency or

at any time during the LIHEAP year. Eligible residents receive a benefit equal to the total cost of electricity needed to operate the oxygen pump. Again, as with the LIAPs, the program is administered by the Maine State Housing Authority.

### **Ventilator Program**

In 2007, the Legislature amended 35-A M.R.S.A. § 3214(5) to provide low-income residents who use ventilators a benefit similar to that provided under the oxygen pump program. During the public hearing on this bill, utilities pointed out that some customers were receiving a benefit through the oxygen pump program that exceeded the customer's total monthly electric bill. Methods for estimating the medical device's electricity usage appeared to be inconsistent with actual usage.

In a letter sent in April to the PUC, the Chairs of the Joint Committee on Utilities and Energy Committee raised concerns about overpayments under the Oxygen Pump Program and stated their expectation that (1) the problem would be addressed as soon as possible and (2) rulemaking would result in a benefit calculation formula that limits the customer credit for an oxygen pump or ventilator to electrical usage directly associated with the medical device.

The required rulemaking was completed in September and the new ventilator program began in October. The PUC modified the program to ensure that customer benefits were based on the average electric usage of all models of oxygen pumps used by customers, rather than the highest-consuming model. The rule creates a similar benefit structure for ventilators.

### **Updated Consumer Protection Rules**

In August 2007, the PUC completed a major rewrite of its gas and electric utility consumer protection rules, Chapters 81 and 86. The rules had not been revised in two decades. The new rule, Chapter 815, becomes effective on April 16, 2008, and establishes minimum standards for fairness in credit and collection programs for residential and non-residential utility service. The standards include grants or denial of service, credit and deposit practices, billing, disconnection, customer complaint procedures, disconnection procedures during the winter months, and methods for obtaining exemptions from the rules.

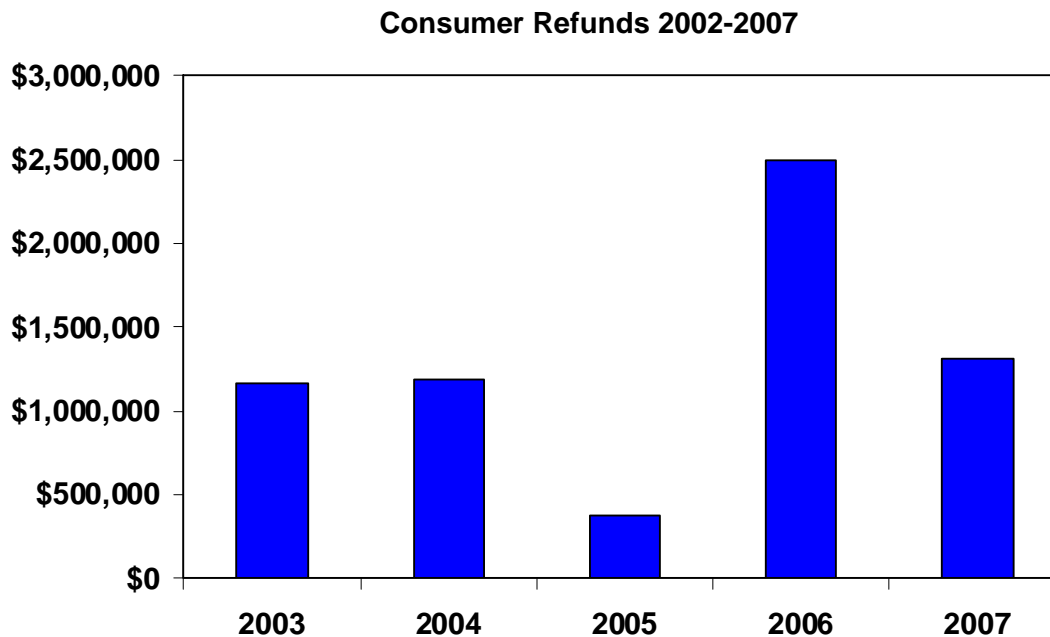
The CAD staff, utility personnel, low-income advocates and the Office of the Public Advocate worked together to develop the new rule. The result reflects changes in the utility industry over the past 25 years, including restructuring of the electricity industry. The new rule is less administratively burdensome for utilities but still provides the appropriate and necessary level of consumer protection.

A new provision of the rule that took effect in 2007 requires delivery of an informational packet to any electric utility customer whose service was disconnected for non-payment during the summer months and was not subsequently reconnected. The new rule ensures that anyone who has had electricity service disconnected recently or is facing disconnection is given the opportunity to make payment arrangements that will allow electric service to be maintained or restored.

## Refunds to Consumers

The CAD frequently secures credits or refunds for consumers as part of its resolution of consumers' disputes with utilities. The abatements are most frequently awarded to utility customers as billing credits for disputed charges which the CAD negotiates in the customer's favor.

In 2007, \$1,316,749 was abated by utilities to Maine consumers. As shown in the following chart, this was below abatement levels seen in 2006<sup>1</sup>, but at or above levels in prior years.



## Service Quality Abatements

The CAD monitors utilities' compliance with agreements to deliver services in keeping with Service Quality Indices (SQIs) set by terms ordered by the PUC. When utilities fail to meet SQI benchmarks, they are assessed a penalty which is credited to their customers.

In 2007 CMP paid \$190,476 to Maine customers for SQI failures. Verizon paid \$1,037,601 to its Maine customers. In Verizon's case, a substantial portion of the penalties were attributable to its failure to "clear" line complaints within 24 hours.

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<sup>1</sup> The 2006 abatement level was driven by a single, unusually high award to CMP customers resulting from a dispute involving charges for electric line extensions which resulted in approximately \$2.7 million refunded to customers.

# TELECOMMUNICATIONS

State law requires that telephone services be made universally available to Maine businesses and residents, at affordable rates. The PUC regulates companies that provide telephone services to Maine homes and businesses, including both local calls and in-state long distance calls.

The PUC sets telephone rules and rates, carries out the requirements of federal laws, administers programs to make service more affordable for low-income Mainers, and enforces standards for service quality. In addition, in recent years, the PUC has focused on creating conditions conducive to a competitive marketplace for telecommunications services. The PUC is also mindful of the state's goal of establishing nearly-universal broadband access by 2010 and has taken action in support of that goal whenever possible.

There are now three basic types of wireline telephone companies doing business in Maine: Incumbent Local Exchange Carriers (ILECs), which were established as monopolies within their service territories before competition entered the telecommunications market<sup>2</sup>; Interexchange Companies (IXCs), which provide in-state long distance toll services, and; Competitive Local Exchange Carriers (CLECs), which provide local service in competition with ILECs and other CLECs.

## **The Verizon-FairPoint Case**

On February 1, 2007, Verizon New England and the FairPoint Communications telephone companies jointly filed a request for the PUC to grant “any and all approvals and authorizations required for the transfer of Verizon New England’s local exchange and long distance businesses and the long distance businesses of certain affiliated companies of Verizon New England to FairPoint Communications, Inc. (FairPoint).”

The companies filed similar applications in New Hampshire and Vermont, in an overall transaction worth \$2.7 billion. Verizon serves some 600,000 customers in Maine, making it by far the largest carrier in the state, with roughly 85 percent of the local telecommunications market. The proposal represented the largest potential change in Maine’s telecommunications landscape since the breakup of AT&T nearly 25 years ago.

The transaction proposed by the Joint Applicants required multiple PUC approvals under both state and federal law, including but not limited to 35-A M.R.S.A. §§ 304, 707, 708, 1101, 1104, 2102 and 2105 as well as 47 U.S.C. § 254(c). To consider these approvals, the PUC opened an Inquiry, designated as Docket No. 2007-67. The Commissioners assigned PUC staff members and an outside consultant to analyze the case on the Commissioners’ behalf, and designated two special “advocacy staff” to act as independent negotiators among the parties.

The Commissioners also held public witness hearings in Fort Kent, Bangor, Portland, and Augusta, which hundreds of citizens attended, and established online

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<sup>2</sup> Maine ILECs are identified on the map on page 19 of this report.



and more traditional methods for placing comments in the record. E-mails and letters from citizens, lawmakers, businesses and advocacy organizations were reviewed and became part of the record.

At a case conference in February, the PUC advisors and the parties established five topic areas to be covered in the proceeding:

1. Transactional and financial issues
2. Due diligence, technical capabilities, and infrastructure issues
3. Wholesale, back-office systems, and broadband issues
4. Universal Service, intercarrier compensation, and federal regulatory issues
5. Other (management, E9-1-1, Telecom Education Access Fund)

Work on the case proceeded throughout 2007. The public hearings were held in September. In October, the PUC conducted a week of hearings and heard testimony by litigants in the case, including the telecommunications companies, the Office of the Public Advocate, competing telecommunications companies, labor unions, and the Maine Civil Liberties Union.

In late October, the special advocacy staff reported that insufficient progress on key financial issues had stalled attempts at a negotiated settlement among the parties, and recommended rejection of the plan as submitted. In late November, the PUC's advisory staff (as distinct from its advocacy staff) issued an Examiner's Report that also recommended rejection of the merger. That 297-page document concluded that the transaction's financial risks to both ratepayers and shareholders substantially outweighed its benefits, but included conditions that would improve the public benefits of the sale, should the Commissioners decide to approve it.

On December 13, several of the parties, including the PUC's special advocacy staff and the Office of the Public Advocate, submitted a negotiated settlement in the form of a stipulation for the PUC's consideration, which made significant changes to the merger plans. Those included commitments to additional broadband infrastructure investment, tightened financial terms governing debt and shareholder responsibilities, and stronger standards for service quality. The stipulation also proposed settlement of the Verizon AFOR case (discussed below) including reduction in consumer rates totaling eighteen million dollars. The stipulation was contested by labor union intervenors and privacy advocates. After hearings, lengthy questioning of the parties by the Commissioners and protracted deliberations, and amended stipulation with additional conditions, primarily in the financial area, was approved by the Commissioners in early January 2008. The Commissioners expressly conditioned their approval requiring that the results of any final orders from Vermont or New Hampshire would not materially alter the financial position of Fairpoint.

### **Verizon Alternative Form of Regulation (AFOR)**

AFORs allow a utility flexibility in setting its rates and a reward mechanism for reducing costs. In addition, AFORs require a utility to maintain specific service quality standards, with automatic penalties assessed for non-compliance. In 2005, the PUC opened Docket No. 2005-155, a two-phase investigation into Verizon's existing AFOR,

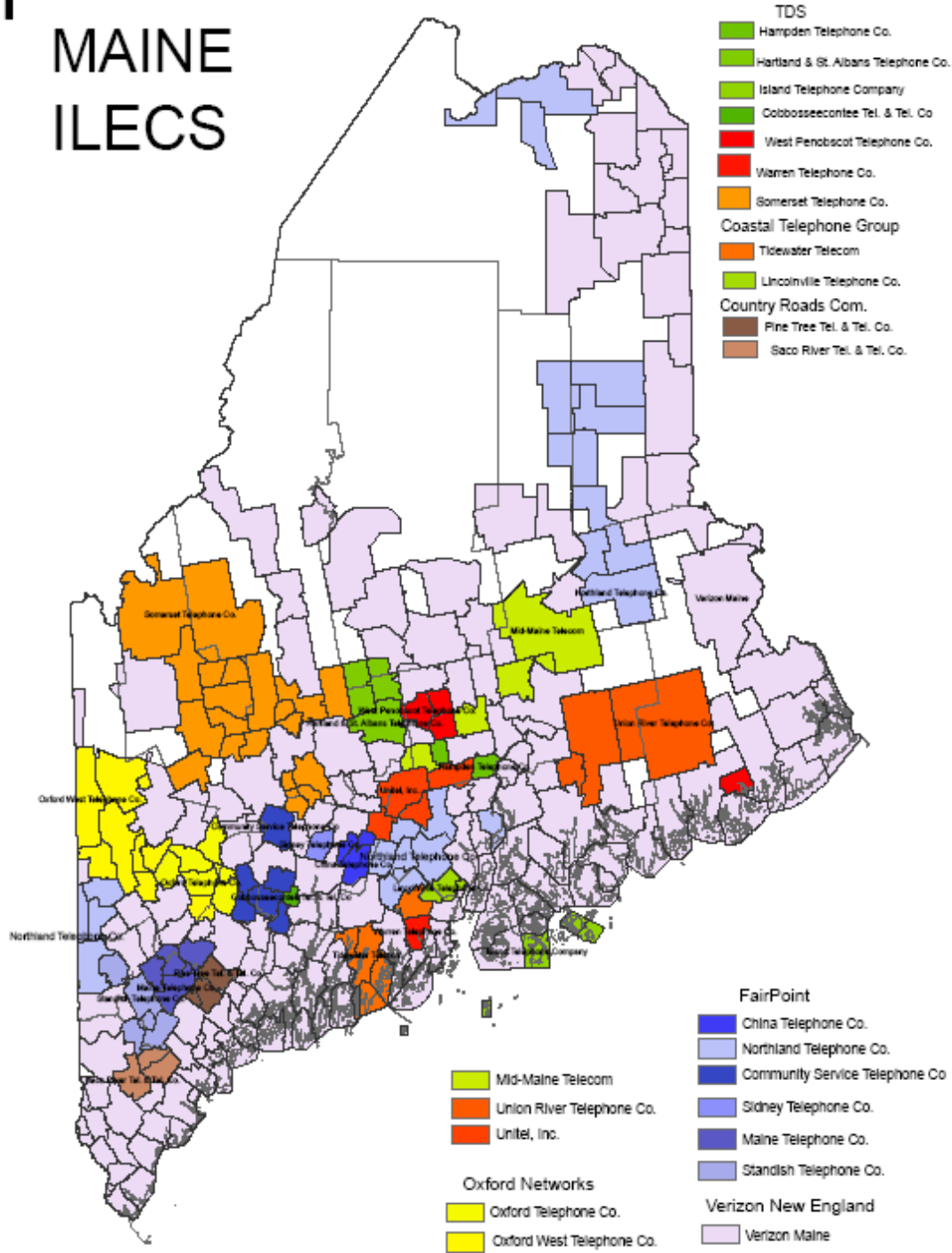
which had been established in 2001 and would expire in 2006. This case responded to a Maine Supreme Judicial Law Court decision that grew out of the PUC's decisions in the 2001 AFOR proceeding.

In May of 2007, PUC staff issued a Hearing Examiner's Report on Verizon's revenue requirements. The Examiner found that Verizon was over-earning when its revenues were examined under traditional rate-of-return or rate-base standards and that it was failing to meet service quality standards. The Examiner recommended a reduction in Verizon's allowed collections of annual revenues from customers, more stringent service quality enforcement standards, and higher penalties.

In October, the Commissioners approved an amended, interim stipulation filed by Verizon and the Office of the Public Advocate. The stipulation suspends further actions in the AFOR case, including a second phase to consider its overall structure, until July, 2008 or no later than 180 days beyond closing of the FairPoint/Verizon sale, should it be approved. The stipulation also requires Verizon to invest \$12 million in Digital Subscriber Line (DSL) services in Maine. That DSL infrastructure investment will make the company's high-speed internet services available to some 35,000 customers of Verizon Maine who previously lacked it. The Order reserves the PUC's right to re-open the matter to ensure that its terms are being carried out. The PUC expects to consider the conclusion of the AFOR proceeding in 2008, when the terms of the stipulation end.

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# MAINE ILECS



Maine PUC 01/07

## **Local Competition**

During 2007, the PUC continued to examine issues associated with competition in the local exchange market. As in previous years, this work was influenced by federal regulatory and court activity. Specifically, in 2006, the U.S. District Court of Maine upheld several PUC decisions governing wholesale services and rates Verizon offers to other carriers leasing capacity on its network under the PUC's Wholesale Tariff Proceeding, Docket No. 2002-682.

After a series of appeals, the District Court directed the Federal Communications Commission (FCC) to rule on several contested issues in the matter. The legal issues will not likely be resolved until 2008. Against this backdrop, the PUC continued to process wholesale and competition cases in 2007. In April, the PUC issued two decisions related to wholesale tariffs for telecommunications services. One concerned determinations of where Verizon must or must not provide particular services to potential competitors. The second decision, in Docket No. 2002-243, concerned Verizon's compliance with PUC policies for competitive access to "dark fiber" – that is, fiber-optic cable which has been installed but has not been "lit," i.e., put into use.

## **Detariffing and Relaxed Regulation**

State law (35-A M.R.S.A. § 307-A, the so-called detariffing law) allows the PUC to set rules for granting exemptions from the requirement that utilities file rates, terms and conditions prior to providing service.

In cases processed throughout the last decade and longer, the PUC has reviewed the evolving telecommunications markets in Maine and the growing number of "intermodal" competitors (e.g., cellular phone companies) for those services. The PUC has also examined the time spent by PUC and utility staff processing telecommunications tariffs, and the relative benefits received from that time investment. These reviews suggested that competition exists in a portion of the telephone industry in Maine, while significant resources were being dedicated to tariff processing. In such circumstances, the Commissioners believe that with a number of providers and services to choose from, consumers gain sufficient control over provider prices, terms and conditions to warrant consideration of eased regulation.

Accordingly, during 2007, the Commissioners initiated a rulemaking, Docket No. 2006-297, to determine whether the terms of the detariffing law were met for any utilities or services in Maine. Through the rulemaking process, the Commissioners made the findings required by law which serve to identify competitive markets. The final rule enables exemption from tariff filing requirements for all CLECs and IXCs, and for ILEC retail bundles, i.e., retail offerings that include basic service and additional features or services such as long distance, DSL, or video. The rule, Chapter 214, became effective in September, with a 6 month transition period that ends in March 2008. After that date all tariffs for CLECs, IXCs and ILEC bundles will no longer be filed for PUC review.

The detariffing rules should promote competition by reducing unnecessary administrative procedures, but it does not exempt the telecommunications companies from complying with the Commission's rules or orders – including provision of timely

notice of rate changes. By the end of 2007, several utilities had voluntarily withdrawn tariffs ahead of the required deadline.

In response to a directive from the Joint Standing Committee on Utilities and Energy, PUC staff also met regularly in 2007 with representatives of the Telephone Association of Maine and the Office of the Public Advocate to consider ways to provide alternative, relaxed regulation of Maine's rural incumbent telephone carriers. The effort focused on competitive bundled services, and resulted in proposals that, if approved through the rulemaking process, could allow these carriers to compete more readily in the competitive market for these services.

### **Competitive Local Exchange Carriers**

In December 2006, Time Warner Cable Information Services applied for authority to expand its service territory to allow provision of local telephone service in nearly 100 exchanges in service territories that were already served by small, independent telephone companies in Maine. While cable-based telephone service is currently provided in Verizon's service territory, this marked the first time that a cable company had asked the PUC's permission to expand its service territory into an area where a rural telephone company provides monopoly landline service. The Commissioners granted Time Warner's request in November. The Telephone Association of Maine has requested reconsideration of that decision.

This was only the first step in a process in which the PUC will decide whether competitive carriers ultimately will be permitted to provide broader telephone service in territories now served solely by independent rural telephone companies. Another step would be for Time Warner (or another underlying carrier) and an independent rural telephone company to file an interconnection agreement for the PUC's consideration. Yet another step would be consideration of whether the so-called "rural exemption" set forth in federal law should be examined. During 2008, the PUC will determine and carry out the procedures necessary to consider requests such as those made by Time Warner as well as the applicability of the rural exemption in such cases.

### **Broadband Availability**

Maine law declares that state policy includes establishment of a modern telecommunications network and provision of advanced telecommunications capabilities to all Mainers at affordable and reasonably comparable rates (§§ 7101 and 7104 of Title 35-A). To support this goal, Chapter 93 of Title 35-A established the Connect ME Authority, charged with improving broadband access for un-served and underserved areas of the state.

While the PUC's jurisdiction over broadband is limited, the PUC closely monitors the deployment of broadband capabilities across the state and supports its installation whenever possible. For example, the PUC compiles broadband information and hosts a Broadband Availability web site (<http://www.maine.gov/PUC/broadband.html>) where users may determine which providers offer service in their municipalities. Verizon provides to the PUC quarterly reports on the address locations where DSL is available both as a bundled product

and as a stand-alone service, allowing the PUC to monitor the progress of that company's broadband expansion. The PUC also monitors Verizon's DSL deployment under monthly status reports required by the 2007 AFOR stipulation discussed above.

Wholesale policies approved by the PUC allow competitors to use parts of Verizon's networks to expand broadband availability throughout the state. Verizon, the rural local carriers, and several competitors of various sizes are continually expanding the coverage area of DSL service in Maine.

Also in 2007, PUC Chairman Adams and the other four members of the ConnectME Authority, assisted by PUC staff members, created a grant system to support broadband deployment in un-served and underserved areas. The initial grants were awarded in November. Seven grants were awarded for over \$700,000. More information on the program can be found online at <http://www.maine.gov/connectme>.

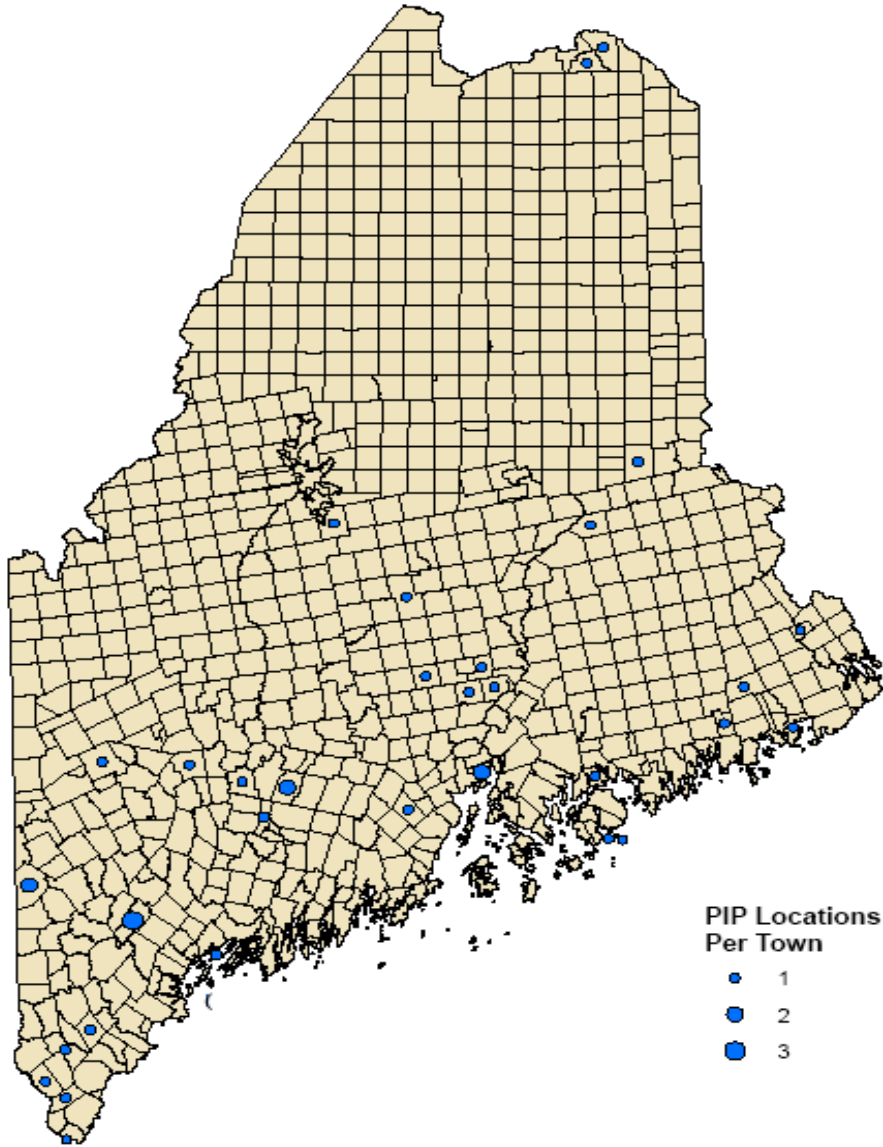
The PUC will continue to take all reasonable steps within its jurisdictional authority to encourage expansion of broadband service to un-served and underserved areas of Maine.

### **Public Interest Payphone Program**

During 2006, the PUC approved approximately 50 requests for Public Interest Payphones (PIPs), under the newly-created PIP Program. The approved PIPs will serve locations throughout Maine, ranging from Springvale to St. Agatha, and from Bangor to Cliff Island.

As cell phones have become nearly ubiquitous, legacy telephone companies have removed public payphones that no longer collect enough revenue to support their operation. PIP phones aim to protect public safety, health and welfare by preserving public service in key locations. During 2007, the PUC oversaw the installation of these phones throughout Maine. The following map identifies PIP locations in Maine.

# Public Interest Payphone Locations



## **Wireless Eligible Telecommunications Carrier Requirements**

There are two wireless telecommunications carriers granted “Eligible Telecommunications Carrier” (ETC) status by the PUC: US Cellular and UniceL. Under the terms of the Telecommunications Act of 1996 (TelAct), ETC designation allows a carrier to receive support from the federal Universal Service Fund, which in turn is financed by a surcharge on all telephone customers’ bills.

In November 2007, the PUC promulgated a new rule, Chapter 206, which creates objective standards, modeled on federal guidelines, by which a wireless ETC demonstrates that it is using federal USF funding appropriately and the PUC determines whether to certify a carrier’s ETC status. For instance, ETCs must provide maps of their coverage areas, account for use of USF funds, and provide a 5 year build-out plan.

## **Federal Universal Service Activity**

During 2007, the PUC continued active involvement with universal service issues at the FCC. The PUC retains a position on the advisory staff to the Universal Service Joint Board and promotes the interests of Maine consumers before that Board.

For example, the PUC’s joint board staff member advocated for the creation of a broadband support fund and a mobility fund which will pay for the construction of wireless facilities in un-served areas. The PUC has also been involved in several proceedings before the courts and the FCC, defending the outlay of USF funds to support Maine telephone consumers. PUC staff actively participated in a task force sponsored by the National Association of Regulatory Utility Commissioners on reform of the rates carriers may charge each other to complete a communication. Finally, PUC staff affirmatively developed an “early adopter mechanism” to the FCC’s plan for intercarrier compensation which would protect states, like Maine, that reduced state access charges before federal support was provided to accomplish that task.

## **Maine Universal Service Fund**

Section 7104 of Title 35-A directs the PUC to “seek to ensure that similar telecommunications services are available to consumers throughout all areas of the State at reasonably comparable rates.” The law allows the PUC to create a Maine Universal Service Fund (MUSF) that supports programs that will further this goal.

The MUSF is funded by a surcharge on all telephone bills – local, long distance, and cellular. Most of the collected funds are distributed to the higher-cost incumbent local telephone carriers, so that these companies may charge rates for local service that are as low as those charged by the low-cost carriers. However, the law also directs that the MUSF support four programs: the Communications Equipment Fund, the Telecommunications Relay Service, the Emergency Response Service, and the Public Interest Payphone (PIP) program. The first three programs improve access to telephone service by hard-of-hearing, speech impaired and visually impaired persons, and the latter program improves emergency access to telephone



service, as discussed above. Finally, the law directs that the MUSF fund a one-time “loan” to the ConnectME Authority, to help begin ConnectME’s efforts to expand high speed internet service to underserved areas, which is also discussed above.

The MUSF is managed by an independent program administrator. Working with the administrator, the PUC determines the surcharge necessary to raise funds needed to achieve parity among local companies’ rates and to fund the additional programs the law requires.

## **Reliability Reporting**

As the telecommunications market has evolved toward more competition and less regulation, the PUC has increased its focus on monitoring health and safety features of the telecommunications network, such as its integrity, its redundancy, and the frequency or duration of outages. Reliable reporting of utility outages is a crucial component of the PUC’s ability to monitor safety issues.

Currently, standards for reporting of telephone outages are set by PUC rule, Chapter 20, which was adopted in 1987. To respond to marketplace evolution, in October 2007, the PUC initiated Docket No. 2007-230, in which it proposed a new version of the rule. The proposed new rule sets specific reporting requirements for planned and unplanned outages, as well as service restoration. The proposed rule is written to conform to federal outage reporting protocols and the PUC expects to issue a final rule in early 2008.

The PUC also continued to review utilities’ infrastructure configurations, to monitor the reliability and redundancy of the telecommunications network throughout the state.

## **Telecommunications Relay Service**

During 2007, the PUC continued to participate in the State’s Telecommunications Relay Service Board, which coordinates telecommunications needs and programs that service the hard-of-hearing community in Maine.

## **Privacy of Communications by Verizon Customers**

In 2006, James D. Cowie and 21 other Maine residents filed a complaint under 35-A M.R.S.A. § 1302(1) requesting that the PUC investigate whether and to what extent Verizon had cooperated with the National Security Agency (NSA) in connection with two alleged intelligence gathering programs involving unwarranted access to telecommunications facilities in Maine, or to records of domestic or international calls or e-mails made or received by Verizon’s customers in Maine.

The Commissioners opened Docket No. 2006-274 to consider the request. Verizon responded by stating that it is unable to discuss any relationship with any classified NSA program. Verizon issued a press release on the subject and in its written response to the PUC Verizon referred to the release to assert that: (i) the NSA did not request nor did Verizon provide customer phone records or call data; (ii) Verizon will provide customer information to a governmental agency only where

authorized by law, (iii) Verizon will ensure that any information provided to a governmental agency is used properly, (iv) Verizon does not and will not provide any government agency unfettered access to its customer records or provide information to the government under circumstances that would allow a fishing expedition, and (v) Verizon is ensuring that the operations acquired from MCI are implementing Verizon's policies and that all of Verizon's activities fully comply with law.

On the day Verizon was to have supplied the PUC with its affirmation of prior statements, the United States Department of Justice (DOJ) brought suit against the PUC in the Federal District Court for the District of Maine seeking to enjoin further PUC action in the consumer complaint. The District Court later granted a preliminary injunction prohibiting further action by the PUC on the complaint.

Represented by the Maine Attorney General, the PUC has mounted a defense to the federal lawsuit. The case has since been joined with similar suits initially brought in other jurisdictions, and transferred to the Northern District of California. Further action in the case is expected in 2008.

# ELECTRIC

In 2007 Maine's electricity sector continued to operate within the restructuring initiative enacted by the Legislature a decade ago. The Restructuring Act (P.L. 1997, ch. 306, codified at 35-A M.R.S.A. §§ 3201-3217) directed comprehensive restructuring of Maine's electric utility industry, including divestiture of supply assets and functions from the regulated utilities, moving instead to a competitive market regime for supply services. The PUC regulates the rates and services of Maine electric utilities, which, since March 1, 2000, have been transmission and distribution (T&D or delivery) companies only. In addition, the PUC oversees Maine's retail electricity supply market, procures standard offer service, and participates in regional wholesale market activities that affect Maine's electricity consumers.

During 2007, the PUC opened 125 and closed 145 electricity-related cases, and work was ongoing on a number of cases opened prior to 2007. In addition, the PUC conducted several competitive solicitations for standard offer service; completed various studies and other tasks at the direction of the Legislature; and was involved with regional and federal matters that affect Maine consumers. The following sections summarize the year's major cases and issues.

## Key Events and Issues

- Wholesale electricity prices in the region remained high and continued to closely track with natural gas. Electricity prices in the spot market were about 10% higher in 2007 relative to 2006, although prices in the forward market tended to be lower. Wholesale prices in Maine continued to be lower than in other New England states due to an excess of in-state supply.
- Electricity delivery rates were generally stable during 2007.
- At the Legislature's direction, the PUC analyzed Maine's participation in the New England Regional Transmission Organization and potential alternatives. The PUC concluded that the *status quo* would not allow the region to meet important policy and environmental goals, and presented three alternatives for consideration.
- On February 8, 2007, Governor John Baldacci and New Brunswick Premier Shawn Graham signed a *Memorandum of Understanding between the Province of New Brunswick and The State of Maine to Enhance the Mutual Benefits of the Maine/New Brunswick Electrical Interconnections*. The PUC facilitated subsequent efforts to analyze cross-border generation and transmission issues.
- After concluding in late 2006 that competition was failing in northern Maine, the PUC, with significant involvement by stakeholders, considered and analyzed several responsive measures. The PUC presented potential measures to the Legislature, and work is ongoing to develop short and long-term solutions.

- The Maine Legislature enacted legislation to make Maine a participant in the Regional Greenhouse Gas Initiative (RGGI), a cap-and-trade program for carbon dioxide. The key components of the RGGI statute are caps on CO<sub>2</sub> emissions from in-state electric generators, and the designation of most of the proceeds from the sale of CO<sub>2</sub> allowances to fund energy efficiency initiatives.
- A major new transmission line between Maine and New Brunswick was completed in 2007, increasing transmission capabilities between the regions. Other major transmission projects are under consideration by all of Maine's investor-owned utilities, as well as by non-utility developers.
- Alternative Rate Plans (ARP) previously established for Central Maine Power (CMP) and Bangor Hydro Electric (BHE) companies were set to expire at the end of 2007. In January, 2007, BHE filed a rate case that was resolved by a PUC-approved stipulation, resulting in a 2.04% increase in BHE's distribution rates and a 24.72% decrease in its stranded cost rates. CMP proposed that a new ARP be established; that case is ongoing.
- CMP and its affiliate, Maine Natural Gas, petitioned for PUC approval of an acquisition of their parent company, Energy East Corporation, by Iberdrola, a large utility and energy company headquartered in Spain. A proposed settlement of that case was submitted in January 2008, subject to PUC consideration and approval.

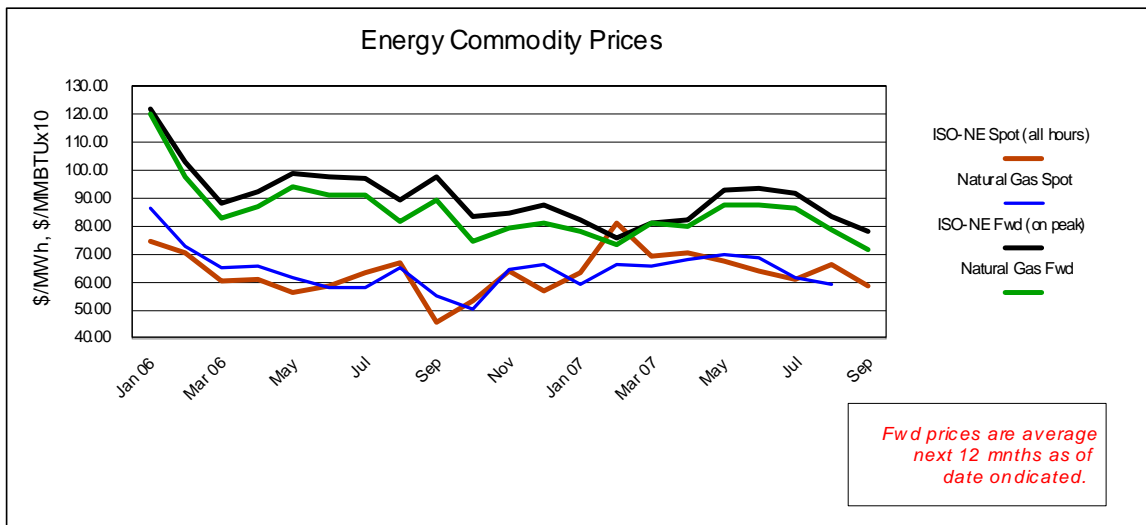
## **REGIONAL WHOLESALE MARKET AND RELATED ACTIVITY**

When Maine restructured its electricity market, it became part of a broader, New England-wide market for wholesale electricity. In recognition of this, in 1997 the Legislature enacted 35-A M.R.S.A. § 3215, which directs the PUC to participate in regional and national activities to protect "the interests of competition, consumers of electricity, or economic development of the state."

The New England Independent System Operator (ISO-NE) has been the Regional Transmission Organization (RTO) for New England since early 2005. ISO-NE is responsible for the day-to-day operation of the regional grid as well as administration of the regional electricity markets under tariffs and rules approved by the Federal Energy Regulatory Commission (FERC). The PUC participates actively in tariff and market rule development, and intervenes and takes positions at FERC on matters affecting the competitiveness of the wholesale electric markets, reliability, and prices paid by Maine electricity consumers.

### **Market Prices**

As shown below, wholesale electric energy prices in the spot market trended higher in 2007 relative to 2006. However, in contrast, forward prices trended lower. This disparity appears to be attributable to the persistent effect that Hurricanes Katrina and Rita had on the forward price curves into early 2006 – a trend which softened once the forward market absorbed those shocks.



As is evident from the above graphic, New England electricity prices move in lock-step with natural gas. This is not surprising given the role that fuel plays in the market. Market prices in ISO-NE are set by the generator at the top of the bid stack, which is a natural gas plant 68% of the time; thus, the effect of natural gas on electricity prices is amplified.

## ISO Study

During 2007, the PUC completed its study of whether Maine should continue to participate in the New England RTO and of potential alternatives to continued participation. The study was undertaken at the direction of the Legislature pursuant to “Resolve, To Direct the Public Utilities Commission to Examine Continued Participation by Transmission and Distribution Utilities in this State in the New England Regional Transmission Organization” (Resolve).<sup>3</sup> The PUC’s Final Report<sup>4</sup> noted that the *status quo* will not allow the Maine or the region to meet important policy and environmental goals, and presented three alternatives for consideration:

### 1. Market Reform

Maine would remain part of a reformed New England RTO and market. Key reforms would address: (1) transmission-related rules, including movement toward a “beneficiary pays” model and resolution of issues around cost allocation for transmission investments that are needed to access remotely-located renewable generation; (2) structural changes to reduce consumer costs and increase public input and accountability; (3) standards needed to meet the region’s environmental policy objectives; and (4) improvements in

<sup>3</sup> Resolves 2005, ch. 187

<sup>4</sup> The Final Report is available through the Commission’s on-line case file at [http://mpuc.informe.org/easyfile/easyweb.phpfunc=easyweb\\_query](http://mpuc.informe.org/easyfile/easyweb.phpfunc=easyweb_query) , Reference Docket 2006-364.

economic efficiency. This option would allow Maine to build upon existing systems and rules, but reform could be difficult to achieve given that it would tend to create economic “winners” and “losers”.

## 2. Maine ITC

Maine would form an Independent Transmission Company (ITC) to develop, maintain, and manage access to Maine’s transmission system. This option would allow for greater local influence and control over matters affecting Maine consumers, but would be expensive to form and could isolate Maine from certain benefits provided by the New England market.

## 3. Maine/New Brunswick Common Market

Maine would join with New Brunswick and, possibly, other Canadian provinces. This option has four key elements: (1) the New Brunswick System Operator (NBSO) would jointly dispatch the bulk power system for the region; (2) transmission systems would be jointly planned; (3) there would be a common energy market relying on a hub located in New Brunswick; and (4) a state-regulated entity would supply Maine consumers.

The PUC anticipates that the Legislature will consider these issues and options during its 2008 session.

### **Maine New Brunswick MOU**

On February 8, 2007 Governor Baldacci and Premier Graham of New Brunswick signed a *Memorandum of Understanding between the Province of New Brunswick and The State of Maine to Enhance the Mutual Benefits of the Maine/New Brunswick Electrical Interconnections*, pursuant to which the governments agreed to the following tasks:

1. Study the feasibility of expanding generation capacity and transmission infrastructure to increase electrical flows across borders;
2. Identify processes and systems to provide transparency and efficiency in Maine and New Brunswick markets;
3. Study the feasibility of developing common market rules that could be applied in Maine and New Brunswick;
4. Explore the potential benefits of and potential technical or legal barriers to common provisioning of control area services (including balancing, dispatch and reserve sharing);
5. Explore tariff and governance structures required for a regional transmission organization for Maine and New Brunswick, and;
6. Examine the opportunities for compatible greenhouse gas emissions reduction regimes in the electricity sector.

The PUC worked closely with the joint representatives of Maine and New Brunswick to carry out the MOU tasks, and on June 26, 2007, the joint representatives submitted the Phase I Report anticipated by the MOU.<sup>5</sup> The report provided a set of principles to guide future work, a prioritization of tasks, and a status report on progress to date. After review of the Phase I Report, which reinforced the potential for significant economic and environmental benefits from closer coordination between the regions, the governments agreed to more in-depth study.

During 2007, MOU-related work focused on potential opportunities from expanding generation capacity and transmission infrastructure to increase electrical flows between Atlantic Canada and New England. This task was given the highest priority since a positive outcome is likely to provide the most significant benefits to citizens of Maine and New Brunswick. The effort focuses on clean resources and export opportunities, while identifying potential benefits for the broader region such as (1) meeting demand for electricity and (2) achieving environmental goals to reduce carbon emissions and increase use of renewable resources. A final report is expected in early 2008.

## **Northern Maine**

In late 2006, the PUC concluded that competition in northern Maine had failed based on the conditions observed in the region, including the fact that a recent standard offer solicitation produced only one bidder, Integrys Energy Services, Inc.<sup>6</sup> The northern Maine region is relatively small, electrically isolated from liquid markets, and dominated by two companies that own and control all in-region generation and serve all in-region loads. During 2007, the PUC, with significant involvement by stakeholders, began a formal Inquiry to consider responsive measures. The case involved a number of meetings with stakeholders and the filing of several rounds of written comments over the course of the year. As noted in reports to the Joint Committee on Utilities and Energy, the PUC concluded that the most straightforward long-term solution to increase competition in northern Maine would likely be construction of a transmission line linking northern Maine to the New England electricity market.<sup>7</sup> Maine Public Service Company (MPS) and CMP have initiated studies of the feasibility of such a line (referred to as the Maine Power Connection, or MPC); those studies are currently ongoing.

Because any new transmission line would not be in service for several years, the PUC also explored interim steps to improve competition in northern Maine, including a standard offer arrangement whereby northern Maine's electricity load

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<sup>5</sup> The MOU Phase I Report is available through the Commission's on-line case file at [http://mpuc.informe.org/easyfile/easyweb.phpfunc=easyweb\\_query](http://mpuc.informe.org/easyfile/easyweb.phpfunc=easyweb_query), Reference Docket 2006-364.

<sup>6</sup> Order Rejecting Standard Offer Bids and Directing MPS To Provide Standard Offer Service, Docket No. 2006-513 (Nov. 16, 2006).

<sup>7</sup> See "Northern Maine Electricity Market Report" (5/3/07) "Lack of Competition in the Northern Maine Electricity Market." Northern Maine, which includes the service territories of Maine Public Service Company, Eastern Maine Electric Cooperative, Houlton Water Company and Van Buren Power and Light, is currently within the Canadian Maritimes bulk power system, and is connected to the rest of Maine and New England only by transmission through New Brunswick.

would be combined with BHE and more closely integrated with the New England market in a virtual sense. The PUC intends to request ISO-NE to study the feasibility of this approach.

Finally, the PUC also sought a regulatory response from the FERC, which has jurisdiction over wholesale power markets and rates. In particular, the PUC participated in a FERC proceeding regarding market-based rate authority for Boralex, the company that owns most of the generating capacity in northern Maine.<sup>8</sup> Noting the unique circumstances of the region, the PUC asked FERC to consider whether market-based rates should be authorized. The PUC is awaiting a FERC decision in the case.

## **State Legislative Initiatives**

In addition to the ISO study discussed above, the PUC responded to other legislative directives related to electricity supply.

### Utility Participation in the Energy Supply Business

During the 2007 session, the Legislature directed the PUC to review issues that would be involved with a re-entry into the energy supply business by Maine's T&D utilities. The review would consider ownership or interest in electric generation facilities, load management, and demand-side management. The PUC initiated a formal inquiry as the vehicle for this review, and on January 15, 2008, the resulting report was submitted to the Legislature. In the report, the PUC recommended against any immediate legislative changes that would allow the state's utilities to re-enter the business of owning or controlling generation assets.<sup>9</sup> The PUC determined that doing so would be premature before other measures have been tested, including a long-term contracting mechanism (discussed below). If the Legislature decides to allow Maine's utilities to re-enter the generation business, the PUC recommended that it do so in a cautious and limited manner.

The PUC's report on T&D utility participation in the energy supply business is available at [http://www.maine.gov/mpuc/staying\\_informed/legislative/reports.html](http://www.maine.gov/mpuc/staying_informed/legislative/reports.html)

### Resource Adequacy Plan and Long-Term Contracting

During the 2006 session, the Legislature enacted an Act to Enhance Maine's Energy Independence and Security.<sup>10</sup> The Act (codified at 35-A M.R.S.A. §§ 3210-C, 3210-D) directs the PUC to establish an electric resource adequacy plan and authorizes the PUC to direct large investor-owned T&D utilities<sup>11</sup> to enter into long-term contracts for capacity resources and associated energy. In January 2007, the

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<sup>8</sup> FERC Docket Nos. ER01-2569-005, ER01-4652-005, ER02-1175-004, ER01-2568-003.

<sup>9</sup> This recommendation is premised on Maine's utilities remaining a part of the ISO-NE market. To the extent Maine pursues alternatives, the PUC indicated that issues involved with utility ownership and control of generation assets could change dramatically.

<sup>10</sup> P.L. 2005, ch. 677

<sup>11</sup> CMP and BHE are the utilities that meet the statutory definition of a large T&D utility.



PUC provisionally adopted rules (Chapter 316) to implement the resource plan and long-term contracting provisions.<sup>12</sup> The Legislature subsequently authorized the final adoption of the rules without change.<sup>13</sup>

The PUC retained London Economics International to assist in the preparation of the resource adequacy plan and with the solicitation and procurement of long-term contracts for capacity and energy resources. The PUC will present the Utilities and Energy Committee with an electric resource adequacy report and plan by January 31, 2008. Later in the year, the PUC will solicit bids for long-term contracts consistent with the standards, policies and procedures contained in the Act and the PUC's implementing rules.

### The Regional Greenhouse Gas Initiative

On June 18, 2007, the Maine Legislature enacted P.L. 2007 Ch. 317, "An Act to Establish the Regional Greenhouse Gas Initiative Act of 2007" (RGGI), by which Maine joined other northeastern states in a regional program to limit greenhouse gas emissions that contribute to global warming. Maine's RGGI statute established a cap-and-trade program for CO<sub>2</sub> emissions from in-state power plants. Effective in 2009, emissions are capped at 5.9 million tons per year until 2015, at which time emissions must ratchet down by 10% by the year 2018. The statute directs the Maine Department of Environmental Protection (DEP) to promulgate rules to govern the program, including how the emission allowances will be assigned and sold.

Proceeds from allowance sales will be held in a trust to be administered by a newly-formed "Energy and Carbon Savings Trust" (Carbon Trust), whose three trustees will be appointed by the PUC. The statute also directs that allowance revenue be largely allocated to energy efficiency. Finally, the statute directs that the "Maine Energy Conservation Board" be created to assist the PUC and the Trust to develop, coordinate and integrate Maine's efficiency program planning and implementation.

### **Major FERC Cases and Other Federal Initiatives**

#### Forward Capacity Market (FCM) Settlement

Costs associated with FCM began affecting consumer bills in 2007 pursuant to a FERC-approved settlement that established a market for generation capacity in New England and set a schedule of payments to generators over a 4 year transition period beginning December 2006. The PUC had worked with other states and energy companies to forge a compromise approach, and supported the long-term component of the eventual settlement which, if properly implemented, would allow for a balanced, competitive market for new resources, including conservation and demand response initiatives. However, the PUC ultimately opposed the overall settlement because of its near-term negative impact on Maine consumers from "transition payments" during the initial years of the settlement period. The transition payments were estimated to raise

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<sup>12</sup> *Order Provisionally Adopting Rules*, Docket No. 2006-557 (Jan. 2, 2007).

<sup>13</sup> Resolves 2007, ch 35.

electricity rates by 6% for Maine's residential electric consumers and by 10% for Maine's medium and large commercial and industrial electric consumers.

Despite the PUC's strong opposition before FERC, which was joined by Maine's Industrial Energy Consumers Group, representing paper mills and other energy-intensive industries in the state, the settlement was approved. The PUC sought review of FERC's decision in federal court, and briefs were filed in that appeal in 2007. The PUC expects that the court will issue a decision in 2008.

### Installed Capacity (IC) Requirements

Another important case at FERC in which the PUC was involved in 2007 relates to a determination of how much installed capacity is needed to ensure the electric grid's reliability. A significant issue involves the question of whether states or the FERC should determine appropriate reliability levels. Several state utility commissions, including Maine, challenged FERC's authority, and asserted that the Federal Power Act gives them, rather than the FERC, authority over resource adequacy, since retail consumers will ultimately pay the associated costs.

FERC's decision that it has sole authority to establish the IC requirement was challenged in federal court. The PUC intervened in this appeal as part of the New England Conference of Public Utility Commissioners (NECPUC) and individually. In 2007, the federal court rejected FERC's explanation for its assertion of jurisdiction, but did not decide the jurisdictional question itself; instead the court sent the case back to FERC. FERC again found that it had the authority to set the IC requirement, and that finding was again appealed to federal court. The PUC is an intervenor in that appeal, which has been consolidated with related cases involving the same jurisdictional question.

In 2007, another case involving IC requirements raised additional issues. One such issue related to technical assumptions made by ISO-NE that will affect prices for Maine consumers in the first Forward Capacity Auction. The PUC protested the ISO-NE assumptions because they overstate the capacity that can be accessed from Maine, potentially causing Maine capacity prices in the auction to be rise as high as those in the rest of New England. FERC approved ISO-NE's filing for 2007, but directed ISO-NE to begin a stakeholder process to address concerns about both the installed capacity and export assumptions. The PUC is considering a request for a rehearing of FERC's decision. In addition, PUC staff will participate in the stakeholder process to try to ensure that the correct assumptions are used in the subsequent auctions.

### Voltage Support Cases

In December of 2006, ISO-NE filed for a rate increase for capacity payments to generators that have the capability to provide voltage support. The PUC protested the rate increase because the voltage support revenue stream provides a double recovery to generators already receiving payments under the installed capacity settlement discussed above. Although FERC maintained that there would not be a double recovery during the capacity settlement transition period, it set the rate increase for hearing and directed the parties to try to settle the case. PUC staff took the lead in

crafting a partial settlement which reduces the proposed rate increase and allows for further rate reductions if FERC grants the PUC's request for rehearing on the double recovery issue.

The PUC also filed a complaint related to the double recovery issue and the socialization of some costs for providing voltage support, mainly in the Boston area. The complaint is on hold while FERC tries to work with ISO-NE and New England stakeholders to address the PUC's concerns.

### Request for Increased Return on Equity (ROE).

In 2003, a group of New England transmission owners requested a significant increase in the return on common equity component of the regional and local transmission rates under the ISO-NE open access transmission tariff. The PUC took a lead role in developing NECPUC comments protesting the proposed increase. In October 2006, FERC issued a decision approving a lower rate but also approving the transmission owners' request for an ROE adder for new transmission construction. The PUC, individually and as part of NECPUC, municipal utilities, and other consumers strongly objected to the new transmission adder and sought a rehearing of the FERC decision. Rehearing requests were pending at FERC at the end of 2007.

### Northern Maine FERC Cases

In 2007, two significant cases involving Northern Maine were litigated at FERC. One involved the Northern Maine Independent System Administrator's (NMISA) proposal to impose a capacity requirement. The second involved a filing by Boralex, the company that owns most of the generation in the northern Maine area, requesting FERC approval to continue to charge market-based rates rather than traditional cost-of-service rates.

The capacity case arose from a dispute between NMISA and Integrys Energy Systems, the standard offer supplier in Northern Maine, over whether suppliers were required to purchase capacity in addition to energy to meet their load serving obligations. The case resulted in a filing by NMISA which potentially would have caused a substantial increase in standard offer prices in northern Maine. In response to the PUC's protest, FERC rejected the NMISA filing. PUC staff then worked with NMISA and northern Maine stakeholders to develop a less-costly capacity methodology. The revised capacity proposal was filed at FERC in August and approved effective September 1, 2007.

In the Boralex market-based rate petition, the PUC questioned whether market-based rate authority should be granted given the failed competitive market in northern Maine. A technical conference was held at FERC in August 2007, in which the PUC participated. Other participants included Boralex, Integrys and the NMISA. The PUC filed written comments following the conference. FERC had not issued a decision in this case by the end of 2007.

## Energy Policy Act of 2005

The Energy Policy Act of 2005 (EPAct) required the Department of Energy (DOE) to undertake a nationwide study of electric transmission congestion every three years. Following issuance of the congestion study, EPAct authorizes DOE to designate any geographic area experiencing electric energy transmission capacity constraints or congestion that adversely affects consumers as a National Interest Electric Transmission Corridor (NIETC). A NIETC designation gives FERC backstop siting authority over a transmission project even when a state PUC finds that it is not in the public interest or that the project would violate local or state environmental regulations or laws. If a state either rejects or fails to approve within a year a transmission project that falls within a national corridor, FERC may override the state siting authorities and grant a permit for the siting of the line.

DOE issued its first congestion study for the U.S. in August 2006 and requested comments. DOE categorized broad areas experiencing congestion into three categories: critical congestion area, congestion area of concern, and conditional congestion area. New England was designated a congestion area of concern and Maine was identified as a potential target for federal preemption. In filings, the DOE indicated that it might designate national interest corridors in areas that fell into any of the three categories.

In 2006, the PUC filed comments both individually and as part of NECPUC and the National Association of Regulatory Commissioners (NARUC) strongly opposing the designation of corridors based on the DOE congestion study. The comments underscored deficiencies in the congestion study, a lack of the requisite consultation with the affected states, and in New England a lack of any evidence that the state siting process had prevented the construction of any transmission project recommended by ISO-NE. In October 2007, DOE announced its first two corridor designations, but those did not include any designations in New England. Affected states are protesting, but for the time being, Maine's siting authority is not subject to FERC preemption.

## **MAINE RETAIL MARKET**

During 2007, the retail market in most of Maine continued to show a reasonable level of competitive activity in the medium and large commercial and industrial (C&I) customer sectors. In addition, the market share profile improved. Although a large share of the market continued to be served by a set of affiliated suppliers, the market share of these companies dropped significantly in 2007 compared to prior years. The retail market continued to provide few if any options to standard offer service for residential and small commercial customers, although competition for the standard offer loads of small customers remained robust.

The PUC licensed 19 retail competitive electricity providers (CEPs) during 2007, bringing to 101 the number of CEPs licensed to operate in Maine. Many of these, however, are not particularly active in the market. A complete list of licensed

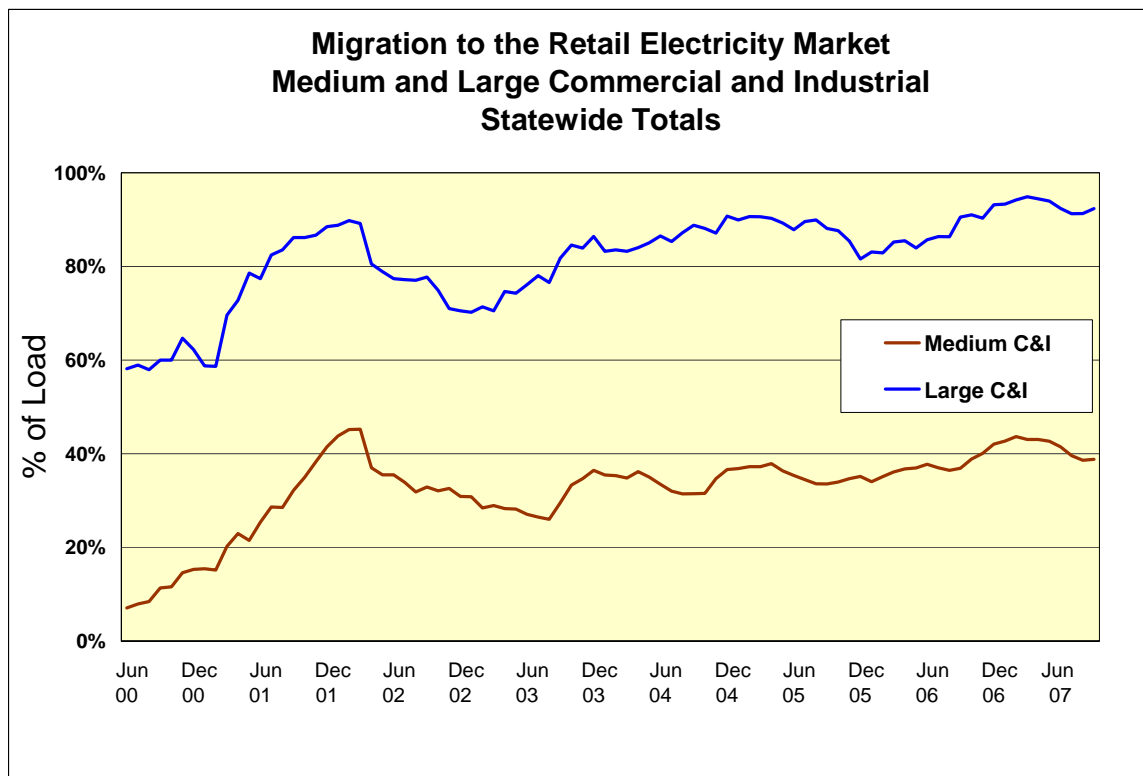
CEPs is available at

<http://www.maine.gov/mpuc/industries/electricity/ElectricSupplier/ceplist.htm>

## Medium and Large C&I Sectors

Since the beginning of restructuring, many medium and large C&I customers have acquired supply directly from the retail market. Terms of service and prices are negotiated directly between customers and suppliers, or, in some cases, with the assistance of aggregators or brokers. Depending upon customer preference and supplier product offerings, prices may be fixed for multi-year terms, or, at the other end of the spectrum, prices may change hourly in real-time or near real-time wholesale markets.

Although migration to and from the competitive market is influenced to some extent by the relationship between standard offer and non-standard offer prices, the prevailing trend is for customers to remain in the market once they have left the standard offer. The graph below shows migration among medium and large customers, and reflects the overall trend toward migration to the open market. Currently, almost 40% percent of the load of Maine's medium C&I customers and more than 90% of the load of the large C&I customers are served through individual retail arrangements.



## **Residential and Small Commercial Sectors**

In 2007, there continued to be little retail market activity in the residential and small commercial sectors in Maine or other states. However, because Maine's standard offer providers are chosen through the PUC's competitive bidding process, residential and small commercial customers are receiving competitively-procured supply, albeit at the bulk level.

During 2007, "clean" products featuring hydroelectric, biomass, wind, low-impact hydro generation, and "Renewable Energy Certificates (RECs)" continued to be available through residential and public sector aggregation groups. The PUC launched the Carbon Free Homes program in April to educate residential customers about supply options and RECs. The program's website offers customers the opportunity to learn about their home energy use, identify appropriate energy efficiency options through Efficiency Maine and other residential state energy programs, and to sign up for clean energy products. The Carbon Free Homes program represents the PUC's first effort to provide residential customers with a comprehensive menu of energy options. A small amount of funding allowed a public awareness media campaign through the summer of 2007. Partnerships with other Maine organizations also raised consumer awareness of clean energy options. As of early December, the program had achieved a moderate level of success as measured by 4,600 unique hits to the website. The program will be expanded in 2008.

### **Northern Maine**

Retail competition in northern Maine continued to be weak during 2007, due largely to the structural and wholesale market deficiencies described above. These deficiencies have hindered market development since retail access began in 2000.

## **STANDARD OFFER SERVICE**

### **Overview of 2007**

During 2007, the portion of Maine's electric load that receives standard offer service remained steady at about 62%. By customer class, standard offer service supplies about 60% of the load of medium C&I customers and 6% of the load of large C&I customers in Maine. Standard offer service continues to supply virtually all residential and small commercial customers, as has been the case since retail access began.

The standard offer suppliers and prices during 2007 are set forth below. The prices shown here are weighted averages to account for relative customer usage; actual prices for the medium class may vary by month and for the large class by month and time of day.<sup>14</sup>

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<sup>14</sup> For more detailed prices, see [http://www.maine.gov/mpuc/industries/electricity/standard\\_offer/standard\\_offer\\_rates.html](http://www.maine.gov/mpuc/industries/electricity/standard_offer/standard_offer_rates.html)

<b>Average Standard Offer Prices in 2007 (weighted)</b>			
	<b>Residential/Small Commercial</b>	<b>Medium C&amp;I</b>	<b>Large C&amp;I</b>
	Price ¢/kWh	Price ¢/kWh	Price ¢/kWh
<b>CMP</b>	8.73	9.36	9.31
Suppliers	Constellation, FPL	FPL, Dominion, TransCanada	BP, Constellation, FPL
<b>BHE</b>	8.96	9.24	10.12
Suppliers	Constellation, FPL	FPL, Indeck, Dominion, TransCanada	BP, Constellation
<b>MPS</b>	8.06	9.23	9.24
Supplier	Integrus	WPS	WPS

## Procurement Processes

### CMP and BHE Residential and Small Commercial

The PUC continued to procure standard offer supply in accordance with the hedging program that began in 2005. The program relies on a “laddering” structure that allows the PUC to secure portions of the required supply at different points in time, thereby reducing customer exposure to the volatility of the wholesale market. When the hedging program began, bids were requested for one-third load segments for terms of one, two and three years. That set the clock for subsequent procurements of one-third segments annually as the initial terms expired. The 2007-2008 term includes the last of the segments initially procured in 2005.

In October 2006, the PUC issued RFPs for the one-third supply segment for the term beginning March 2007. In January, the PUC designated Florida Power & Light (FPL) as the standard offer service provider for this segment for a 3 year term for both the CMP and BHE classes. Constellation Energy Commodities Groups Maine LLC (Constellation) continued as the standard offer provider for the remaining load segments. The winning bid prices for this one-third segment were 9.3 cents/ kWh on average for both CMP and BHE.

When combined with the existing prices for the other two-thirds of the classes, the new bid resulted in average prices of 8.8 cents/kWh for CMP customers and 9.0 cents/kWh for BHE customers for the March 2007 through February 2008 term. This reflected an increase from the previous year’s price: 5% increase for CMP customers and 3% for BHE customers. The hike reflected prevailing market conditions at the time of the various segment bids, as well as ISO-NE capacity “transition payments”.<sup>15</sup>

In October 2007, the PUC issued RFPs for the one-third segment for the term beginning in March 2008. In this RFP, the PUC did not seek 3 year terms. Instead, bids for terms of 1 or 2 years only were requested to avoid incurring a risk premium due to the uncertainty associated with full implementation of the ISO-NE Forward Capacity Market in 2010. Suppliers submitted initial indicative proposals on November 6, 2007 and an award was expected in January, 2008.

### CMP and BHE Medium and Large C&I

The PUC completed two solicitations for medium and large class standard offer service during 2007, and began a third in late 2007 for the term beginning March 1, 2008. In December 2006, the PUC issued RFPs for standard offer service for the CMP and BHE medium and large classes for the six-month term beginning March 2007. Suppliers submitted indicative bid prices in January 2007 and, after negotiating and resolved non-price terms with PUC staff and utilities, suppliers submitted final binding bids later that month. After evaluating the final proposals, the PUC designated suppliers as follows:

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<sup>15</sup> The PUC’s opposition to these capacity transition payments is discussed above.



	<b>CMP</b>	<b>BHE</b>
Medium Class	FPL 60%	FPL 100%
	Dominion 40%	
Large Class	Constellation 100%	Constellation 100%

Average prices are shown below:

	<b>CMP</b>	<b>BHE</b>
Medium Class	8.720 cents/kWh	8.827 cents/kWh
Large Class	9.255 cents/kWh	10.320 cents/kWh

The solicitation for CMP and BHE medium and large classes for the September 2007 term began when the PUC issued RFPs in May 2007. After receiving indicative bids, negotiating contract and other non-price terms, and receiving final bids, the PUC in July 2007 designated suppliers and prices as follows:

	<b>CMP</b>	<b>BHE</b>
Medium Class	Dominion 60%	Indeck 60%
	TransCanada 40%	TransCanada 20%
		Dominion 20%
Large Class	FPL 100%	Constellation 100%

Average prices are shown below:

	<b>CMP</b>	<b>BHE</b>
Medium Class	9.107 cents/kWh	8.618 cents/kWh
Large Class	9.208 cents/kWh	10.262 cents/kWh

Finally, in December 2007, the PUC issued RFPs for a 6 month standard offer supply for medium and large class customers to begin in March, 2008. Bids are due in January, 2008.

#### MPS – All Classes

As discussed above, the competitive market in northern Maine has been weak for some time. In September 2006, the PUC issued an RFP seeking standard offer service for all MPS customer classes. Because only one retail supplier bid, the PUC found the lack of competition to be unacceptable, rejected their set of bids and ordered MPS to supply standard offer service for an interim period. The supplier, WPS Energy Services Inc.,<sup>16</sup> petitioned for reconsideration, and in December 2006 the

<sup>16</sup> WPS Energy Services has changed its name to Integrys Energy Services.

PUC accepted the petition, designating WPS as the standard offer supplier for the MPS territory for a 26-month period beginning January 2007.<sup>17</sup> The PUC found that WPS' new bid terms (which were reduced from initial bid levels) would be significantly lower than prices MPS could provide through its own wholesale arrangements.

Customer Class	MPS SO Rate			SO Provider
	1/1/07- 6/30/07	7/1/07- 2/29/08	3/1/08- 2/28/09	
Residential & Small Non-Residential	7.89 ¢/kWh	8.25 ¢/kWh	8.25 ¢/kWh	WPS
For Medium Non-Residential	8.91 ¢/kWh	9.55 ¢/kWh	8.85 ¢/kWh	WPS
For Large Non-Residential	8.91 ¢/kWh	9.55 ¢/kWh	8.85 ¢/kWh	WPS

## DELIVERY SERVICES AND PRICES

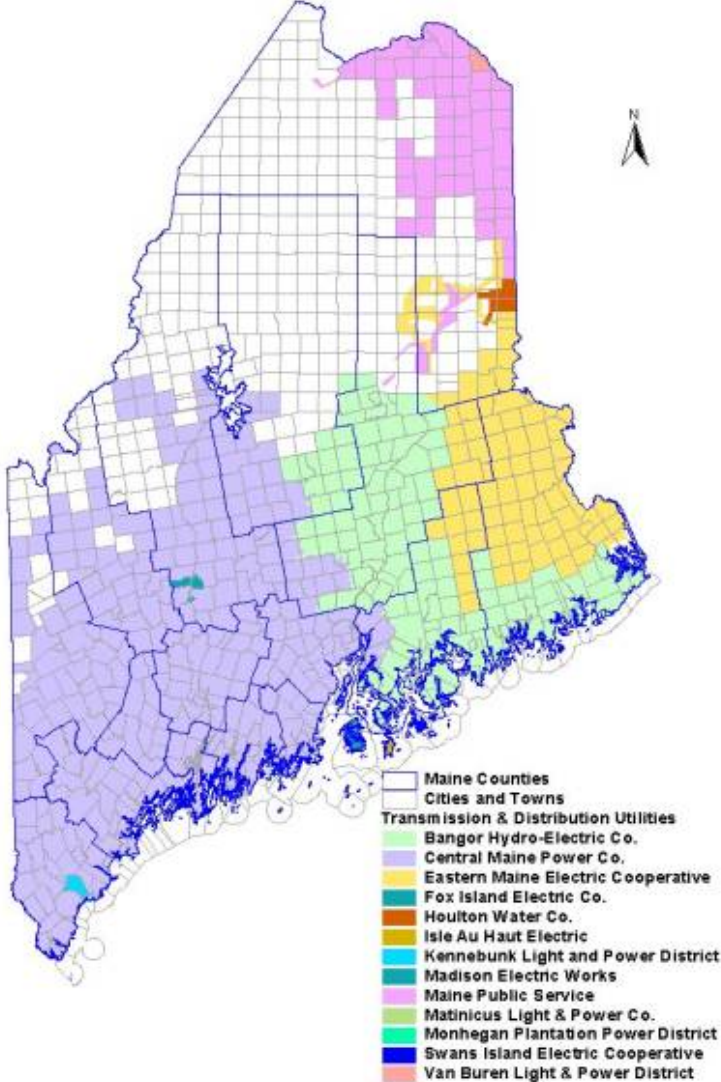
There are 13 electric or transmission and distribution (T&D) utilities in Maine – three investor-owned (IOU) and ten consumer owned (COU). The three IOU's serve most of the State, and among them CMP is the largest, serving about 80% of all Maine's load. BHE and MPS serve most of the remaining load, with the COUs serving, in the aggregate, a few percent.

The map on the following page shows the geographic areas each utility serves.

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<sup>17</sup> The WPS bid included a "price adder" contingency to allow for then-pending changes to the northern Maine market rules that would impose new capacity requirements (and costs) on suppliers. In late 2007, the rule changes were approved by FERC and WPS (now Integrys) has petitioned for a price increase. The petition is currently pending before the PUC.

# Maine Transmission & Distribution Utilities



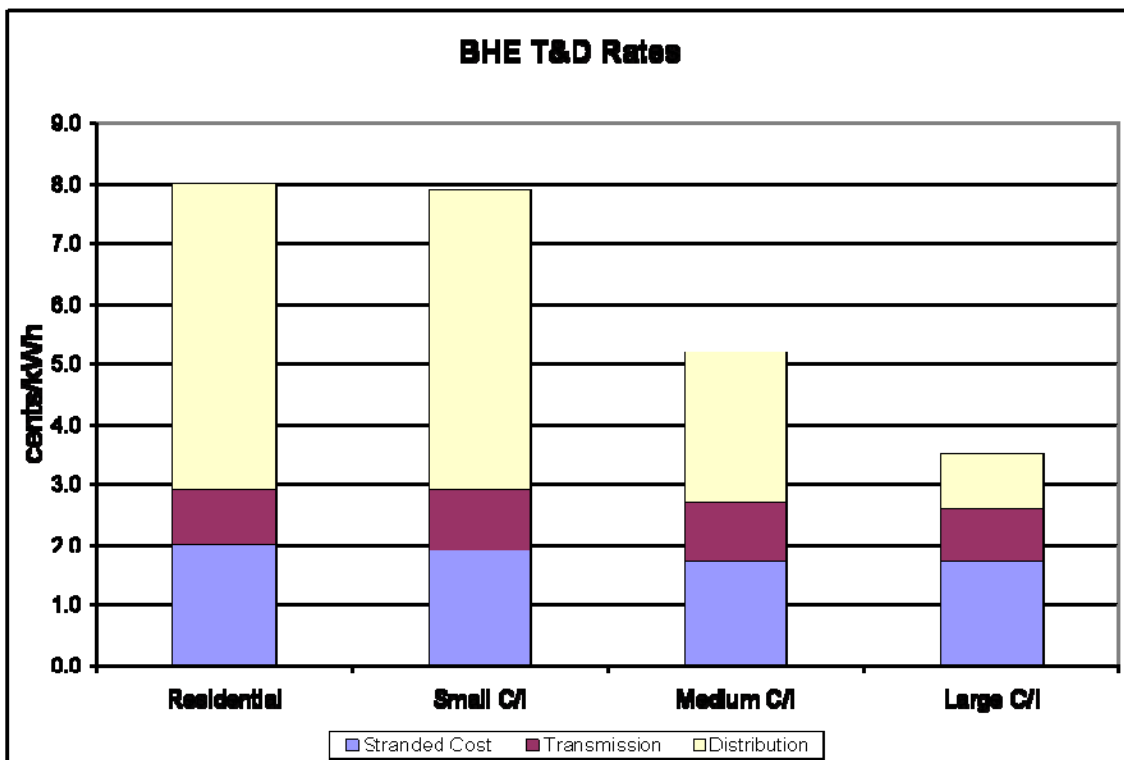
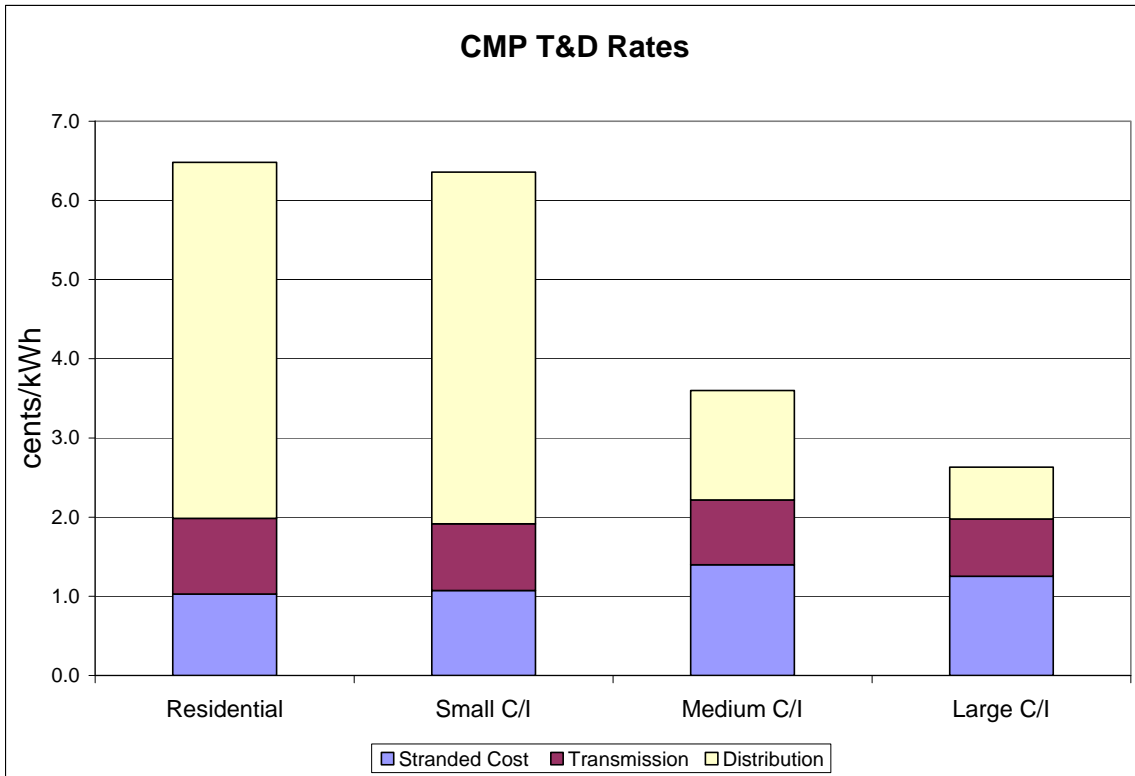
The table below provides a summary of residential electricity sales and rates by utility.

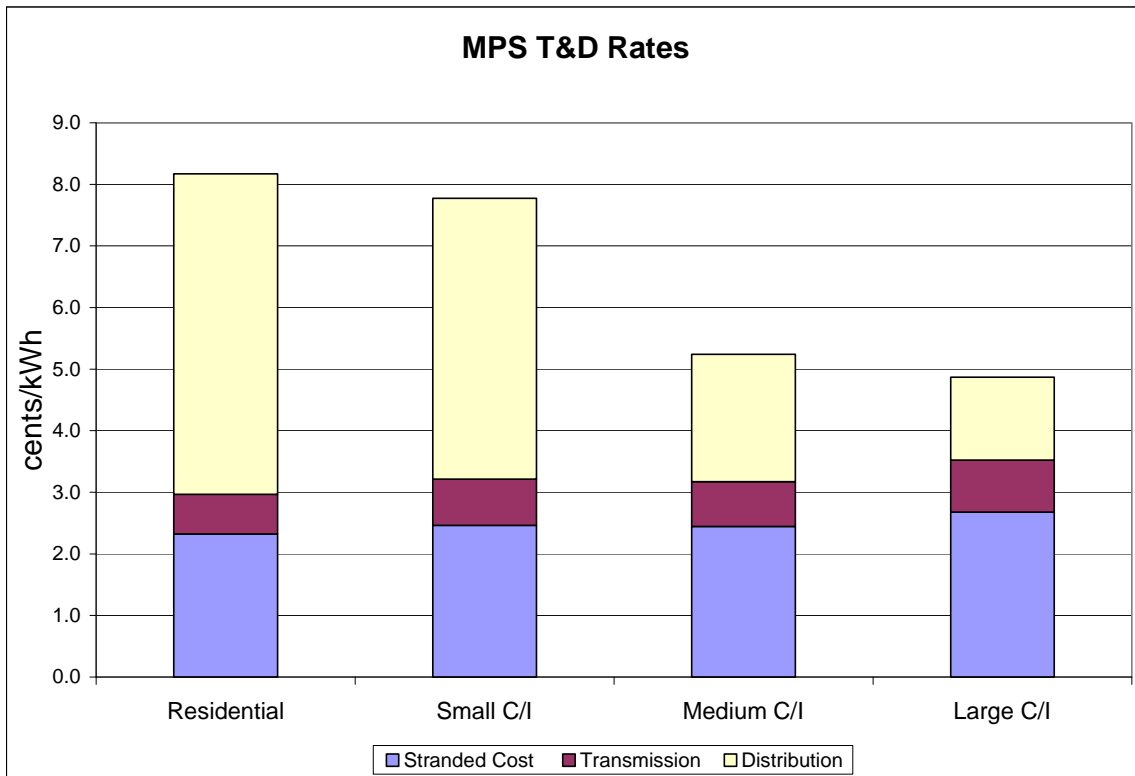
<b>RESIDENTIAL RATES IN MAINE</b>						
<b>(Current as of 12/11/07)*</b>						
	% of State Residential Load	kWh	T&D Delivery Rate ¢/kWh	Standard Offer Rate ¢/kWh	Total Rate ¢/kWh	
<b>INVESTOR-OWNED UTILITIES</b>						
CMP	78.8%	3,502,355,270	6.71	8.80	<b>15.51</b>	¢/kWh
BHE	13.5%	598,648,495	7.25	9.01	<b>16.26</b>	¢/kWh
MPS	4.1%	183,229,422	8.11	8.25	<b>16.36</b>	¢/kWh
<b>COOPERATIVES &amp; MUNICIPAL-OWNED UTILITIES</b>						
EMEC	1.2%	51,755,685	7.67	5.80	<b>13.47</b>	¢/kWh
Houlton	0.6%	27,651,201	3.30	5.37	<b>8.67</b>	¢/kWh
Van Buren	0.2%	7,162,693	1.72	8.25	<b>9.97</b>	¢/kWh
Kennebunk Light & Power	1.1%	46,697,604	1.34	11.00	<b>12.34</b>	¢/kWh
MEW	0.4%	16,972,917	4.80	4.57	<b>9.37</b>	¢/kWh
Matinicus	0.0%	334,000	Exempt from Standard Offer requirements		<b>47.00</b>	¢/kWh
Monhegan	0.0%	294,700	Exempt from Standard Offer requirements		<b>55.87</b>	¢/kWh
Fox Island	0.1%	6,343,816	24.56	17.03	<b>41.59</b>	¢/kWh
Isle au Haut	0.0%	241,376	32.82	8.62	<b>41.44</b>	¢/kWh
Swans Island	0.1%	2,315,960	16.96	8.62	<b>25.48</b>	¢/kWh
<b>STATE AVERAGE</b>		<b>4,444,003,139</b>	<b>6.79</b>	<b>8.77</b>	<b>15.56</b>	<b>¢/kWh</b>
* - T&D rates based on annual reports. Standard offer rates reflect average rates as of 12/07.						
** - Monhegan reflects 2006 rates. Updated rates not available at the time of publication.						

During 2007, T&D delivery rates for CMP, BHE and MPS were stable. T&D delivery rates include three components - transmission, distribution, and stranded costs. Transmission rates cover the cost of constructing and operating the transmission system in Maine, as well as costs allocated to Maine for regional pool transmission facilities (PTF). Transmission rates are regulated by FERC. Distribution rates cover costs incurred by the T&D utility to construct and operate the local distribution system and are regulated by the PUC. Stranded cost rates reflect the net,

above-market costs for generation obligations that utilities incurred prior to industry restructuring, and are also regulated by the PUC.

The following charts illustrate T&D rates for CMP, BHE and MPS:





As shown above, distribution rates can vary greatly by customer class. For example, residential customers typically pay more than industrial customers to reflect differences in the underlying costs to serve them, such as the fact that residential customers take service at the distribution system level while many industrial customers take service directly at the high voltage, transmission system level.

### Major Rate Proceedings

During 2007, the PUC considered filings by Maine’s two largest investor-owned utilities, CMP and BHE, in which each proposed rate and/or rate plan changes to replace existing Alternative Rate Plans set to expire at the end of the year.

#### BHE

On June 11, 2002, the PUC approved a multi-year alternative rate plan for BHE. *Bangor Hydro-Electric Company, Request for Approval of Alternative Rate Plan (ARP)*, Docket No. 2001-410, Order Approving Stipulation (June 11, 2002). The BHE ARP was set to expire on December 31, 2007. Under the terms of the BHE ARP, the Company was obligated to file revenue requirement information consistent with the requirements of Chapter 120 based upon calendar year 2006 data, on May 1, 2007. On December 8, 2006, the PUC issued an Order Granting Waiver Request, which allowed BHE to file earlier than scheduled and to base its revenue requirement filing on a 2005 calendar year.

On January 16, 2007, BHE submitted its Chapter 120 information. In its filing, BHE requested that its distribution rates be based on a revenue requirement of \$56.6 million. Based on BHE's sales forecast, this revenue requirement would result in a 9.76% rate increase in the Company's residential and general service distribution rates. On that same date, the Company also filed a stranded cost rate case pursuant to the provisions of 35-A M.R.S.A. § 3208. In its stranded cost filing, the Company proposed a stranded cost rate reduction of \$6.184 million, or 21.84%, to take effect on March 1, 2008, the end of BHE's current stranded cost rate-setting period. BHE's stranded cost rate proceeding was docketed as Docket No. 2007-30.

By Order issued December 20, 2007, the PUC approved a Stipulation entered into by BHE and the Office of the Public Advocate (OPA), thereby authorizing BHE to increase its distribution delivery rates by 2.04% on January 1, 2008. The PUC Order also established BHE's stranded cost rates for a 3 year period beginning March 1, 2008. Per the Stipulation, BHE's stranded cost rates are projected to decrease by 24.72% effective March 1, 2008. This rate change will be updated to reflect the results of the upcoming Chapter 307 auction of BHE's existing Purchase Power Agreements (PPAs). Finally, under the terms of the Stipulation, BHE was required to submit a plan for purchasing and installing Time Of Use (TOU) meters for all customers in its medium and large commercial classes by the end of 2008 and for the recovery of the related costs, along with proposed rate schedules that time differentiate the demand charge component of BHE's distribution rates.

### CMP

On November 16, 2000, the Commission issued its decision in *Central Maine Power Company, Request for Approval of Alternative Rate Plan (Post Merger) "ARP 2000"*, Docket No. 99-666, Order Approving Stipulation (Nov. 16, 2000) (the "ARP 2000 Order"), thereby approving an ARP for CMP. Under the terms of the Commission's Order, ARP 2000 took effect on January 1, 2001 and was set to expire on December 31, 2007.

On May 1, 2007, CMP filed testimony that proposed that the Commission adopt a new 7 year ARP, referred to as ARP 2008, at the conclusion of ARP 2000. As part of its proposal, CMP recommended that current rates not be immediately changed at the conclusion of ARP 2000. CMP also proposed that as part of its ARP 2008 plan it would invest in Automated Meter Infrastructure (AMI) equipment and adopt a Reliability Improvement Program (RIP) to improve service reliability. The Company proposed that, during the term of ARP 2008, distribution rates would be changed annually based on an inflation-based formula.

The case is ongoing still ongoing, with a PUC decision expected in April, 2008.

### **Mergers and Acquisitions**

On August 1, 2007, CMP and Maine Natural Gas filed a petition for approval of the proposed sale of their corporate parent, Energy East Corporation, to Iberdrola, S.A. (Iberdrola), a large utility and energy company headquartered in Spain (Docket No. 2007-355). Under the terms of the proposed sale, Iberdrola would purchase all of Energy East's outstanding shares for \$28.50 per share, or \$4.5 billion. This purchase

price represents approximately a premium of about \$1 billion over Energy East's market value at the time of the sale agreement.

The case was pending at the end of 2007, with all parties working toward an uncontested stipulated agreement. Further action was expected early in 2008.

## **New Transmission Lines**

### **Northeast Reliability Interconnect (NRI)**

A major new BHE transmission line, the Northeast Reliability Interconnect, was completed in 2007 at a final cost estimated to be \$144.5 million. The NRI, which became operational on December 5, 2007, will substantially increase transmission capacity between Maine and New Brunswick. Because the NRI will provide important reliability and economic benefits to the entire ISO-NE region, its costs will be socialized and allocated across the region on a load-share basis.

### **Hancock County**

In October, the PUC authorized BHE to build a new 115 kilovolt (kV) transmission line in Hancock County. The new line will extend 14 miles from Ellsworth to Trenton. BHE consulted with local officials, landowners and other stakeholders before choosing a route for the line. BHE stated that it chose the route with the fewest impacts and that it had resolved virtually all stakeholder concerns. Approximately 68% of the proposed route is adjacent to existing transmission lines in existing right-of-ways. The remaining 32% will require new rights-of-way.

The OPA was the only intervenor in the case. At the request of the PUC, BHE studied additional alternative routes. After three technical conferences, pre-filed testimony by BHE and the OPA, and a bench analysis by the PUC staff, the parties reached a settlement recommending that the PUC approve the line as proposed. The PUC approved the stipulation in October, and construction is expected to be completed in 2008.

### **Saco Area**

Throughout 2007, the PUC continued to process CMP's request to build a double circuit 115kV transmission line in the Saco area. CMP proposed to build the two circuits on single poles that would extend from London Substation in Saco to a new substation near Saco Industrial Park and continuing on to a new substation near the Ross Road in Old Orchard Beach. CMP proposed that the new lines be placed in an existing corridor that would replace existing 34.5kV lines.

Many Saco residents from areas near the proposed route participated in the case, as did the City of Saco. Generally, the residents opposed building the new lines in the corridor because the existing poles are much shorter than the new poles would be – 35-to-40 feet, compared to 65 feet. There were multiple technical conferences throughout 2007 that explored the electrical reliability needs of the area and the



various alternatives available to satisfy those needs. The OPA submitted testimony and the PUC staff presented a bench analysis.

The PUC staff subsequently suggested that its consultant be given access to CMP's computer model and personnel, at CMP's office, for an analysis of a number of alternatives that CMP did not study. CMP agreed, and the intervenors did not object. In November, the staff's consultant submitted a report finding that a need existed for some reliability improvements, and recommending an alternative that was considerably less costly than CMP's original proposal. That alternative included a double circuit transmission line in the same location as proposed by CMP. Initially one circuit would be operated at 115kV and the other at 34.5kV, with the expectation that the second circuit would be upgraded to operate at 115 kV in about 10 years.

CMP is scheduled to respond to the consultant's report in January, 2008, and hearings are planned for late February. The PUC also scheduled a public witness hearing in Saco for January to allow Saco area residents an opportunity to state their views directly to the Commissioners. The PUC is scheduled to decide the matter in early May 2008.

#### Other Proposed Projects

Various other transmission projects in Maine are under consideration. The Maine Power Reliability Project (MPRP) involves a proposed broad scale build out of new transmission in the CMP service area, including project components to improve the reliability of particular areas in the CMP system and to upgrade the 345 kV backbone. The MPRP potentially includes additional 345 kV circuits from Orrington to the greater Portland area and on to the Maine-New Hampshire interface, potentially increasing the capacity to export power to southern New England.

Also under consideration is a transmission project that would interconnect the MPS's system directly to the rest of the Maine and New England transmission grid (the Maine Power Connection, or MPC).<sup>18</sup> In addition to providing additional transfer capability between Maine and New Brunswick, the MPC could provide a more direct path for sales to New England from generation resources in northern Maine and Canada. In addition, both CMP and BHE recently announced transmission project proposals: (1) the Northeast Energy Link (NEL) project, to be developed by BHE and its parent, Emera, consisting of a high voltage D.C. line that would increase transfer capability between New Brunswick and New England; and (2) the Maine-Canada Renewable Highway, described by CMP as transmission to match available renewable resources. Finally, other developers have proposed overland and undersea transmission cables from Maine to Massachusetts – each designed to increase export capability into southern New England.

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<sup>18</sup> Currently, MPS is directly connected only to the New Brunswick system and interchanges between MPS and the rest of Maine and New England must be transmitted across the New Brunswick system.

# MAINE ELECTRICITY SUPPLY RESOURCES

## Resources Serving Maine Customers

The Restructuring Act initially established a 30% resource portfolio standard (RPS) that requires electricity suppliers (including standard offer suppliers) to supply 30% of their Maine load from “eligible resources.” The Act defines eligible resources to be generating units whose capacity does not exceed 100 megawatts and that produce electricity from tidal, fuel cells, solar, wind, geothermal, hydroelectric, biomass, or municipal solid waste in conjunction with recycling, that qualify as small power producers under federal regulations, or that are efficient cogeneration units. During its 2007 session, the Legislature enacted an “Act To Stimulate Demand for Renewable Energy.”<sup>19</sup> The Act adds a requirement that specified percentages of supply must come from “new” renewable resources, which are generally renewable facilities that have an in-service date after September 1, 2005. The percentage requirement starts at one percent in 2008 and increases in annual one-percent increments, up to 10 percent in 2017, unless the PUC suspends the requirement as allowed by the Act. New renewable resources have a capacity limit of 100 MW, except for wind power (which has no limit), and include the following technologies or fuels: fuel cells, tidal power, solar arrays and installations, geothermal installations, hydroelectric generators that meet all state and federal fish passage requirements, or biomass generators including generators fueled by landfill gas.

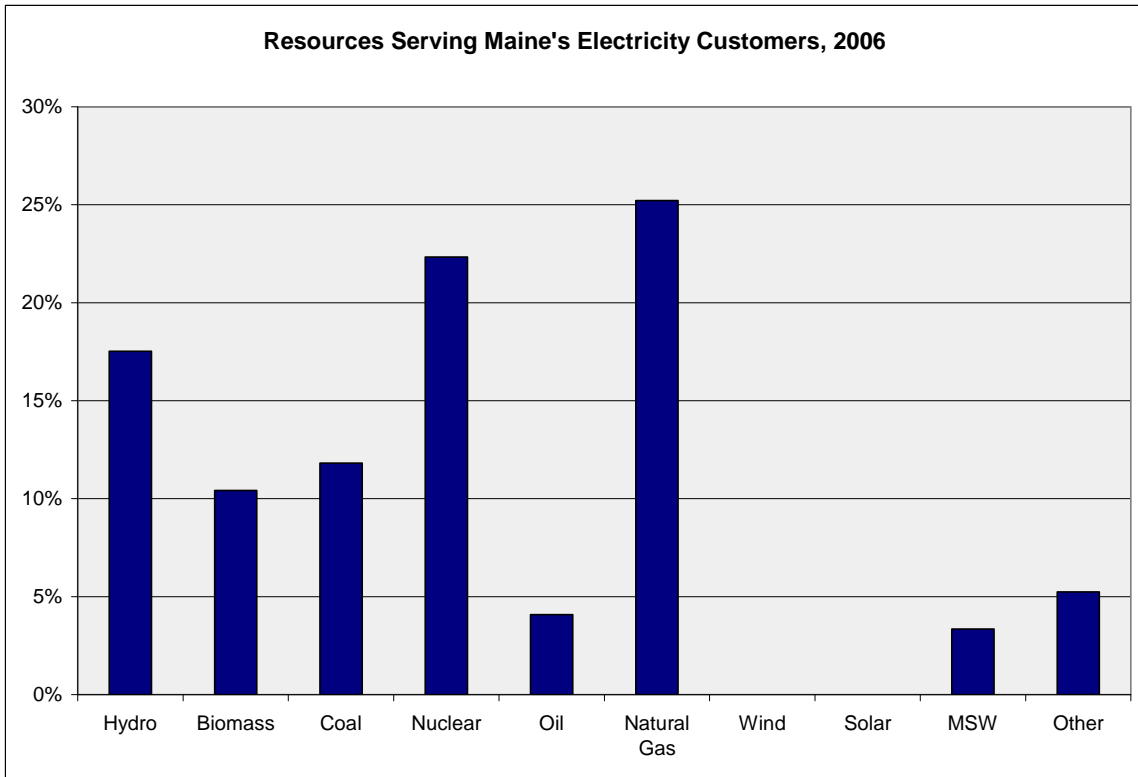
The generation that fulfills the Maine RPS may come from a variety of locations, including Maine, another New England state, or Canada. Suppliers in the ISO-NE territory operate under a “tradable attribute” certificate system known as the Generation Information System (GIS). The GIS allows suppliers to trade electricity attributes (e.g., fuel source) separately from the energy commodity. Suppliers in the ISO-NE area demonstrate compliance with Maine’s portfolio requirements through GIS certificates. This process reduces supplier compliance costs and allows for accurate verification.

Maine’s electricity suppliers complied with the requirement during 2006.<sup>20</sup> The chart on the following page shows the mix of resources that served Maine customers in 2006.

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<sup>19</sup> P.L. 2007, ch. 403 (codified at 35-A M.R.S.A. § 3210(3-A)).

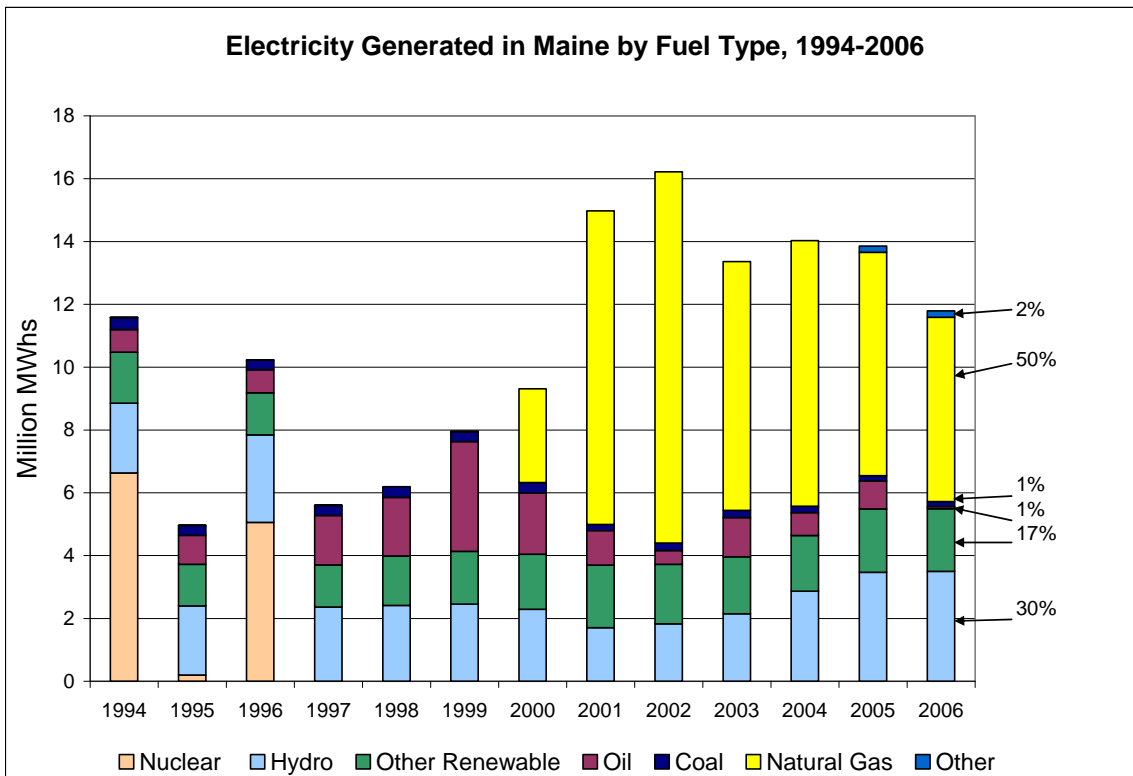
<sup>20</sup> The Commission will receive information about suppliers’ 2007 resource mix and RPS compliance when suppliers file their annual reports in June 2008.



*Note: An additional 620,000 MWh is as yet unreported for 2006. The majority of this balance will be accounted for in the 2008 annual report.*

### **Electricity Generated in Maine**

In recent years, five electric generating plants fueled by natural gas have been built in Maine. These new capacity installations coincided with electric restructuring and the completion of new natural gas transmission facilities within the State. Publicly available information summarizes the resources used in each state to generate electricity (which may in turn be sold in other states), and shows the shift in Maine's generation mix over time. At this time, generation data is not available beyond 2006.



### Uniform Disclosure Labels

The Restructuring Act directs the PUC to ensure that comparative information regarding electricity supply is disseminated to customers. The PUC implemented this directive by designing a uniform information disclosure label that contains a supplier's resource mix and emissions information. Residential and small commercial customer suppliers must provide a disclosure label to their customers quarterly, and suppliers to larger customers must provide the label upon request. Labels for standard offer providers may be found on the PUC's web page at:

[http://www.maine.gov/mpuc/industries/electricity/standard\\_offer/disclosure\\_labels\\_history.html](http://www.maine.gov/mpuc/industries/electricity/standard_offer/disclosure_labels_history.html)

# ENERGY PROGRAMS

In 2002, the Legislature transferred responsibility for administering electricity energy efficiency and conservation programs to the PUC (35-A M.R.S.A. § 3211-A). Programs had historically been administered by utilities.

The law directs the PUC to develop an overall energy conservation strategy and implement cost-effective efficiency initiatives. The law contains other directives on fund allocation, public input, contracts with service providers, program evaluation, and service distribution.

The PUC oversees seven energy conservation programs, all operated under the brand of “Efficiency Maine”, which has become a guiding light for Maine’s efforts to reduce energy use. Paid marketing began in 2005, tripling in 1 year the level of savings the programs achieved.

The conservation programs are: Business, Residential Lighting, Low-Income Appliance Replacement; Building Operator Certification; High-Performance Schools, and; Education and Training.

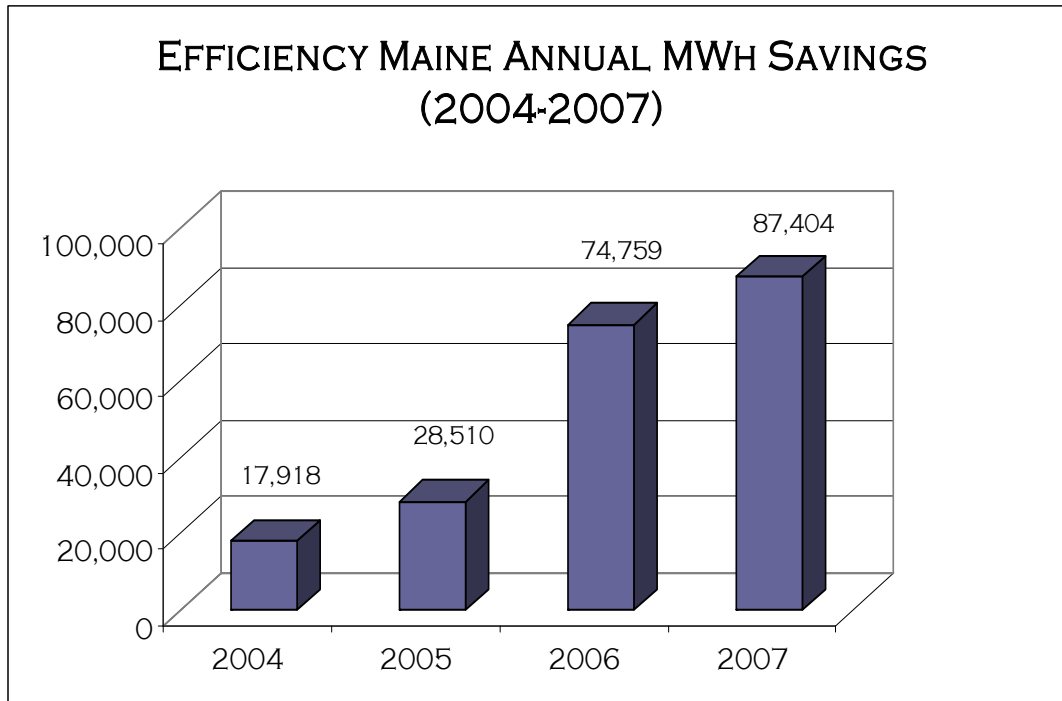
## **Efficiency Maine**

Efficiency Maine is a statewide effort to promote the more efficient use of electricity, help Maine residents and businesses reduce energy costs, and improve Maine’s environment. Efficiency Maine is funded by electricity consumers and administered by the Maine Public Utilities Commission.

Efficiency Maine’s four primary objectives are to:

- Increase consumer awareness of cost-effective options for conserving energy.
- Create more favorable market conditions for the increased use of efficient products and services;
- Promote sustainable economic development and reduced environmental damage.
- Reduce the price of electricity over time for all consumers by achieving reductions in demand for electricity during peak use periods.

Increased consumer awareness of Efficiency Maine and expanded advertising helped the program to grow substantially in 2006 and 2007. Annual energy savings from efficiency technology and techniques incentivized by the PUC in 2007 are estimated at 87,404 Megawatt hours (MWh), with estimated lifetime cost savings to Maine consumers of \$101 million. The growth in program energy savings is displayed below.



During the 2007 program year, the PUC initiated two new energy efficiency programs to subsidize efficiency investments for new commercial and residential construction projects.

The PUC also assumed responsibility for the operation of the “Maine Home Performance” program – initiated as a pilot project by the Office of Energy Independence and Security – which links homeowners to contractors who can assess a structure’s energy efficiency.

More about each of the programs and a detailed annual report on all of Efficiency Maine’s activities can be found online at [www.energymaine.com](http://www.energymaine.com)

### **Biomass Program**

Biodiesel for Maine (BFM) was a collaborative effort between Maine Energy Investment Corporation and the Chewonki Foundation. Funded by the Maine State Energy Program of the Public Utilities Commission (MSEP) and the U.S. Department of Energy, this two-year project sought to encourage instate production of biodiesel by increasing and documenting biodiesel demand. BFM educated large diesel users (such as municipalities, universities and businesses) about biodiesel and asked them to sign non-binding letters of interest to document demand.

BFM’s initial goal was to document between 250,000 to 500,000 gallons of biodiesel demand. Biodiesel for Maine has successfully acquired letters of interest from 45 different organizations representing over 700,000 gallons of current, net biodiesel demand, and an additional 2.5 million gallons of net, future demand. During the grant period, Maine became the first state in New England with commercial biodiesel production. Just in the last two years, six new companies began supplying

Biodiesel. Even with a rapid increase in production and supply, demand is outpacing the growth of this nascent industry.

There are five new production plants proposed, two potential blending depots, and a number of additional suppliers which have indicated interest in this new market.

### **New Energy Initiatives**

In 2007, the Legislature authorized statutory changes to the PUC's Solar Energy Rebate Program. These will allow greater flexibility in setting incentives for solar energy systems and should boost installations of solar thermal systems in Maine. The program provided training and certification to 70 solar system installers in 2007, and issued rebates for 138 solar thermal and electric systems. Lifetime electric energy savings from solar electric systems installed in 2007 are estimated to be 1,036 MWh. Over their lifetime, solar hot water systems installed are expected to save 175,420 gallons of fuel oil, 157,048 gallons of propane and 1433 MWh.

The 123<sup>rd</sup> Legislature transferred administration of the Voluntary Renewable Resources Fund to the PUC. This program is financed by voluntary contributions Mainers make when they pay their electricity bills. In 2007, the PUC developed a competitive bidding process for projects to qualify for funding under the program and in October, granted more than \$360,000 to fund 10 projects from Kittery to Presque Isle.

Solar, wind, and tidal energy projects were funded. The University of Maine at Presque Isle, for instance, received \$50,000 toward the installation of a wind turbine the university estimates will save \$100,000 a year. A private consortium, meanwhile, received almost \$19,000 for a project that aims to revive and learn from a historic tidal power dam on Vinalhaven. And Portland's Lincoln Middle School was awarded \$32,000 toward the installation of photovoltaic systems.

Also in 2007 the PUC initiated the Carbon Free Homes program, which provides Mainers information on simple and effective steps to reduce the "carbon footprint" of their residences. That program is discussed in the Electricity section above.

Finally, working with the Department of Environmental Protection and the state's CFL retailers, the PUC established a recycling program for compact fluorescent lamps (CFLs) at in-store sites around the state. Because they contain trace amounts of mercury, CFLs require simple but specific handling measures. There were 214 recycling sites by the end of 2007, with stores continuing to join on an almost weekly basis. The first-in-the nation program has become an example for other states that hope to follow Maine's lead.

# NATURAL GAS

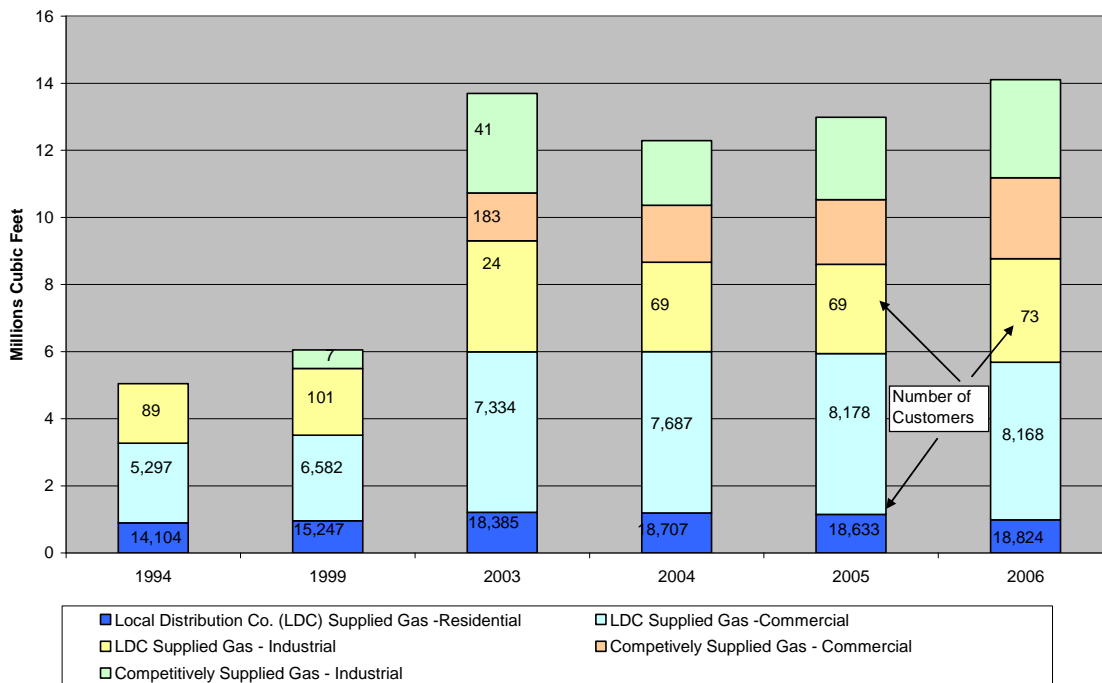
The PUC oversees the safety aspects of intrastate natural gas utilities by actively monitoring the construction of new natural gas facilities in Maine, as well as utility compliance with state and federal safety regulations. The PUC also conducts periodic reviews of rates charged by the state's gas providers, sets appropriate rates, and approves adjustments to the rates based on fluctuations in the cost of gas from season-to-season or even month-to-month.

In addition, the PUC oversees and approves proposed sales, acquisitions or mergers among corporations owning gas utilities doing business in the state. PUC staff also track market conditions and analyze pricing options that can stabilize prices Mainers pay for natural gas.

The number of consumers using natural gas in Maine continued to grow in 2007, with the total consumption of natural gas (excluding electric generation) in Maine hitting a new high of more than 14 million cubic feet.

There are three natural gas local distribution utilities serving Maine. Northern Utilities, Inc. (Northern) serves the south-central area, primarily in greater Portland and Westbrook, as well as Lewiston/Auburn. Northern has served Maine for over 35 years and has approximately 25,000 customers. Two other gas companies began service in 1999. Maine Natural Gas Corporation serves primarily in the Windham, Gorham, Brunswick and Topsham areas. Bangor Gas Company LLC serves the greater Bangor area, including Orono, Brewer and Bucksport.

**Natural Gas Deliveries in Maine (except gas used by electric generators)**



SOURCE: U.S. Energy Information Administration

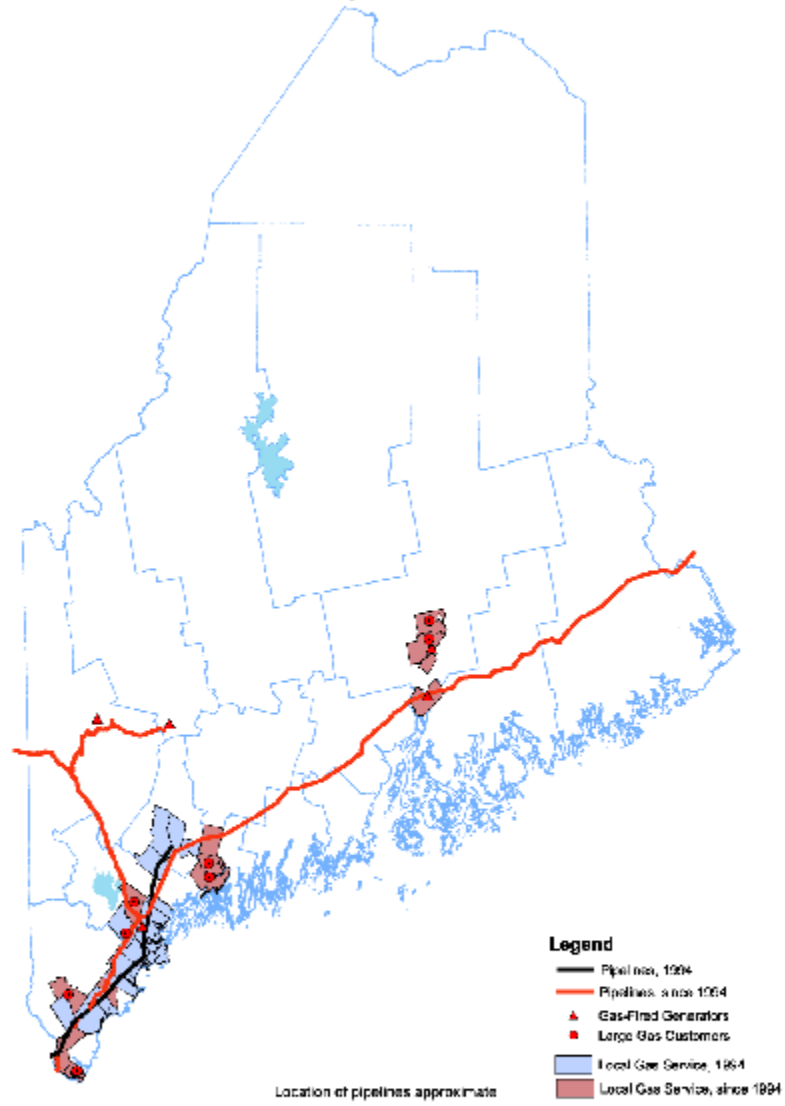


## **Key Events and Issues**

- Natural Gas market prices remained stable but at levels that were above those of last year, ranging from around \$5.40 to \$7.80 per million BTUs. National gas storage levels reached historically high levels in fall 2007.
- In November 2007, the PUC approved Sempra Energy's sale of Bangor Gas Company to Energy West, Inc., a publicly-traded company which owns and operates some 423 miles of pipe lines in Montana and Wyoming serving 34,000 customers. The PUC approved a three-year extension of the company's previous rate plan, ensuring price stability for Bangor Gas customers and stable returns for investors.
- Maine Natural Gas implemented the final phase of its 3-phased base rate increase in November of 2007, resulting in an average residential bill increase of approximately 3% per year. There are no further rate increases scheduled.
- The PUC initiated an investigation of management and safety practices at Northern Utilities, after an unusually high number of incidents that triggered notices of probable violation under gas safety rules. That situation is discussed in the Gas Safety section of this Annual Report.

The map on the following page shows the placement of major natural gas pipelines, local gas company service areas, and the largest natural gas consumers in Maine.

## Natural Gas Pipelines and Service



## **Natural Gas Supplies**

New gas supplies brought through Maine by two interstate pipelines established in 1999 also support five contemporaneously constructed gas-fired electric generation plants located in Westbrook, Bucksport, Veazie, Rumford, and Jay. Together those plants consume over 90% of the natural gas used in Maine and provide 1,600 Megawatts (MW) of electricity to the Northeast.

Increased demand for gas for electric generation in Maine, New England and the nation is outstripping current supplies of natural gas. This has heightened entrepreneurial interest in liquefied natural gas (LNG), and several LNG facilities are proposed along the East and Gulf coasts. Two LNG import terminals proposed for Washington County are under review by the Federal Energy Regulatory Commission and a third was expected to apply in 2008.

The PUC is monitoring those proposals, as well as Maritimes & Northeast Pipeline's Phase IV expansion, which passed the half-way point in 2007. Three of five planned new compressor stations have now come on line, and the improvements to the pipeline system will ultimately double its capacity. The expansion is designed to bring LNG imports from a facility in New Brunswick (Irving's Canaport) to Northeast markets. The company announced late in 2007 that it is soliciting market interest in a fifth expansion.

While interstate facilities such as Maritimes & Northeast may be governed solely by federal authorities, the PUC works with state and federal agencies involved in the construction and regulation of these entities to ensure appropriate and adequate, but not onerous, public review of issues that fall within the PUC's purview. Those may include rates interstate pipeline companies charge Maine shippers and consumers, service terms, regional energy policy directives, and safety issues.

PUC staff continued in 2007 to participate in weekly New England Governor's Conference Summer and Winter Fuels Monitoring Calls. The PUC also contributes to the Maine Emergency Management Agency's efforts to ensure adequate preparation by utilities that are vulnerable to winter fuel shortages, lost work force due to a pandemic, the threat of terrorist attack, or drastic price spikes.

## **Competitive Gas Supply**

Since 1999, commercial and industrial customers have been free to enter into competitive gas supply arrangements, taking delivery-service only from the utility that operates local distribution pipelines. By late 2007, more than 1,000 large commercial and industrial customers in Maine obtained gas from a competitive supplier rather than their distribution utility. More than 13 percent of customers who receive delivery from Northern Utilities' distribution network bought their gas from other suppliers, and by volume about 45 percent of all of Northern's deliveries originated with other suppliers.

For most of 2007, there were four competitive suppliers utilizing Northern's distribution system, including Northern. Customers who purchase gas from a competitive supplier also pay a surcharge (known as capacity assignment) to Northern to help defray Northern's costs of reserving capacity on interstate pipelines that feed Northern's system.

The PUC will continue to monitor the progress that gas supply competition is making in Maine and the region and the effect of Maine's regulatory policies on these markets. Gas suppliers have shown little interest so far in extending choice to residential consumers in Maine or the region.

### **Gas Service Quality Issues**

In recent years, several of Maine's gas utilities have been absorbed by large regional energy corporations, as when Northern Utilities was bought out by NiSource in 2000. The PUC actively monitors customer service and safety standards to ensure adequate performance by the merged companies. To offset cost-cutting pressures that the parent entity might place on the local utility subsidiary, the PUC develops incentive mechanisms, conditions on reorganizations, and other methods that aim to improve or maintain customer service and safety standards.

A 2003 management audit on service quality issues at Northern led to a performance incentive plan that became effective January 1, 2004. The Service Quality Plan (SQP) requires Northern to maintain specified levels of service performance for eleven measures or be subject to monetary penalty.

In 2007, following a number of serious leak incidents on Northern's system, the Commissioners opened an investigation and management audit of the company's safety practices to determine whether there are systemic issues that could jeopardize safe operation of the gas distribution system. For more information, see the Gas Safety section of this report below.

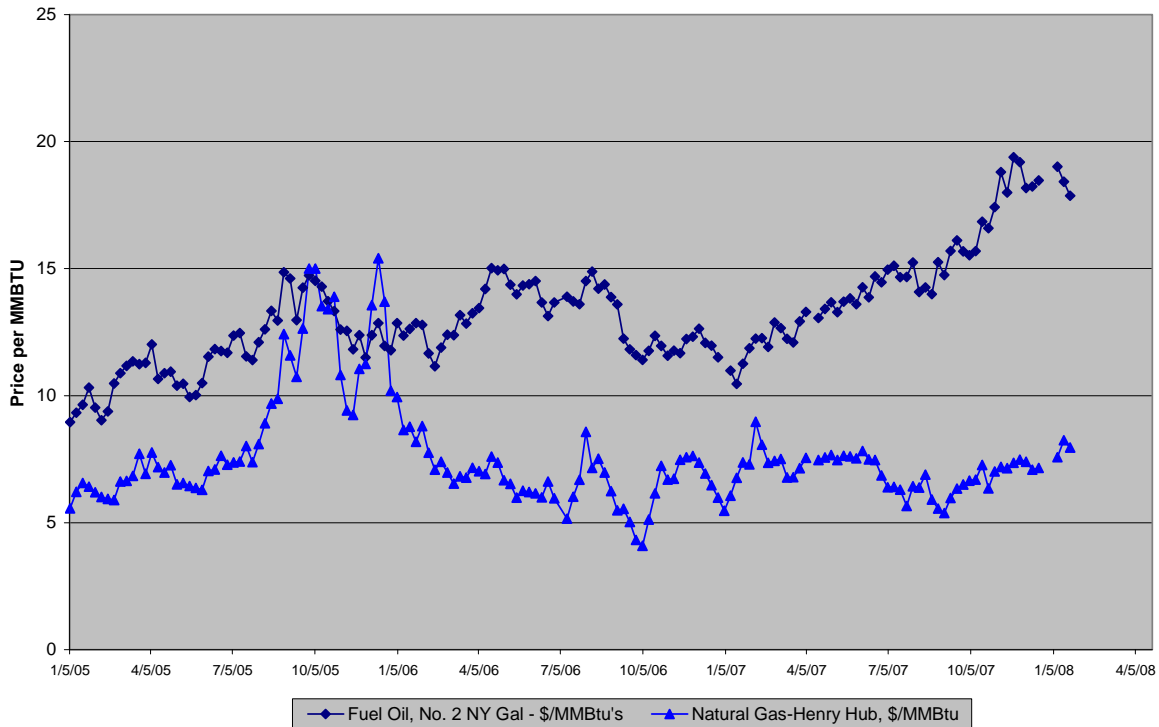
In 2008, PUC staff, Northern, and the OPA expect to complete discussions of a possible credit to customers as a penalty for meter-reading service deficiencies from 2004 through 2006. Conclusion of the discussions may also include an investment in automated meter-reading technology for which the total cost would be born by Northern shareholders, with no effect on customer rates.

In 2008, the PUC also expects to complete an investigation into Northern's Integrated Resource Plan and gas portfolio procurement practices for its Maine and New Hampshire Divisions. The case is being pursued jointly with New Hampshire regulators to facilitate consistent policies between neighboring states that share a service utility. The PUC will work with Northern and New Hampshire counterparts to develop a reasonable regulatory road map for Northern's future gas procurement. The investigation includes consideration of whether Northern's supply commitments are excessive.

### **Consumer Prices**

In 2006, spot market prices for natural gas ranged from approximately \$4.00 to \$8.50 per MMBtu, averaging approximately \$6.50 for the year. In 2007, prices ranged from approximately \$5.40 to \$7.80 and hovered around \$7.25 for much of the year. Historically high national storage levels helped to stabilize natural gas prices. While decreased volatility is welcome news, gas prices still are susceptible to spiking if extreme weather events or other supply disruptions occur. The chart below shows the effect Hurricanes Rita and Katrina had on the market in late 2005 and early 2006, and the subsequent leveling-off of prices

### Spot Prices Settled



The chart above also demonstrates the relative economy of natural gas when compared to current heating oil prices. This comports with reports that, in 2007, Maine residents appeared to be turning to natural gas as an economical heating fuel. By October, Northern reported 104 residential customers in Maine who converted to natural gas from other systems. This compares to only 36 conversions during the same period the previous year.

The PUC will continue to actively monitor regional market conditions and implement gas utility policies and pricing programs to assist consumers in mitigating the effects of adverse market conditions.

Northern's limited use of financial hedging instruments and Maine Natural Gas's more proactive hedging and gas purchasing strategies did continue to help stabilize gas commodity rates for the customers of those utilities again during the winter of 2006-2007. Those strategies are expected to benefit Maine consumers again in the winter of 2007-2008.

The PUC's annual review of monthly cost-of-gas reports by Bangor Gas and Maine Natural Gas showed that this rate-setting mechanism continued to help maintain gas prices for Maine consumers that track market rates. The program also succeeded in reducing the companies' over-collection or under-collection of consumer revenues needed to pay for the gas supply.

## Conservation Programs

In 2005, burdensome prices prompted an intensified PUC focus on conservation programs and low-income pricing options to supplant existing hedging strategies, budget plans, and fixed-price billing options for customers of Maine's gas utilities.

In 2007, Northern built on a conservation program financed by a surcharge approved by the PUC and authorized by the Legislature. That surcharge was adjusted downwards in 2007 to just over 2 cents per 100 cubic feet for residential customers, or \$2.41 per month on the average monthly residential gas bill. The program provides rebates to residential and commercial gas customers who install high-efficiency heating or water heating equipment, ENERGY STAR programmable thermostats or windows, and commercial and industrial infrared heating units or food service equipment. Northern will continue to offer these rebates during the winter of 2007-2008.

Northern also offered comprehensive weatherization for eligible residential low-income heating customers, in conjunction with Community Action Program (CAP) agencies. Northern offers to residential heating customers a rebate of up to \$25 for weatherization and water-usage reduction materials purchased and installed by the customer. Northern spent \$130,000 on the program between May of 2006 and April of 2007 to serve 445 participants. The installations will save consumers a similar amount in offset energy costs and will provide total lifetime energy savings equivalent to the energy needed to provide heat and hot water for 200 homes a year. Increased participation in the program is expected in 2008.

# **GAS SAFETY**

Through its Gas Safety Program, the PUC reviews, monitors and inspects the operations of Maine's three natural gas distribution utilities -- Northern Utilities, Bangor Gas, and Maine Natural Gas – as well as certain propane facilities.

In 2007, 97 audits were conducted to confirm proper operating and maintenance procedures as well as proper design and installation of pipeline facilities. These inspections were conducted to determine and enforce compliance with federal and state gas safety regulations adopted under Chapter 420 of the PUC's rules.

PUC staff also conducted 378 compliance inspections of propane gas distribution systems serving multi-unit housing or commercial buildings and complexes. At this point, 847 jurisdictional propane gas facilities have been identified in Maine, operated by 50 distributors.

In general, existing and newly-installed gas facilities inspected during 2007 were found to be up to code. However, during 2006 and 2007 there were several gas incidents associated with the Northern system which resulted in evacuations, electric and gas service outages, and elevated public concern. Those included gas-induced structure fires in Saco, a house explosion in South Portland, and a significant gas leak in Cape Elizabeth.

Fortunately, no injuries resulted from these incidents. However, because of the serious nature of the incidents, the PUC issued several Notices of Probable Violation (NOPV) to Northern, pursuant to gas safety rules; the first was issued late in 2006 and two more were issued in 2007. These NOPVs were the first to be issued under gas safety rules to any Maine gas utility in at least a decade. The NOPVs are in various stages of PUC review. In addition, on October 9 2007, the PUC initiated a broad investigation (Docket No. 2007-529) into whether recent accidents and incidents were an indication that Northern may not be providing "safe, reasonable, and adequate service to customers in Maine," as required by state law.

By the end of 2007, pursuant to a PUC Order in Docket 2000-322, Northern completed the replacement of more than 80% of its cast iron piping in the Lewiston-Auburn area with more reliable plastic piping. When this project reaches completion in 2008, 64 miles of cast iron pipes will have been replaced. After the Lewiston project is done, Northern will provide an assessment of the costs and benefits of deploying a similar replacement program in the Portland area.

Looking forward to 2008, the PUC's Gas Safety Program will continue to focus on compliance with all gas safety regulations, including new regulations governing the management of pipe integrity that are anticipated from the federal Pipeline and Hazardous Materials Safety Administration in 2008.

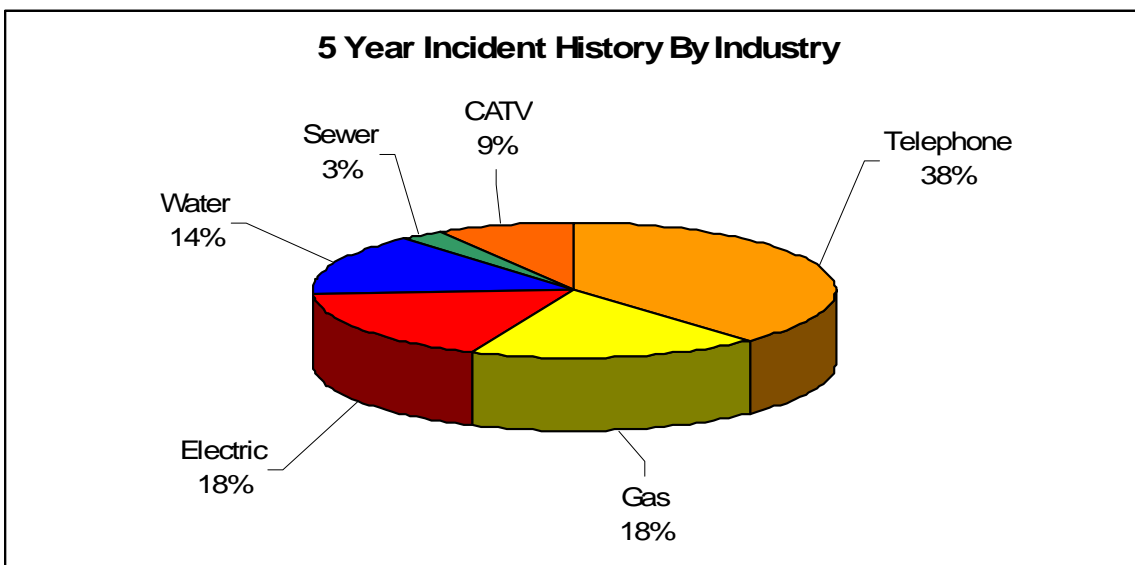
# DIG SAFE

## Underground Facility Damage Prevention

The PUC enforces Maine’s underground facilities damage protection law – the so-called “Dig Safe” Law (23 M.R.S.A. § 3360-A) – which has been in effect for more than two decades. The law’s purpose is to prevent damage to underground utility facilities, such as gas lines, water lines, or underground telecommunications and electric equipment, from occurring in order to avoid the associated safety hazards, service interruptions, and unnecessary costs.

Under the PUC’s damage prevention rule, Chapter 895, any person or company planning an excavation near underground facilities must follow certain safety procedures, and must notify the facility owners of the planned excavation. Large utilities can be notified through the inter-state Dig Safe Systems Inc., program, by calling 1-800-DIGSAFE, or online at [www.digsafe.com](http://www.digsafe.com). Municipal utilities and other non-member facility operators can be located through the PUC’s OKTODIG program by calling 1-800 OKTODIG or online at [www.oktodig.com](http://www.oktodig.com). The utilities have the obligation to mark their facilities in accordance with the specifications set forth in Maine law and PUC rules, so that excavators will be sufficiently aware of their location when they are digging. The PUC has developed enforcement procedures, including the assessment of fines, training programs, and public education materials to improve awareness and effectiveness of the law.

The chart below shows relative dig-safe related incidents by industry during the 5 year period 2003 through 2007. As the chart indicates, most incidents involve underground telephone facilities, followed by electric and natural gas facilities.





The table below provides additional detail about the PUC's enforcement activities over the same five-year period.

	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007*</b>
Reported Incidents By Industry Type	427	419	382	447	385
Electric	72	71	58	99	67
Gas	86	71	93	62	62
Telecomm	151	174	154	176	133
Water	88	57	40	58	54
Sewer	15	18	9	6	10
CATV	15	28	28	46	59
NOPVs Issued**	284	239	219	329	307
Penalties with NOPVs	\$139,500	\$ 114,750	\$ 109,000	\$153,000	\$161,250
Penalties Waived*** With Training	\$ 29,500	\$ 34,500	\$ 31,500	\$ 42,000	\$ 39,500
Penalties Not Waived	\$110,000	\$ 80,250	\$ 77,500	\$ 111,000	\$122,000
Excavator Violations	155	198	182	216	180
Operator Violations	163	169	140	161	127

\*Includes outstanding damage incidents under investigation

\*\* Notices of Probable Violation. Recipients of NOPVs issued by Dig Safe staff may negotiate a settlement to be approved by the Commissioners. If settlement discussions are not successful, the Commissioners may initiate an adjudicatory investigation that can result in penalties.

\*\*\* When warranted, the PUC may waive penalties but require training for the recipients of NOPVs.

## Public Awareness, Training & Education

The PUC continues to work with utilities, excavators, the regional Dig Safe organization, and private property owners to promote education and training about how to reduce damage incidents involving underground facilities and ensure the safety of residents and property located near those facilities.

In March 2007, the PUC completed its fourth season of working directly with the Managing Underground Safety Team (MUST), which includes Maine Dig Safe members, excavating contractors and underground facility location workers. Training seminars were held in Presque Isle, Bangor, Auburn, Rockland and Saco. Discussions focused on safe work practices around underground facilities, compliant excavation site and underground facility markings, the design of various underground facilities and the risks involved when proper damage prevention steps are not taken.

The PUC also sponsored 46 certification and/or informational sessions at various businesses, organizations and the PUC offices. As the chart below demonstrates, the PUC remains committed to providing training and education for any individual or organization seeking assistance in understanding the roles and responsibilities of excavators, facility operators, the regional Dig Safe organization and the PUC.

	2004	2005	2006	2007
MPUC Training Sessions	20	31	36	46
Attendees	905	1139	1170	1279

## Legislation and Rulemaking

In 2006, the Legislature approved the PUC's recommended changes to the damage prevention law to require that all excavators provide their own Dig Safe notifications, rather than rely on their general contractor to do so. That requirement was waived in 2007, but became effective on January 1, 2008.

In 2007, the PUC also granted a compliance waiver for components of Chapter 895 that would affect mapping requirements. The waiver accommodated the development by the regional Dig Safe organization of GIS mapping capabilities needed to comply with the changes. Work was on schedule to complete and activate the new mapping system by January 1, 2008.

# EMERGENCY SERVICES COMMUNICATION BUREAU

The Emergency Services Communication Bureau (ESCB) manages the statewide Enhanced 9-1-1 (E9-1-1). E9-1-1 is an incomparable public safety tool that enables timely and accurate emergency response to a caller's request for help, by displaying the caller's location to the call taker at a Public Safety Answering Point, also known as a PSAP. The Legislature assigned responsibility for the ESCB to the PUC in 2003, and the effort to fully integrate the ESCB into the PUC's organizational structure was completed in 2007.

The transition was capped in December, when the ESCB physically relocated to the PUC's main offices on State Street in Augusta -- with the exception of the training unit, which will be maintained in Vassalboro at the Maine Criminal Justice Training Academy facility.

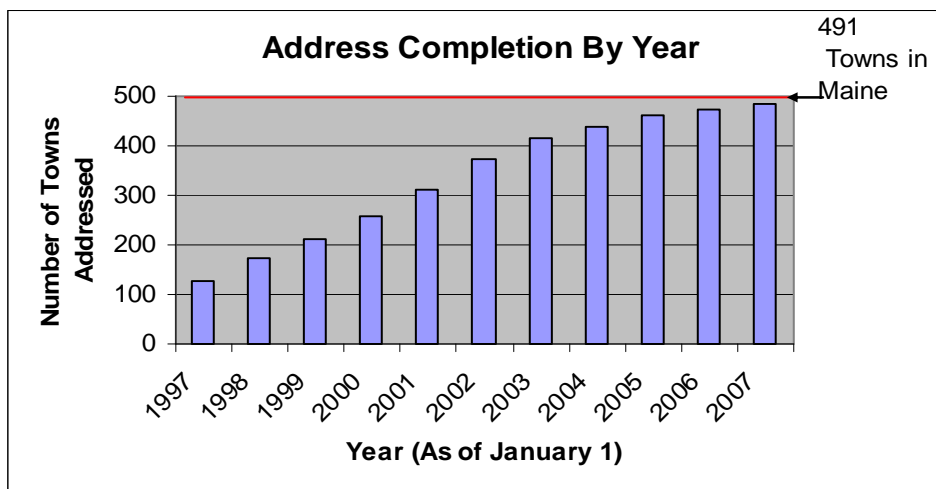
Also in 2007, the PUC completed a 3 year project directed by the Legislature to reduce the number of PSAPs in Maine from 48 to fewer than 27.

## Addressing

Street addressing systems allow PSAPs to automatically locate the E9-1-1 caller and respond to emergencies quickly and efficiently. It is the single most important public safety benefit of E9-1-1.

Virtually all Maine towns have now completed addressing updates. Of the eight municipalities remaining (out of 491 towns), most are small and will still require intensive one-on-one assistance in 2008 to complete the task. There are also 47 townships that have not yet provided E9-1-1 compliant addresses. These two groups represent about 8,000 people without E9-1-1 addresses.

In addition, there are 12 towns that historically had compliant street addressing but have not completed updated address ranges necessary to support mapping in the PSAP program. During 2007, the ESCB provided technical support to a number of towns to ensure the maximum benefit of the E9-1-1. The ESCB will continue the assistance in 2008.



## Public Safety Answering Point (PSAP) Consolidation

In 2003, the Legislature enacted a new law, 25 M.R.S.A. § 2926 (2-A) requiring that Maine's 47 PSAPs be consolidated, to the extent possible, into between 16 and 24 PSAP's. The effort required extensive work in the following years, including rulemakings, stakeholder meetings, and multiple hearings to determine the designation of centralized PSAPs.

In 2007, the City of Waterville proposed legislation to become a second PSAP in Kennebec County region. This legislation did not pass and in late 2007 the PUC approved the Central Maine Regional Communications Center as the sole designated PSAP for the region. The PUC followed by approving South Portland's and Cape Elizabeth's decisions to join the City of Portland PSAP and designating Scarborough as the fifth PSAP in Cumberland County. In 2007, the PUC also approved the request of the City of Waterville to use Somerset County as its PSAP.

The PUC completed the consolidation work in 2007. E9-1-1 calls are answered by a PSAP call taker and then dispatched or transferred to the appropriate dispatch agency. The table below illustrates PSAP locations as of December 31, 2007.

PSAP Locations 2007			
1	Androscoggin SO	14	Lincoln Cty RCC
2	Bangor PD	15	Oxford Cty RCC
3	Biddeford PD	16	Penobscot RCC
4	Brunswick PD	17	Piscataquis Cty SO
5	CMRCC	18	Portland PD
6	Cumberland Cty RCC	19	Sagadahoc Cty
7	DPS-Gray	20	Sanford PD
8	DPS-Houlton	21	Scarborough PD
9	DPS-Orono	22	Somerset Cty SO
10	Franklin Cty SO	23	Waldo Cty SO
11	Hancock Cty RCC	24	Washington Cty SO
12	Knox Cty RCC	25	Westbrook PD
13	Lew/Aub 911 RCC	26	York PD

## **E9-1-1 Service Contract**

In 2007, manufacturers discontinued some PSAP equipment and emergency communications technology continued to evolve, requiring significant new investments in hardware, software, and other infrastructure at the 26 PSAP locations. Those upgrades should be completed by February 2008. At the same time, new federal regulations were enacted governing the functionality of wireless mapping and Voice over Internet Protocol (VoIP) services.

Those circumstances, combined with the overall challenges of consolidation, led the PUC to extend by 5 years an existing contract with Verizon as the E9-1-1 service provider.

## **PSAP Training Requirements**

Since its inception, the ESCB has trained over 1,500 new PSAP call taker/dispatchers, supervisors, and system administrators in 9-1-1 technology. However, as technology advances, the training required for PSAP call takers must also change.

In 2007, the PUC offered a new, 4 hour specialized course in utilization of communications devices for the deaf and hard of hearing, (commonly called "TTY," or teletypewriter). The trainings covered Voice-Carryover (for callers that can speak but not hear) and Hearing Carry-over (for callers that can hear but not speak). VoIP's penetration into the marketplace poses a challenge for training call takers in the proper handling of calls that originate from a computer; and new protocols will be added to the training curriculum in 2008.

Initial training for newly-hired PSAP call takers consists of a two-day equipment and certification course, which must be completed within 90 days of assignment. The ESCB is delivering a new training curriculum to transition previously trained call takers to new technology being installed state-wide. The PSAP call taker transition course in technology is a 1 day session, with PSAP system administrators completing an additional 2 day advanced course in system administration.

During the spring of 2007, the PUC initiated Docket No. 2006-621 to amend Chapter 1 of the ESCB's rules which govern PSAP staff training. The amended rule developed new training standards for all call takers and dispatchers and requires a basic training course for all dispatchers, newly-hired after January 2008. Dispatchers must also continue their education with a minimum of 12 hours of approved courses annually to retain certification. The new rules also enhance the identification of and response to TTY calls. All PSAP call takers now must make periodic TTY test calls. PSAPs must regularly check all essential equipment, including TTY functionality and keep records of such test calls and checks, subject to review by the ESCB upon request.

The ESCB continues to host specialized certification courses in Emergency Medical Dispatch (EMD) techniques. Call takers are trained in EMD protocols for coaching callers in managing medical emergencies while emergency responders are in route. State law requires EMD training for all PSAP call takers.

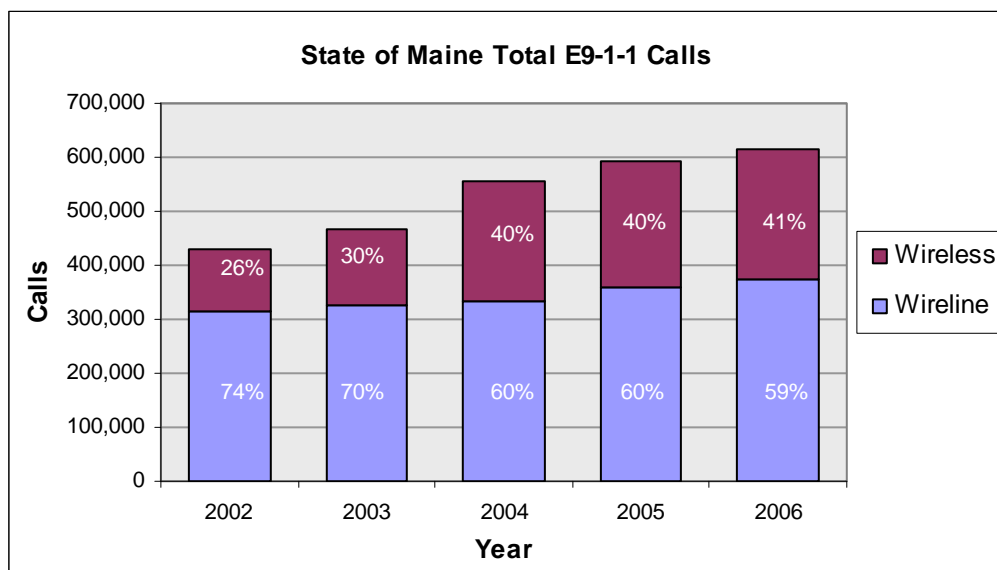
The ESCB and Emergency Medical Service (EMS), a bureau of the Department of Public Safety, are working together to expand training and certification opportunities. In 2008, EMS is expected to select a single state EMD protocol and training curriculum through a competitive RFP process.

## PSAP Wireless Activation Phase II

Providing accurate E9-1-1 location information for wireless subscribers has become increasingly important in Maine. The following graph shows the dramatic increase in cellular E9-1-1 calls over the previous five years. By contrast, there has been very little change in the number of wireline E9-1-1 calls for help.

Phase I of the FCC's wireless activation rules required providers to enable call takers to see the location of cell-towers that relay an E9-1-1 call, as well as the call back number for the cell phone in question. Phase II additionally requires provision of the caller's location, typically in the form of latitude and longitude coordinates. By the end of 2007, all wireless service providers in Maine were Phase 1 and II compliant.

As part of the PSAP equipment upgrade, the ESCB is installing mapping-location software at all PSAPs. The latitude and longitude of the Phase II call is automatically plotted by this mapping software solution. This information is essential for timely emergency response to the caller's request for help.



## Database Quality Efforts

The ESCB began a major project in March 2004 to update addressing database records, with the help of Verizon database management staff and the Maine Office of Geographic Information Systems (MEGIS). The goal is to ensure that records kept by local exchange carriers, municipalities, and the E9-1-1 system match up. By the end of 2007, the number of matched records in the database had risen to 97 percent. At the same time, MEGIS used the information to update community maps for wireless E9-1-1 deployments. This project will continue in 2008.

The ESCB has had difficulty establishing the accuracy of some telephone companies' records within the E9-1-1 database. Without an accurate E9-1-1 database,

the system's public safety benefits are significantly diminished. In 2007, the PUC adopted a ESCB new rule, Chapter 2, to clarify the companies' responsibilities, and the ESCB has worked successfully with individual companies to increase the accuracy of the E9-1-1 database.

### **ECSB Public Access and Communication**

The PUC engages in a strong effort to keep the public safety community and general public informed. In 2007, the ESCB's website was redesigned and expanded to include many new features, including information on using VoIP for E9-1-1 calls, as well as a calendar of call taker and dispatcher training opportunities.

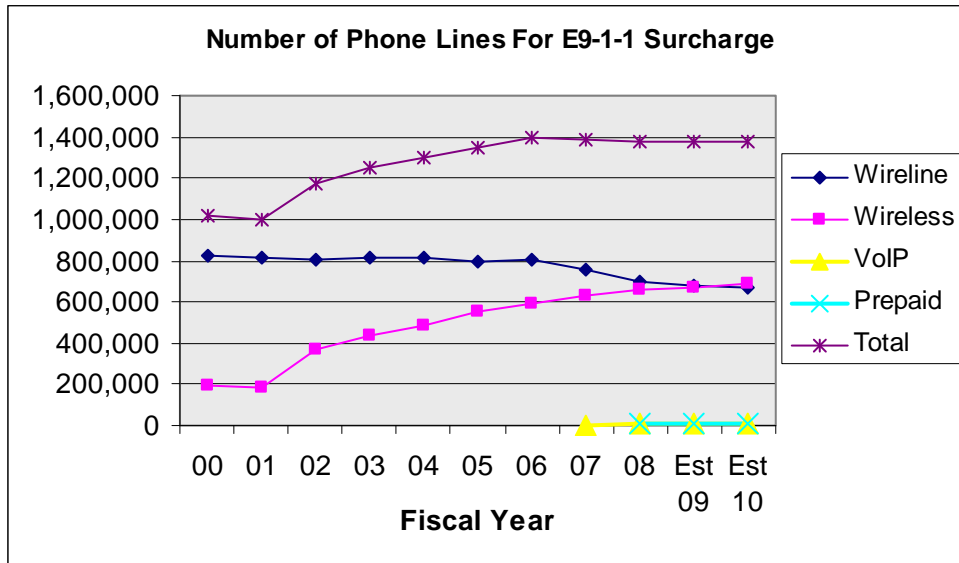
The ESCB also continued its education program to enhance public awareness of the availability of E9-1-1 and to ensure proper use of the system by creating a new brochure "How to Use Maine's New E9-1-1 System". The brochure was distributed by the ESCB and by PSAPs; it is also available online at [www.maine911.com](http://www.maine911.com).

The ESCB is advised and assisted by a 17-member advisory council representing a broad spectrum of public safety and public policy interests. The ESCB meets regularly with the Maine Chiefs of Police Association, Maine Sheriffs Association, Maine Fire Chiefs Association, Emergency Medical Services Providers, County Emergency Management Agency directors, and the Maine Division of Deafness Advisory Council to ensure a strong liaison with the public safety community and other stakeholders. The ESCB also regularly hosts and facilitates discussion group sessions with PSAP managers to inform them of changes to laws, regulation, rules and emerging technology, and to solicit input on future goals and objectives.

### **Program Funding/Surcharge Recommendation**

Surcharge revenue is held in a dedicated, interest-bearing account and is tracked through the State computerized accounting system.

Absent unexpected costs, the PUC believes that the current surcharge level of \$.50 a month will produce sufficient revenues, when combined with an existing E9-1-1 fund balance, to finance the program through FY12.



### Implementing New Legislation

In 2007, the Legislature enacted P.L. 2007, Ch. 226, which requires the PUC to develop a rule to establish requirements for the provision of “E9-1-1 access-only service,” defined as E9-1-1 access from residences when telephone service has been otherwise suspended or disconnected. The law requires that the PUC determine such issues as the conditions under which E9-1-1 access-only service would be provided, the duration of such service, and liability provisions associated with its provision. To carry out this directive, the PUC initiated Docket No. 2007-459 and provisionally adopted Chapter 3, the so-called “soft dialtone” rule. The rule will be considered by the Legislature during 2008.



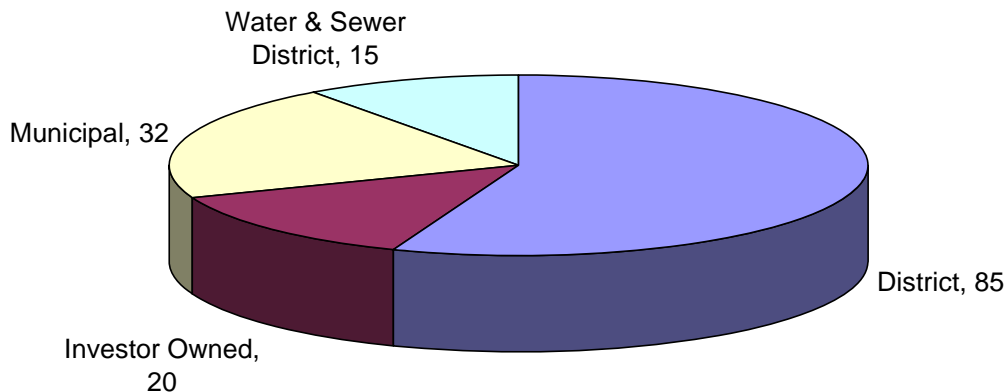
# WATER

There are approximately 152 water utilities in Maine. Their primary purpose is to supply water for fire protection and clean drinking water to customers. All water utilities fall into three categories: water district, water department, and water company.

A water district is a quasi-municipal entity that is usually run by an independent, elected or appointed board of trustees. A water department is an entirely municipal organization governed by the locally elected government. Water companies are privately owned and usually overseen by a board of directors chosen by shareholders. Water departments and districts are non-profit entities, while water companies are run for profit.

The PUC regulates water utilities to ensure safe supply, as well as just and reasonable rates. The PUC oversees rates, revenue requirements, main extensions and service line issues, as well as other facility maintenance and construction projects.

## Water Utilities



Rates charged by water utilities in Maine ranged in 2007 from a low of \$17 per 1,200 cubic feet, to \$210 per 1,200 cubic feet, with a state-wide average of \$59.20 per 1,200 cubic foot.

During 2007, the PUC continued to provide guidance, upon request, regarding the requirements that utilities must meet when making filings at the PUC, as well as on various technical matters. PUC staff also assisted the Maine Rural Water Association in their work with small water utilities on regulatory issues. The PUC also provided assistance on technical and regulatory matters to municipal governments, customers,

and the general public. Finally, PUC staff assisted Maine water associations at several training seminars during the year.

During 2007, 26 water utilities submitted rate changes for approval. Three of these rate cases are still waiting for statutory deadlines to pass. The PUC allowed rate increases for 13 of the water districts and departments in 2007, and these cases did not involve opening an investigation as there were no objections to the requested increase. Another five cases, submitted by four privately-owned water utilities and one consumer-owned utility, were investigated, due to the type of rate case that was submitted. The parties -- the utility in question, the Office of the Public Advocate, and individual customers -- reached settlement in two cases. The other three cases will be completed in 2008.

The settled cases both involved Aqua Maine, Inc: Hartland Division (Docket No. 2007-353) and; Aqua Maine, Inc. Kezar Falls Division (Docket No. 2007-354). The pending cases involving privately-owned water utilities were Biddeford & Saco Water Company (Docket No. 2007-520), and Machias Water Company (Docket No. 2007-612). The pending case involving a consumer-owned water utility concerned Buckfield Village Corp. (Docket No. 2007-552).

Although increased operating costs for items such as chemicals, fuel and insurance were a primary reason for the increased rates, the PUC noted that a portion of most rate increase proposals were a response to declining sales. Water consumers petitioned for PUC review of five rate cases, and the PUC opened investigations. One case resulted in a stipulation, one stipulation was pending for PUC review and the remaining four investigations are expected to be completed in 2008, as detailed below.

- Passamaquoddy Water District - Docket No. 2007-338 -- proposed stipulation awaiting deliberations.
- Hampden Water District - Docket No. 2007-438 -- pending
- Howland Water Department -- Docket No. 2007-539 -- pending
- Moscow Water District -- Docket No. 2007-530 -- pending

During 2007, the PUC completed an investigation that began in 2006 of rates charged by the Fryeburg Water Company to ensure that they were not excessive. The investigation resulted in a settlement among the parties, which was approved by the PUC, allowing for a rate increase in 2007 for this utility.

The PUC also completed an investigation initiated to determine if Pine Springs Road and Water in Shapleigh met the criteria to be classified as a regulated water utility. Pine Springs had been serving consumers in a residential development without PUC oversight: a consumer call to the CAD led to an investigation, Docket No. 2006-534. In 2007, the PUC found that the company's activities were such that it should be considered to be a regulated utility, and Pine Springs filed its initial rates in August.

In 2007, the PUC was also involved in a rulemaking undertaken by the Department of Environmental Protection regarding the sustainability of water resources. The rule as initially proposed would limit the amount of water that users

can take from surface water resources. In late 2006, the PUC opened Docket No. 2006-145, an inquiry into the rule's potential fiscal impact on water utilities and consumers. In 2007, the PUC issued a final order in this inquiry, agreeing to work with the utilities and other state agencies to review specific plans for water withdrawals as necessary.

# UTILITY INFRASTRUCTURE SECURITY

Significant sectors of the 'critical infrastructures' identified nationally for special protection related to security fall within the PUC's jurisdiction: electric power, natural gas, telecommunications, and drinking water.

The utilities have primary responsibility to secure their infrastructure, but the PUC collaborates on security issues with utilities, industry organizations, federal agencies, other state agencies such as the Maine Emergency Management Agency (MEMA) and Maine State Police, and county and local emergency management officials.

Since the terrorist attacks of September 2001, these facilities have been the focus of new attention and substantial planning efforts aimed at minimizing their vulnerability to attack. In addition, related efforts provide planning and support for natural disasters or other major emergencies.

## Security Challenges

During 2007, the PUC continued to address utility infrastructure security issues, including various factors that make the effort particularly challenging:

- Utility infrastructure is usually highly visible and thus not a hidden target.
- Utilities increasingly use electronic technology, including the Internet, to monitor and control their facilities. The Internet is far from secure and is accessible globally.
- High-tech approaches are increasing the interdependence among utility services.
- To minimize inadvertent or unnecessary release of sensitive information about critical infrastructure, some federal agencies and utilities restrict information flow to the states, complicating state and local efforts to plan for and respond to an incident that affects local infrastructure.

The PUC's overall security goal remains that, even in times of extreme or unanticipated emergency, utility facilities and services will continue to be safe, reasonable, and adequate to meet Maine's needs.

## **Copper Theft**

In 2007, there was a new security challenge for utilities in Maine and other states: copper theft. Electric transmission and distribution utilities in Maine and throughout the country were plagued by a rash of thefts, as thieves tore copper grounding wire from substations, took coils from trucks, and even stripped wire straight from roadside poles.

Losses mounted into the tens of thousands of dollars. More importantly, thefts and attempted thefts posed a serious danger to the public, utility employees, and the thieves themselves. Over the last 2 years more than one substation perimeter became “energized” after a theft, exposing utility employees and the public to potentially deadly levels of electric current.

In late 2006, the PUC responded to the problem by opening Docket No. 2006-564 to inventory critical infrastructure, track security measures taken by the utilities, and catalogue the thefts themselves.

The PUC worked with the utilities, Maine State Police and worker unions to mount a public awareness campaign. No one, fortunately, has been injured so far in Maine, but the PUC will continue to closely monitor utility efforts to secure their facilities against copper theft.

## **Emergency Planning**

In 2007, the PUC participated in several other emergency planning and improvement exercises related to potentially large-scale challenges to utility infrastructure and services.

Together with the Governor’s Director of Energy Independence, the PUC participates in a secure emergency notification system established by the U.S. Department of Energy in the event of national energy emergencies. A PUC Staff member has been designated to work with key Federal Communications Commission officials during any widespread impairment of the telecommunications system.

Under an Executive Order of the Governor, the PUC has designated staff to serve on the state’s Emergency Response Team (ERT) to advise the Governor and MEMA on utility-related issues, and is developing an advanced capability to use detailed geographic information system (GIS) maps and data about key utility infrastructure to offer support during emergency events that involve utility systems.

The PUC also maintains a statewide e-mail list of State Energy Emergency Information Coordinators to facilitate the dissemination and exchange of timely energy emergency information throughout different agencies of State government.

In 2007, the PUC collaborated closely with State Homeland Security and law enforcement personnel on issues related to the security of critical utility facilities involving both physical and cyber threats to electric power infrastructure.

Much of the information provided by utilities about their key infrastructure could pose security concerns if not protected. The PUC is keenly aware of the need to balance public access to utility information in general with the need to secure information that could be used to compromise the integrity of utility systems. In limited

circumstances, the PUC invoked its statutory authority to secure highly confidential utility infrastructure information.

In 2002, the U.S. Department of Defense cleared a PUC staff member for access to classified national security information to facilitate the PUC's role in warning and assessment support on utility issues. The PUC has asked the state Office of Information Technology to provide mechanisms to ensure that electronic files containing sensitive utility infrastructure information, diagrams, and maps remain secure, whether at the PUC's offices or the State Emergency Operations Center.

On a national level, the PUC staff participates on a committee chartered by national utility regulators to identify best practices and roles for utility regulatory commissions to protect critical utility infrastructure. That committee works to improve communications between federal and state agencies and utilities on utility-related critical infrastructure issues, and represents the interests of Maine and other states in the evolution of utility-related homeland security practices by federal agencies. PUC staff also coordinates with regional electric industry organizations that focus on system reliability and security issues.

# **PUBLIC ACCESS TO THE PUC**

The PUC is committed to providing the public with the information it needs to participate in the PUC's processes. Competition and the ongoing evolution from a highly regulated approach for providing utility services to a more "free market" approach require an informed and educated public.

The PUC's vision – to make the PUC and its processes more open and accessible to citizens throughout Maine – requires both a personal commitment by the Commissioners and staff, and the expanded use of technology to reach every corner of the state.

The Internet is a crucial tool for achieving the PUC's vision of openness and accessibility and a key component in ensuring citizen access to the PUC, its documents, and processes and procedures. In addition, interested parties, researchers, and other regulatory bodies from around the world are able to use the PUC's website for access to PUC information.

## **Live Audio on the Web**

The live audio (using Windows Media™) feature is particularly valuable for public access. Anyone with a computer connected to the Internet is able to listen to PUC decisions being made.

All of the PUC's deliberative sessions, as well as many other hearings conducted in the PUC's hearing room, are broadcast over the Internet and archived for access after the session is completed. Written transcripts are also available on the website. The PUC has used the Internet since 1997 for live and archived recordings of deliberative sessions and hearings. The feature continues to be used often by both the public and the utility industry.

## **Electronic Documents via the Web**

The PUC website features separate pages for telecommunications, energy, natural gas, water utilities, electric industry restructuring, consumer assistance, legislative issues, emergency services communications and a variety of other issues.

All PUC Orders are now accessible on the web, and beginning in 1997, orders have been converted to Adobe™ PDF format for ease of use. These orders are also available on a compact disc (CD) by request.

In the Virtual Case File (<http://PUC.informe.org/>), all documents for active and recently closed cases are available online. Documents either are provided electronically or are scanned in PDF format. Any document in the case file (excluding those with confidential information), including those that are hand-written or have signatures, is available. As a result anyone anywhere in Maine (and the world) can follow any case and print case documents from their home or office.

Any company, party, or commenter is able to make secure electronic filings of complete utility cases, including pre-filed testimony, appendices, and exhibits. These

filings do not include confidential material. Companies file rate cases, tariff change requests, or official documents on a secure FTP site that is password protected.

The PUC's Case Management Unit receives automatic electronic notice of new filings, recording the electronic date stamp as the official filing time. These electronic documents are then put directly in the virtual case file without the need for scanning or conversion to PDF format.

PUC staff are able to access relevant parts of any case and print only necessary sections on high-speed printers. Previously, utilities filed multiple paper copies of documents. While not yet mandatory, all utility companies, intervenors, and other interested parties are encouraged to file official documents and comments electronically, saving time and money.

The public has the ability to access a service quality "report card" for local telecommunications carriers that presents and compares five service quality measurements that show how these companies provide service. The measures are; numbers of outages, network trouble report rate, percent of troubles not cleared in 24 hours, percent of installation appointments not met, and the average number of delay days for missed appointments.

Utilities can now access online all the forms necessary to file their annual reports and submit the forms electronically. The public can view each utility's completed report online.

The PUC's Virtual Tariff System enables users to search and view tariffs for all regulated utilities. In the deregulated market place, the virtual tariff system allows consumers to make informed choices about whom they want to provide their competitive utility service.

The PUC's aggressive use of the web has produced savings in time and travel costs, has reduced pollution related to travel to the PUC's offices, and has saved reams of paper, not only for the PUC, but for all of those who interact regularly with the PUC.

### **Efficiency Maine Outreach**

The PUC's Efficiency Maine Program includes numerous activities aimed at boosting business and consumer access to PUC energy efficiency programs. Efficiency Maine has a dedicated website ([www.energymaine.org](http://www.energymaine.org)) which can be accessed directly or through a link from the PUC website.

There is a wealth of information on the website about efficiency strategies and incentives promoted by the program. In addition, the PUC's Efficiency Maine staff engage in public outreach activities every week by a variety of means, including telephone, e-mail, newsletters and other publications, and in-person presentations.

Program activities are advertised in print, radio and television. And the "program allies" – independent efficiency contractors -- promote PUC incentives to businesses seeking to become more efficient every day.



# **SUMMARY OF PUC RULEMAKINGS**

The PUC undertook the following rulemakings during 2007.

## **Chapter 206, Standards for Designating and Certifying Eligible Telecommunications Carriers Qualified to Receive Federal Universal Service Fund Support**

This new rule establishes standards for designating and annual certification of eligible telecommunications carriers (ETCs) in Maine

## **Chapter 214, Exemption of Telephone Utilities from Certain Filing and Approval Requirements**

This new rule exempts certain telephone utilities, with respect to certain services, from the filing requirements of Title 35-A M.R.S.A. §§ 304, 307, and 310 and establishes conditions under which the PUC may grant additional exemptions.

## **Chapter 285, Maine Telecommunications Education Access Fund**

This rulemaking amended sections of the rule to make them consistent with statutory changes (Section 1(D) and 2(B)) and changed the process by which the PUC will receive recommendations for the use of MTEAF funds (Section 4, 5, 6).

## **Chapter 311, Renewable Resource Portfolio Requirement**

This new rule establishes requirements and standards for implementing the eligible resource and new renewable resource portfolio requirement.

## **Chapter 314, Statewide Low-Income Assistance Plan**

This rulemaking amended certain provisions to limit the amount of financial assistance a customer can receive through the oxygen pump program and to provide financial assistance to customers who use a ventilator. In addition, the modifications create a funding mechanism and reimbursement guidelines for the oxygen pump and ventilator program.

## **Chapter 316, Long-Term Contracting and Resource Adequacy**

This new rule establishes the requirements, standards and procedures governing the authorization of long-term contracts for capacity resources and associated energy and establishes an electric resource adequacy plan.

## **Chapter 323, Electronic Business Transactions Standards**

This rulemaking amended certain portions of the Electronic Business Transactions (EBT) Standards. These amendments are a consensus recommendation of the Maine EBT Working Group (EBTWG).

## **Chapter 815, Consumer Protection Standards for Electric and Gas Transmission and Distribution Utilities**

This new rule establishes the minimum standards for the provision of service and the administration of credit and collection programs by electric and gas transmission and distribution utilities. These rules govern service grants or denials, credit and deposit practices, billing, disconnection and customer complaint procedures.

## **ESCB Chapter 1, Standards for Establishing a Statewide Enhanced 9-1-1 System**

This rulemaking amended Chapter 1 to make it consistent with the newly-adopted Chapter 2.

## **ESCB Chapter 2, Requirements for the Enhanced 9-1-1 System Service Provider and Local Exchange Carriers**

This new rule establishes requirements for Enhanced 9-1-1 and Local Exchange Carriers, including connectivity and network design standards, outage notification procedures, and Automatic Location Identification database provisioning, as required by 25 M.R.S.A. § 2933. The rule also addresses requirements for the E9-1-1 System Service Provider.

## **Chapter 930, Solar Energy Rebate Program**

This rulemaking amended the rule to make it consistent with recent legislative changes including removing set rebate amounts from the rule, requiring the completion of an energy audit to qualify for a solar photovoltaic system rebate and extending the program until December 31, 2010.

# REPORTS TO THE LEGISLATURE 2007

The PUC submitted the following reports to the Legislature in 2007:

Electric Incentive Ratemaking (1/2/07)

Gas Ratemaking Mechanism (1/2/07)

Opt-Out Fee Provisions (1/11/07)

Interim Report Regarding Status of PUC Inquiry of Participation by Transmission & Distribution Utilities in Maine in the New England Regional Transmission Organization (NERTO) (1/16/07)

PUC 2006 Annual Report (2/1/07)

Public-Interest Pay Phones (2/5/07)

Summary of Applications Order Adopting Rule Chapter 252 Interim TAM Report (3/5/07)

Report on Telecommunications Needs of Federally Qualified Health Centers (3/5/07)

Report on the Inquiry into New Conservation Programs and Developing a Plan for Using Increases in the Conservation Fund, results from Docket No. 2006-446 (3/9/07)

Prepaid Wireless Report (3/13/07)

Review of CMP's Distribution System and Distribution Practices and Procedures (3/14/07)

Northern Maine Electricity Market Report (5/3/07)

Lack of Competition in the Northern Maine Electricity Market (9/10/07)

Telephone Alternative Form of Regulation (AFOR) for Telephone Utilities (9/4/07)

Low-Income Assistance Programs and Oxygen Pump Benefits (11/1/07)

Program Evaluation Report (GEA) (11/1/07)

Report Regarding Current Regulatory Structure and Process for Maine's Rural Telephone Companies (11/15/07)

Annual Report on the Voluntary Renewable Resources Fund (12/1/07)

Annual Report on the Solar Energy Rebate Program (12/1/07)

Annual Report on Gas Conservation Programs (12/1/07)

Annual Energy Conservation Report (12/31/07)

Disclosure Form & Energy Efficiency Standards Report (12/31/07)

# SUMMARY OF PUC-RELATED LAWS ENACTED BY THE FIRST REGULAR SESSION OF THE 123<sup>rd</sup> LEGISLATURE

LD	LAW	SUMMARY	FISCAL NOTE (Y/N)	EFFECTIVE DATE
<b><i>ELECTRIC/ENERGY/BIOFUEL/CONSERVATION/BLDG CODES</i></b>				
36	PL 2007, ch. 18	Transfers administrative responsibilities from SPO to the PUC of the program allowing retail electricity customers to make voluntary contributions to fund renewable resource research & development and to fund demonstration community projects; expands the list of eligible entities; requires the PUC to report annually to Utilities & Energy (U&E) Committee beginning 12/1/07	Y	7/1/2007
134	PL 2007, ch. 29	Gives the PUC discretion to set rebate levels for solar thermal and PV systems	Y	9/20/2007
229	PL 2007, ch. 189	Affirms the right of the Passamaquoddy Tribe and the Penobscot Nation to form and organize tribal power districts	Y	9/20/2007
268	PL 2007, ch. 293 <i>(Long Term Contract bill)</i>	Revises the definition of "renewable capacity resource" and preserves the definition of "interruptible, demand response or energy efficiency capacity resource"	Y	9/20/2007
413	Resolve 2007, ch. 54 <i>(Electric Restructuring bill)</i>	Requires PUC to undertake a review of electric utilities' participation in the energy supply business and report back to U&E 1/15/08	Y	9/20/2007
645	PL 2007, ch. 66	Modifies existing Efficiency Partners Program to incorporate financing for energy audits; requires that an energy audit address compliance with the model building energy code; requires the Maine Municipal Bond Bank to report annually on the program to U&E; improves consistency and clarity in current law	Y	9/20/2007
677	Resolve 2007, ch. 46	The resulting resolution directs SPO and other agencies to identify overlap between model codes and the codes & standards listed in MRSA, Title 10, section 9703 and develop a plan for implementing a model building code and submit a report to the Legislature by January 15, 2008	Y	9/20/2007
678	PL 2007, ch. 148 <i>(Greenline bill)</i>	Requires a T&D utility or other entity proposing to construct a transmission line to notify the PUC, and in some cases, obtain a certificate of public convenience & necessity (CPN) from the PUC prior to purchasing or leasing state-owned land to construct the line; provides an exception for construction of a generator interconnection transmission facility; requires a T&D facility to obtain a CPN from the PUC for the construction	Y	9/20/2007

of a transmission line before a utility may exercise eminent domain authority for lands and easements

785	PL 2007, ch. 52	Requires the chair of the Energy Resources Council and the Director of BGS to develop a plan to increase the use of electricity from renewables for state-leased buildings and report back to U&E and State & Local Government Committee by 12/15/07	Y	9/20/2007
795	PL 2007, ch. 158	Requires that in order to qualify for a rebate for a solar PV under the PUC's solar energy rebate program, the tenant or homeowner must demonstrate that an energy audit of the property has been completed; extends the program for 2 years (12/31/2010)	Y	9/20/2007
813	PL 2007, ch. 97	Provides similar treatment in laws governing needs-based low-income assistance for low-income electricity consumers who use ventilators as is provided to those using oxygen pumps; requires PUC to report back annually, beginning 11/1/07; requires PUC to examine other similar medical devices that may be appropriate to include and report findings to U&E by 1/15/08	Y	9/20/2007
969	Resolve 2007, ch. 35 ( <i>Long Term Contract Rule</i> )	Provides legislative review of Chapter 316 (Long Term Contracting & Resource Adequacy) and provides allocations of Other Special Revenue Funds to carry out the provisions of Chapter 316	Y	5/22/2007
1071	PL 2007, ch. 160	Amends the definition of "hydropower project" in the Maine Waterway Development & Conservation Act to clarify projects using tidal or wave energy to produce electricity; clarifies requirement to obtain a permit for structural alteration of a hydropower project is not limited to those projects that include a dam	Y	9/20/2007
1159	Resolve 2007, ch. 79	Directs the Office of Energy Independence & Security to develop a plan for a pilot program to establish refueling stations for biofuel that is at least 85% ethanol	Y	9/20/2007
1234	Resolve 2007, ch. 25	Requires DEP & PUC to develop a program for recycling fluorescent lamps and report back to Natural Resources Committee by 1/1/08	Y	9/20/2007
1284	Resolve 2007, ch. 59	Directs the Office of Energy Independence & Security (OEIS) to conduct a review of the current policy-making & administrative functions and structures within State Government relating to energy policy and to develop recommendations; OEIS to consider ideas for advancing the development of energy independence policy initiatives to support biofuels, renewables, cogeneration and green communities and report back to U&E by 1/1/08	Y	9/20/2007

1302	Resolve 2007, ch. 37	Directs DEP to investigate ways to preserve Maine's electric energy infrastructure and to specifically determine "future value of renewable energy considering the costs of electricity to Maine's consumers, indigenous production, greenhouse gas emissions and fossil fuel independence" and report back to U&E by 1/31/08	Y	9/20/2007
1347	Resolve 2007, ch. 51	Directs the Office of Energy Independence & Security (OEIS) to study and make policy recommendations regarding the establishment of an alternative fuel incentive program; OEIS to report back to U&E by 1/15/08	Y	9/20/2007
1381	Resolve 2007, ch. 52	Directs OPA to, in consultation with PUC, review status of RGGI and, among other things, "identify alternatives for reducing the costs of implementing the initiative for Maine's electricity consumers;" OPA must submit a report to U&E by 1/1/08	Y	9/20/2007
1655	Resolve 2007, ch. 93	Resolve directs PUC and MSHA to convene stakeholder group and study the feasibility of state policies or programs to increase compliance with the Maine Model Building Energy Code in constructing and renovating residential and commercial buildings in Maine and submit report to U&E by 1/1/08	Y	9/20/2007
1666	Resolve 2007, ch. 55	Efficiency Maine (EM) to develop a plan to promote energy efficiency in schools and school participation in EM programs and report back to U&E in its annual report due 12/1/07	Y	9/20/2007
1851	PL 2007, ch. 317 ( <i>RGGI bill</i> )	Among other things, requires: <ul style="list-style-type: none"> <li>• PUC to appoint members of the Maine Energy Conservation Board and Energy &amp; Carbon Savings Trust (Carbon Trust)</li> <li>• Carbon Trust and the PUC to prepare Triennial Energy Efficiency and Conservation Plan</li> <li>• DEP to adopt a variety of rules</li> <li>• Carbon Trust to adopt major substantive rules</li> <li>• Carbon Trust/DEP to submit annual report beginning 3/09/08</li> <li>• PUC to make recommendations regarding energy efficiency spending ceiling 8 months prior to expiration of 1st compliance obligation period under DEP rules</li> <li>• DEP to report on establishment of civil/criminal liability for disruption of CO2 allowance market</li> <li>• OPA to report recommendations for consolidating energy efficiency responsibilities of PUC and Carbon Trust</li> </ul>	Y	9/20/2007

1913	Resolve 2007, ch. 91	Allows the Director of the Bureau of Parks & Lands to convey: (1) an easement for electric transmission lines across 2 state-owned parcels to TransCanada Maine Wind Development; (2) an easement for electric transmission lines across 2 state-owned parcels (in Bradley and Washington County) to BHE; (3) the remaining state interests in the Sandy Pond Dam to the Town of Freedom; (4) trail crossing rights & access rights across St. John Heritage Trail and St. John Plantation; (5) trail crossing rights across the St. John Heritage Trail in St. Francis; (6) state-owned property adjacent to a state-owned abandoned rail corridor trail in Mapleton; (7) 2nd easement across a state-owned recreational trail to provide motor vehicle access in Jay; (8) an easement to the abutting landowner across a state-owned access road to Bradbury Mountain State Park; (9) state-owned property to the abutting landowner in the Town of Littleton	Y	9/20/2007
1920	PL 2007, ch. 403	Directs the PUC to: <ul style="list-style-type: none"> <li>• submit annually, beginning 3/31/08, a report on the status of new renewables in Maine and compliance with the portfolio requirements</li> <li>• inform electricity consumers in Maine of the benefits and opportunities in purchasing renewables including, but not limited to green power supply products and RECs under section 3212-A</li> <li>• set alternative compliance payment rate by rule; publish rate by 1/31st each yr</li> <li>• collect alternative compliance payments made by CEPs and deposit into the Renewable Resource Fund</li> <li>• adopt routine technical rules</li> <li>• submit one-time report to U&amp;E by 1/31/10 on green power options that have been certified and promoted since 7/1/08</li> </ul>	Y	9/20/2007
<b>TELECOMMUNICATIONS/E-911/PSAPs/INTERNET/CABLE</b>				
536	PL 2007, ch. 224	Makes changes to the funding levels for specific programs under the Communications Equipment Fund while preserving the total amount available and authorized; expands technology covered by the discount program to include one-way pagers and discounts for one-way pagers to be equal to the monthly service charge	Y	6/4/2007
547	PL 2007, ch. 68	Requires the PUC to adopt routine technical rules implementing provisions of E-911 funding law and to report back to U&E by 1/15/09 regarding collection of the E-911 surcharge on prepaid wireless service and interconnected voice over Internet protocol service	Y	9/20/2007
627	PL 2007, ch. 42	Clarifies the Emergency Medical Dispatch (EMD) role of public safety answering points (PSAPs) and requires state licensure for all persons and entities engaged in EMD; provides flexibility for PSAPs to enter into agreements with non-PSAPs to provide emergency medical dispatch service	Y	4/10/2007

716	Resolve 2007, ch. 26	Provides for legislative review of Chapter 324 (ConnectME Tax Reimbursements)	N	5/16/2007
765	Resolve 2007, ch. 27	Authorizes final adoption of Chapter 101 (ConnectME Authority), so long as certain changes to the rule are made to clarify the definition of broadband service provider, to limit the requirement imposed on mobile communications service providers to file mapping and service description information to those mobile communications service providers contributing to the ConnectME Fund and to amend the section of the rule regarding applications for funding to specify requirements for the content of the application and the application evaluation process to be used by the Authority	Y	5/16/2007
1063	PL 2007, ch. 104	Requires cable TV franchises to provide a notice on subscriber bills of the right to credit or rebate for interruption of service for 6 or more consecutive hours	Y	9/20/2007
1183	PL 2007, ch. 209	Establishes the state of mind that much accompany the disclosure of confidential information regarding E-911 calls or recordings in order for such disclosure to be a crime; forensic examination kits are to be stored reflective of and consistent with actual storage practices; updates references to federal agencies to reflect their placement into the Department of Homeland Security; authorizes a designee of the Commissioner of Public Safety, a designee of the Chief of State Police and a designee of the CIO to serve in their place on the Maine Communications System Policy Board	N	9/20/2007
1383	PL 2007, ch. 226	Requires the PUC to adopt a major substantive rule that will allow for the implementation of soft dial tone on a statewide basis; the rule must be submitted to U&E by 1/15/08	Y	9/20/2007
1675	Resolve 2007, ch. 106 ( <i>Net Neutrality bill</i> )	Directs the OPA to take several actions to monitor state & federal activity relating to full and fair access to the Internet and submit a report to U&E by 2/1/08	Y	9/20/2007
1837	PL 2007, ch. 227	Conforms state & federal laws regarding establishment and enforcement of a do-not-call lists that allows resident consumers to opt out of being solicited by telephone	N	9/20/2007

***GAS/PROPANE/DIG SAFE/UNDERGROUND  
FACILITIES***

1791	PL 2007, ch. 392	Authorizes the Oil & Solid Fuel Board and the Propane & Natural Gas Board to issue limited energy auditor technician licenses to qualified persons for the purposes of conducting combustion safety & efficiency testing of oil-fired or gas-fired space heating equipment or water heating equipment; directs those Boards to adopt emergency routine technical rules within 90 days after the effective date of this Act	Y	6/21/2007
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***WATER/SEWER/SANITARY***



774	PL 2007, ch. 235	Provides that any requirements placed on public drinking water systems must be done in joint agreement between DEP and the Drinking Water Program of DHHS and the OPA; directs the Board to incorporate into the rules a mechanism to reconcile the objective of allowing community public water systems to use their existing water supplies to provide water service	Y	6/6/2007
878	P&SL 2007, ch. 4	Clarifies territorial limits of the Harrison Water District; changes board of trustee vacancy protocols; increases trustee compensation; changes the district's rate structure	N	4/9/2007
941	P&SL 2007, ch. 5	Changes territory of Long Pond Water District and makes changes to number of trustees on boards	N	4/9/2007
968	Resolve 2007, ch. 63	Authorizes final adoption of portions of Chapter 587 (In-Stream Flows & Lake & Pond Water levels) so long as certain specified changes are made to the rule	Y	6/6/2007
993	P&SL 2007, ch. 8	Extends the time that the PUC has to monitor the Winterport Water District's use of the authority to disconnect sewer service for failure to pay from 1/15/08 to 1/15/09; PUC to submit report to U&E 1/15/09; repeals provision 90 days after adjournment of the 1st Regular Session of the 124th Legislature	N	9/20/2007
1151	PL 2007, ch. 127	Clarifies the exception, with limitations, to the laws that require rate changes of consumer-owned water utilities be subject to suspension, investigation, hearing or rate substitution by the PUC	Y	9/20/2007
1153	PL 2007, ch. 174	Enables the governing body of a quasi-municipal or municipal water or sewer utility to reduce the connection fee or impact fee charged for the establishment of service when that service is being provided to newly constructed affordable housing that is owner-occupied, single family or condos; notification to ratepayers is required for any reduction in connection or impact fees that may allocate that reduction across all ratepayers	Y	9/20/2007
1205	P&SL 2007, ch. 15	Updates & clarifies the private & special law prohibiting bodily contact with the waters of Sebago Lake within 2 miles of the Portland Water District intake pipes; updates fines for violations	N	9/20/2007
1236	P&SL 2007, ch. 6	Creates the Princeton Water District	N	4/12/2007
1303	P&SL 2007, ch. 12	Creates the Columbia Falls Village Water District, subject to referendum; allows the District the authority to purchase property & franchises of the Allen Water Co., subject to PUC approval	Y	5/11/2007
1382	P&SL 2007, ch. 10	Creates the Edgecomb Utility District and authorizes the purchase of water & wastewater assets from the Town of Edgecomb	Y	9/20/2007
1656	P&SL 2007, ch. 11	Authorizes the Fryeburg Water District to purchase assets in East Conway, NH and stock in the Fryeburg Water Company	Y	5/10/2007

1743	PL 2007, ch. 399	Requires the Land & Water Resources Council to convene the Water Resources Planning Committee and describes requirements related to membership, meetings and reporting with an annual review of state policy regarding certain topics, providing guidance to municipalities and developing and disseminating educational materials; makes changes to the bulk water transport law and the natural resources protection laws; requires DEP and the Maine Land Use Regulation Commission (LURC) to amend their rules to require that a public information meeting be held prior to submission of an application for a significant groundwater well; requires DEP and LURC to periodically contract with independent environmental professionals to provide a technical review and assessment of monitoring information; each department shall undertake a rulemaking to develop a fee structure to provide funding for those contracts	Y	9/20/2007
1754	P&SL 2007, ch. 22	Creates the Greater Augusta Utility District subject to referendum	Y	9/20/2007
1796	PL 2007, ch. 39	Authorizes bond issues for ratification by the voters for the June and November 2007 elections and the June 2008 election and to transfer certain funds; Part B authorizes a bond issue in the amount of \$18.3M for grants and low-interest loans to support construction of wastewater treatment facilities and to support improvements to Maine's public water systems	Y	4/10/2007

**BUDGET/STATE GOVERNMENT/MULTIPLE UTILITIES/MISCELLANEOUS**

215	PL 2007, ch. 1	State Supplemental Budget Bill - FYE 6/30/07	Y	2/13/2007
267	PL 2007, ch. 16 ( <i>PUC Assessment bill</i> )	Creates assessment mechanism to help ensure sufficient funds are generated to allow the PUC to perform its regulatory responsibilities; PUC shall present its budget to U&E and U&E shall make its recommendation regarding the budget	Y	3/23/2007
499	PL 2007, ch. 240	State Budget Bill - FYE 6/30/07, 6/30/08, 6/30/09	Y	6/7/2007
528	PL 2007, ch. 372	Provides eligibility under the business equipment tax exemption for used property previously subject to property tax in the State as long as the primary purpose of the acquisition of the property was not to obtain eligibility for the exemption, which would become a Class E crime	N	9/20/2007
556	Resolve 2007, ch. 57	Directs each state department to conduct an evaluation of its operations to determine if any programs or personnel could be reduced by 7%; results shall be reported by each department to the Commissioner of Administrative & Financial Services at a date to be determined by the commissioner, consistent with the supplemental budget process	Y	9/20/2007
676	PL 2007, ch. 462	Section 12 of bill requires MEMA to conduct a study in cooperation with other agencies including the PUC, to develop a plan for implementing and funding a statewide disability indicator system and submit a report to Criminal Justice & Public Safety Committee by 1/1/08	Y	

905	PL 2007, ch. 181	Requires an agency adopting a rule to develop and make available to the public a brief economic impact statement, with reasonable alternatives, on small businesses prior to adoption of the rule; the statement shall identify types of small businesses subject to the rule	Y	9/20/2007
1055	Resolve 2007, ch. 100	Study group created to review need for State to adopt a program to provide hearing aids and Captel phones to Maine's low-income elderly population; report is required by 12/7/07 to the Labor Committee and the Health & Human Services Committee	Y	6/20/2007
1360	PL 2007, ch. 268	Allows the University of Maine System (System) to install wires or lines on existing utility facilities located within or along a public right-of-way for the purpose of transmitting data and communications between & among the System's facilities and partnering entities	Y	6/8/2007
1420	PL 2007, ch. 157	Amends the definition of "coastal area" to clarify that the area only extends out 3 nautical miles; makes similar rules regarding the Taunton Bay Resource Management Plan routine technical	N	9/20/2007
1504	PL 2007, ch. 437	Makes minor substantive changes to the tax laws	Y	
1841	PL 2007, ch. 274	Removes mandatory language regarding the role of the regional emergency medical services councils to allow for evolution of that role in accordance with recommendations resulting from a review of the Maine Emergency Medical Services system; Maine Emergency Medical Services is authorized to participate in and share information with the National Emergency Medical Services Information System, notwithstanding confidentiality provisions	N	9/20/2007
1842	PL 2007, ch. 402	Updates professional & occupational licensing laws	Y	9/20/2007
1853	PL 2007, ch. 323	Enacts the Model Registered Agents Act		
1903	PL 2007, ch. 355	Requires disclosure of potential for conflict of interest if mold assessment and remediation services are provided to the same person or company; requires DHHS to submit a report to Natural Resources Committee, Legal & Veterans Affairs Committee & Judiciary Committee on activities and reviews undertaken by the Maine Center for Disease Control & Prevention in connection with public health issues relating to mold or excess moisture in buildings, training of local health officers and the warranty of habitability as it relates to landlord/tenant disputes	Y	9/20/2007

1906	PL 2007, ch. 396	Overturns the portion of the Law Court decision in <u>Stevenson v. Town of Kennebunk</u> that held that a municipal board was not authorized to take any action due to a vacancy on the board; clarifies that Maine law generally, and county & municipal laws specifically, to require a statute, charter or ordinance to specifically prohibit a body from acting in the event of a vacancy in order to have that effect; clarifies no action previously taken is invalid solely because of the existence of a vacancy	N	6/21/2007
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# FISCAL INFORMATION

The PUC is required by 35-A M.R.S.A. § 120 to report annually to the Joint Standing Committee on Utilities and Energy on its planned expenditures for the year and on its use of funds in the previous year. This section of the report fulfills this statutory requirement and provides additional information regarding the PUC's budget.

The PUC had two principal sources of funding in FY2007 - a Regulatory Fund of \$5,501,316 as authorized by 35-A M.R.S.A. § 116, and a balance forward of \$1,475,240 pursuant to 35-A M.R.S.A. § 116 (5), which allows any accumulated unencumbered balance to be used in succeeding fiscal years.

All references in this section are to fiscal years -- July 1 to June 30.

## **Fiscal Year 2007**

In FY2007, the PUC spent approximately \$6 million, regulating approximately 500 utilities with gross revenues exceeding \$1.2 billion. The PUC was authorized 73.5 full-time equivalent positions in FY2007.

### Regulatory Fund

The authorized Regulatory Fund assessment for FY2007 was \$5,505,000. In addition to the assessment, an unencumbered balance of \$1,185,422 and encumbrances of \$289,818 were brought forward from FY2006. The PUC spent \$6,048,898 in FY2007.

Expenditure details are presented in Table 1. An encumbered balance of \$185,876 and an unencumbered balance of \$786,328 were brought forward to FY2008. The encumbered balances generally represent ongoing contracts.

### PUC Reimbursement Fund (Filing Fees)

In FY2007, the PUC collected \$62,260 in filing fees. \$40,500 was brought forward from FY2006.

### PUC Miscellaneous Fund (Document Copy Costs, Fines)

Miscellaneous reimbursements consist of funds received for copies of documents such as monthly dockets, agenda and decisions and for other miscellaneous items, and PUC fines collected (e.g. Damage Prevention). \$185,732 was brought forward from FY2006. An additional \$44,250 was received during FY2007. During FY2007, \$0 was expended. An unencumbered balance of \$230,089 was brought forward to FY2008.

## Education Fund

Public Law 1997, Chapter 691 and Chapter 302 of PUC Rules approved by the Legislature in 1998, establishes the Public Utilities Commission Education Fund.

This fund authorized a total of \$1.6 million dollars to be collected from electric utilities and dedicated for education of Maine's consumers on choices they may make in selecting electricity providers beginning March 1, 2000. The fund was allocated as follows: \$200,000 for FY1998, \$600,000 for FY1999, \$600,000 for FY2000 and a final \$200,000 for FY2001.

Under State Bureau of Purchases rules, a Request for Proposal process selected N.L. Partners of Portland, Maine, to carry out the Consumer Education Program under the direction of the PUC with assistance and input from the Public Advisory Panel. \$748 was available from the balance forward from FY 2006. \$0 was expended in FY2007, leaving \$748 as the unencumbered balance brought forward to FY2008.

## One Call Grant 2004

During FY2004, the PUC received a 2004 One Call Grant from the U.S. Department of Energy in the amount of \$20,000 to implement a targeted education campaign reaching excavators, designers, public works officials and others involved in excavation. \$5,481 is the unencumbered balance brought forward to FY2007. \$0 were expended in FY2007 leaving an unencumbered balance brought forward to FY2008 of \$5,481.

## One Call Grant 2005

During FY2005 the PUC received a 2005 One Call Grant in the amount of \$28,231. An unencumbered balance of \$26,236 was brought forward to FY2007. \$0 were expended in FY2007 leaving an unencumbered balance brought forward to FY2008 of \$26,236.

## Damage Prevention Grant 2006

During FY2006, the PUC received a Damage Prevention Grant from the U.S. Department of Energy in the amount of \$50,000 to implement a targeted education campaign reaching excavators, designers, public works officials and others involved in excavation. \$50,000 is the unencumbered balance brought forward to FY2007. \$0 were expended in FY2007 leaving an unencumbered balance brought forward to FY2008 of \$50,000.

## Damage Prevention Grant 2007

During FY2007, the PUC received a Damage Prevention Grant in the amount of \$35,400. None of these funds were expended in FY2007. \$35,400 is the unencumbered balance brought forward to FY2008.

### Energy Programs - Efficiency Maine Conservation Administration Fund

This fund had an unencumbered balance of \$995,083 and an encumbered balance of \$145,460 brought forward from FY2006. \$1,300,000 was transferred into the account from the Energy Programs- Efficiency Maine Conservation Program Fund. \$1,081,159 was expended in FY 2007. An encumbered balance of \$178,477 and unencumbered balance of \$150,477 is available for use during FY2008.

### Energy Programs - Efficiency Maine Conservation Program Fund

This fund had an unencumbered balance of \$4,858,409 and an encumbered balance of \$4,190,480 brought forward from FY2006. \$12,585,613 was expended in FY 2007, leaving an unencumbered balance of \$3,959,399 and an encumbered balance of \$360,842 brought forward to FY2008.

### Energy Programs- State Energy Fund

This fund receives grants from the Federal Department of Energy. In FY2007, \$528,627 was expended on energy conservation programs.

### Energy Programs- State Energy Fund Revolving Loans Fund

\$181,449 was expended in FY2007.

### Solar Rebate Program

Public Law 2005, Chapter 459 provides rebates for the purchase and installation of solar water heating and solar air heating systems and solar electric, or "photovoltaic," systems for residential or commercial buildings.

An unencumbered balance of \$205,781 and an encumbered balance of \$20,298 were brought forward to FY2007. \$255,196 was expended in FY2007. An unencumbered balance of \$95,281 and an encumbered balance of \$264,360 were brought forward to FY2008.

### The Emergency Services Communications Fund (E9-1-1)

This fund had an unencumbered balance of \$9,933,379 and an encumbered balance of \$183,585 brought forward from FY2006. \$6,417,228 was expended in FY2007. An unencumbered balance of \$8,789,114 and an encumbered balance of \$192,445 are available for use during FY2008. The surcharge collected in FY2007 was \$8, 499,625.

### **The Budget in Perspective**

Table 1 details the PUC's budget for a 2-year period. The left hand column includes amounts actually expended in FY2007. Column 2 contains the FY2008 expenditure plan. Column 3 contains the FY2009 approved Budget.

## **The Regulatory Fund Assessment in Perspective**

Table 2 details the Regulatory Fund assessments since 1996 from Annual Reports filed by the utilities with the PUC. They include revenues for the previous year ending December 31.

Calculations are made to determine what percentage of the revenues reported by regulated utilities will produce the amount authorized by statute. The factors derived that will raise the authorized amount is applied against the reported revenues of each utility.

Under 35-A M.R.S.A § 116, on May 1 of each year an assessment notice is mailed to each utility regulated by the PUC. The assessments are due on July 1. Funds derived from this assessment are for use during the fiscal year beginning on the same date.

The total assessment for FY2007 was \$5,505,000. The assessment breakdown by utility sector was: Electric - \$2,329,716; Telecommunications - \$2,208,056; Natural Gas - \$716,750; Water - \$249,377 and Water Common Carrier -\$1,101.



**PUC BUDGET IN PERSPECTIVE**

**Table 1**

	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
	<b>Actually Spent</b>	<b>Work program</b>	<b>Approved Budget</b>
<b>Regulatory Fund</b>			
Position Count	(59.5)	(59.75)	(59.75)
Personal Services	4,819,502	5,742,866	6,020,047
All Other	1,229,396	1,922,898	1,945,949
Capital	0	0	0
<b>Total</b>	<b>6,048,898</b>	<b>7,665,764</b>	<b>7,965,996</b>
<b>PUC Reimbursement Fund</b>			
All Other	0	50,000	50,000
<b>PUC Miscellaneous Fund</b>			
All Other	0	15,000	15,000
<b>PUC Consumer Education Fund</b>			
All Other	0	0	0
<b>PUC Damage Prevention</b>			
Position Count	0	(1)*	(1)*
Personal Services	0	48,328	48,328
All Other	0	1,672	1,672
Capital	0	0	0
<b>Total</b>	<b>0</b>	<b>50,000</b>	<b>50,000</b>
			* Limited-Period
<b>Energy Programs-Efficiency Maine Conservation Administrative Fund</b>			
Position Count	(6)	(8)	(8)
Personal Services	606,835	867,031	881,876
All Other	474,324	615,162	668,000
Capital	0	0	0
<b>Total</b>	<b>1,081,159</b>	<b>1,482,193</b>	<b>1,549,876</b>
<b>Energy Program-Efficiency Maine Conservation Program Fund</b>			
All Other	12,585,613	13,075,594	15,167,739

	250,000		
	<b>FY2007</b>	<b>FY2008</b>	<b>FY2009</b>
	<b>Actually Spent</b>	<b>Work program</b>	<b>Approved Budget</b>
Transferred to General Fund			
<b>Energy Programs-State Energy Programs (SEP)</b>			
Position Count	(3)	(3)	(3)
Personal Services	176,787	204,858	208,012
All Other	351,840	596,572	424,919
Capital		5600	0
<b>Total</b>	528,627	807,030	632,931
<b>Energy Programs – SEP Revolving Loan Fund</b>			
All Other	181,449	230,000	230,000
<b>Energy Programs-Solar Rebate Program Fund</b>			
All Other	255,196	500,000	500,000
<b>Energy Programs- Renewable Resource Fund</b>			
All Other	N/A	475,500	500
<b>Emergency Svcs Comm (E- 911)</b>			
Position Count	(5)	(6)	(6)
Personal Services	408,990	498,184	510,141
All Other	6,008,238	7,737,174	7,737,174
Capital	0	0	0
<b>Total</b>	6,417,228	8,235,358	8,247,315
Transferred to General Fund	3,700,000		

**PUC Regulatory Fund Assessments  
Table 2**

					<b>Water</b>	<b>Total</b>		
<b>Year</b>	<b>Electric</b>	<b>Telecom</b>	<b>Water</b>	<b>Gas</b>	<b>Carriers</b>	<b>Utilities</b>	<b>Amount</b>	<b>Amount</b>
	<b>Revenues</b>	<b>Revenues</b>	<b>Revenues</b>	<b>Revenues</b>	<b>Revenues</b>	<b>Revenues</b>	<b>Billed</b>	<b>Authorized</b>
1996	1,093,553,536	384,936,867	81,529,938	32,091,988	1,697,223	1,593,809,552	4,918,000	4,918,000
1997	1,118,124,742	392,623,445	87,230,402	31,365,288	1,924,520	1,631,268,397	4,276,900	4,918,000
1998	1,131,080,875	410,824,795	87,549,280	36,068,309	2,098,648	1,667,621,907	4,283,000	4,918,000
1999	1,153,567,578	415,265,192	91,340,130	42,553,204	2,187,844	1,704,913,948	5,553,000	5,553,000
2000	1,144,803,899	456,312,932	92,952,562	35,354,982	2,259,826	1,731,684,201	4,918,000	4,918,000
2001	1,181,804,581	521,331,046	95,682,346	36,311,777	3,123,023	1,838,252,773	4,918,000	4,918,000
2002	547,912,962	500,763,978	98,835,956	55,824,836	3,521,316	1,206,859,048	5,236,000	5,236,000
2003	535,509,552	538,050,538	101,802,792	53,466,479	3,713,543	1,232,542,904	5,505,000	5,505,000
2004	524,156,143	508,708,861	105,043,583	64,913,705	3,823,145	1,206,645,437	5,505,000	5,505,000
2005	511,898,621	479,535,534	66,382,651	107,317,453	2,809,273	1,167,943,532	5,505,000	5,505,000
2006	531,365,202	492,780,390	110,130,702	71,921,808	2,949,997	1,209,148,099	5,505,000	5,505,000

# PAST COMMISSIONERS

## 1915 - 2007

* Benjamin F. Cleaves	1915-1919	* Earle M. Hillman	1962-1968
William B. Skelton	1915-1919	* John G. Feehan	1968-1977
Charles W. Mullen	1915-1916	Leslie H. Stanley	1970-1976
John E. Bunker	1917-1917	* Peter Bradford	1971-1977
Herbert W. Trafton	1918-1936		1982-1987
* Charles E. Gurney	1921-1927	Lincoln Smith	1975-1982
Albert Greenlaw	1924-1933	* Ralph H. Gelder	1977-1983
* Albert J. Stearns	1928-1934	Diantha A. Carrigan	1977-1982
Edward Chase	1934-1940	Cheryl Harrington	1982-1991
* Frank E. Southard	1935-1953	* David Moskovitz	1984-1989
C. Carroll Blaisdell	1937-1941	* Kenneth Gordon	1988-1993
James L. Boyle	1941-1947	Elizabeth Paine	1989-1995
George E. Hill	1942-1953	Heather F. Hunt	1995-1998
Edgar F. Corliss	1948-1954	William M. Nugent	1991- 2003
* Sumner T. Pike	1954-1955	* Thomas L. Welch	1993-2005
Frederick N. Allen	1954-1967	Stephen L. Diamond	1998-2006
Richard J. McMahon	1955-1961	Sharon M. Reishus	2003-current
* Thomas E. Delahanty	1955-1958	* Kurt Adams	2005-current
* David M. Marshall	1958-1969	Vendean V. Vafiades	2007-current
* Chairman			

# GLOSSARY

- **Access Charges:** The rates that a long-distance carrier pays to local telephone companies for connecting to the local network. Access charges are a major cost component of toll rates.
- **Aggregator:** "Aggregator" means an entity that gathers individual customers together for the purpose of purchasing electricity, provided such entity is not engaged in the purchase or resale of electricity directly with a competitive electricity provider, and provided further that such customers contract for electricity directly with a competitive electricity provider.
- **All-In Rate:** The total price for electricity, including generation and delivery (transmission & distribution service).
- **Bill Unbundling (Itemized Billing):** The separation of Electricity Supply charges from Delivery Service charges on Maine consumers' electric bills beginning in January 1999.
- **Competitive Electricity Provider:** A marketer, broker, aggregator or any other entity selling electricity to the public at retail.
- **Cramming:** The practice of adding fees or charges to a consumer's bill for services that were either never provided or for services that the customer did not register for (see also Slamming).
- **Customer Classes for Electricity Consumers:** Residential/small non-residential; Medium non-residential; Large non-residential. Non-residential class determined by customer's kW demand peak.
- **Delivery Service:** The transmission and distribution of electricity to Maine consumers by a PUC-regulated Distribution Company.
- **Distribution Company:** A PUC-regulated utility that, after March 2000, provided only Delivery Service.
- **Electric Restructuring:** The redesign of the state's electric utility industry giving Maine consumers the right to choose their Electricity Supplier. The result of a law passed by the Maine Legislature in 1997.
- **Electric Supply:** Electricity that is sold or resold by a PUC-licensed Electricity Supplier, or provided under the Standard Offer.
- **Electricity Utility:** A monopoly utility that, until March 2000, provided both Electricity Supply and Delivery Service. In March 2000, Electric Utilities became Distribution Companies.

- **Eligible Telecommunications Carrier:** A basic service provider designated by the PUC as an eligible telecommunications carrier for purposes of section 254 of the Telecommunications Act of 1996, 47 U.S.C., § 151 *et seq.*
- **Federal High-Cost Funds:** Universal service support mechanisms that have helped make telephone service affordable for low-income consumers and consumers who live in areas, typically rural, where the cost of providing service is high.
- **Green Power:** Power generated from renewable energy sources, such as wind and solar power, geothermal, hydropower and various forms of biomass.
- **Independent Telephone Company:** This term is often used to refer to all incumbent local exchange carriers companies other than Verizon - Maine. There are 23 of these companies in Maine, although some are owned by the same parent holding company.
- **Independent Third Party Verifier:** A third party used to verify preferred carrier changes. The third party must be qualified and independent, and must obtain the customer's oral authorization to submit the preferred carrier change that includes appropriate verification data (e.g. the customer's date of birth or social security number).
- **Intrastate Access Rates:** "Access charges" and "access rates" are those charges and rates that an interexchange carrier must pay to a local exchange carrier in order to provide intrastate interexchange service in Maine.
- **Letter of Agency:** A "letter of agency" is a document containing a customer's signature that authorizes a change to a customer's preferred carrier selection.
- **LEC:** An acronym for Local Exchange Carrier. These companies provide basic local service. Subsets of LECs include incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs). The incumbents are the existing monopoly providers, and competitive carriers are the new entrants in those markets. An ILEC can be a CLEC in a region outside of its existing monopoly service area.
- **Lifeline & Link-Up:** These programs assist low-income consumers in obtaining and affording telecommunications services.
- **NPA / NXX:** NPA is an acronym that essentially stands for area code. In Maine's case, the entire state falls within the 207 NPA. NXX is the abbreviation for the three digit sequence following the area code. For instance, if a person's telephone number was (207) 555-1234, the NPA would be 207 and the NXX would be 555. If Maine runs out of NXX codes, then a new NPA may be needed.

- **Public Interest Payphone “PIP”:** As cell phones have become nearly ubiquitous, legacy telephone companies have removed public payphones that no longer collect enough revenue to support their operation. PIP phones aim to protect public safety, health and welfare by preserving public service for emergency calls in key locations around Maine.
- **Prescribed Toll Carrier “PIC”:** The carrier to which a customer is presubscribed for local, intrastate, interstate, or international telecommunications service.
- **Qualifying Facility:** A small power production or cogeneration facility that meets the Federal Energy Regulatory Commission’s ownership and technical requirements is a qualifying facility.
- **RBOC:** An acronym for Regional Bell Operating Company. In Maine’s case, the incumbent RBOC is Verizon - Maine.
- **Renewable Energy:** Energy from fuel cells, tidal power, solar energy, wind power, geothermal power, hydroelectric energy, biomass and municipal solid waste.
- **Retail Electric Competition:** A system under which more than one competitive electric provider can sell to retail customers, and retail customers are allowed to buy from more than one provider.
- **Section 271:** The section of Federal Telecommunications Act of 1996 that addresses the conditions for Regional Bell Operating Company entry into the interstate market. Section 271 is also sometimes known as the “competitive checklist.”
- **Slamming:** The illegal practice of switching a consumer’s telephone carrier or electrical supplier without obtaining proper consent (see also Cramming).
- **Standard Offer Service:** Electric generation service provided to any electricity consumer who does not obtain electric generation service from a competitive electricity provider.
- **Stranded Costs:** A utility's legitimate, verifiable and unmitigable costs made unrecoverable as a result of the restructuring of the electric industry required by 35-A M.R.S.A. Chapter 32 determined by the PUC pursuant to 32-A M.R.S.A. § 3208.
- **Unbundled:** Electric utility bills that state the current cost of electric capacity and energy separately from transmission and distribution charges and other charges for electric service.
- **Universal Service:** The principle that all Americans should be able to afford at least a minimal level of basic telephone service.

- **Wireless Fidelity:** A wireless local area network providing “hotspots” with high-speed internet access service.



## DIRECTIONS TO THE MPUC

FROM NORTH: I-95 Exit 109A, formerly 30A, (Augusta) to Western Avenue toward downtown Augusta.

FROM SOUTH: I-95 Exit 109, formerly 30, (Augusta/Winthrop) to Western Avenue toward downtown Augusta. Then east on Western Avenue (Routes 202/11/17/100) 1.3 miles to Augusta Rotary.

FROM EAST: Routes 3, 27 or 201 to Augusta - Cross Kennebec River to Augusta Rotary. From Augusta Rotary, go south on State Street (past State Capitol) (Routes 27 and 201) 0.3 miles to Manley Street (bottom of the hill). COMMISSION is on the right (242 State Street, tel. 287-3831), with ample parking and handicap accessible.



**PUC 2007 Annual Report Evaluation Form**

We ask you to give us feedback on the content and format of this annual report, by filling out the following short questionnaire and mailing it (postage already paid) back to us.

1. What is your overall evaluation of this report? (check one)

very informative\_\_\_ somewhat informative\_\_\_\_\_ not informative\_\_\_\_\_

2. Please rate each of the following report sections according to how they helped you further understand utility issues and events.

(1 = very helpful    2 = somewhat helpful    3 = not helpful)

Telecommunications		Acronyms		Public Access	
Electric		Consumer Assistance		Glossary	
Water		Maine Commission			
Natural Gas		Rulemakings			
Telephone List		Summary of Laws			
Map Location		Fiscal Information			

3. How can we improve this report to better meet your information needs? If appropriate, please specify particular sections.

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4. What did you like best about this report? (check those items that you liked)

format \_\_\_\_\_  
writing style \_\_\_\_\_  
cover \_\_\_\_\_  
content \_\_\_\_\_  
ease in reading \_\_\_\_\_  
other \_\_\_\_\_

**THANK YOU!**

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## **Maine Public Utilities Commission**

The Commissioners wish to thank the staff of the Commission for assisting in the preparation of this report, with special thanks to the editors and contributing writers.

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We welcome feedback on how we can improve next year's report. Send your comments to Karen Geraghty at 207-287-3831 or <mailto:karen.geraghty@maine.gov>