Report on Standard-offer Procurement Strategies Pursuant to Resolves 2025, chapter 52 (LD 568)

Submitted to the Joint Standing Committee on Energy, Utilities and Technology

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I, Introduction

Resolves 2025, chapter 52 (Resolve) directs the Public Utilities Commission (Commission) to evaluate procurement methods to procure standard-offer service that are likely to result in: (1) improved bid quantity and quality; (2) lower electric rates for customers; and (3) electricity rate stability. In the evaluation the Commission must consider establishing supply contracts for varying lengths that may include soliciting bids more frequently than once per year.

The Commission engaged in conversations with several past and potential suppliers over the summer and fall to solicit feedback and ideas to accomplish the objectives of the Resolve. The suppliers highlighted that lowering supply rates and creating price stability are often competing objectives. To reflect lower market prices in standard-offer rates as prices in the market decline requires a short-term procurement strategy and potentially frequent price changes whereas price stability generally requires a longer-term procurement strategy. In addition, potential solutions to reduce ratepayer costs often involve shifting risk from suppliers to consumers, thereby reducing the risk premiums built into standard-offer prices while exposing ratepayers to volatility that may put unexpected upward pressure on rates.

The Commission historically issues its Request for Proposals for standard-offer service in early September for the following calendar year. Thus, there was not sufficient time to make substantive changes to the procurement methods for the 2026 term. The Commission is, however, considering whether any changes are appropriate to the procurement strategy for future procurements that may accomplish the objectives of the Resolve, and will notify the Joint Standing Committee on Energy, Utilities and Technology (Committee) if we make any substantive changes to the procurement methods. Potential changes the Commission is assessing are discussed below.

II. Standard-offer Procurement Considerations

Increasing spacing between standard-offer bid days

As standard-offer prices are closely correlated to the price of natural gas futures, spacing out procurements could stabilize costs. Currently, the Commission has utilized two bidding days for residential and small commercial classes, spaced approximately two weeks apart in November. This spacing mitigates natural gas price spikes and reduces liquidity issues. However, it remains possible that natural gas prices could be elevated for entire months or seasons. By soliciting bids in May and November, for example, the Commission could reduce the risk of inflated standard-offer prices due to elevated November gas prices. Suppliers noted that procuring supply too far in advance may increase the risk premiums in their bids.

Procuring shorter or longer standard-offer service contracts

Procuring shorter standard-offer service contracts to serve yearly load includes approaches such as separating winter and non-winter loads, laddering, and monthly pricing. Generally, these approaches would result in price increases in winter terms but may lower overall ratepayer costs on an annual basis and would be more reflective of current market prices. Price increases in winter could impact state initiatives such as heat pump implementation. This option would also increase volatility of standard-offer prices and is not in line with an earlier directive from the Legislature[1], as well as in the Resolve to increase stability of pricing.

In the alternative, the Commission could consider procuring contracts with terms greater than one year to increase price stability. Suppliers have indicated that longer terms would increase risk premiums as the volume and characteristics of the load being served become less certain further into the future. Suppliers were in general agreement that there would be little interest in bidding on terms in excess of two or three years. Laddering procurements of terms more than one year would result in prices declining at a pace slower than the market where market prices are generally decreasing but would also increase more slowly in an environment where prices are generally increasing.

Pass-through of certain costs incurred by suppliers

Suppliers indicated that certain ISO-NE program costs increase risks as the costs are highly variable, uncertain and are not costs that can be easily hedged. For example, ISO-NE introduced a new program, Day-Ahead Ancillary Services Initiative (DAAS or DASI), in March of 2025. Suppliers noted that the higher-than-expected costs of this program, uncertainty around winter prices, and lack of hedging products created a risk premium paid by ratepayers and suggest that a dollar-for-dollar recovery of these costs would reduce that risk premium and thus the price to customers. Passing-through DAAS-related or other costs would increase ratepayer exposure. While customers would be relieved of the associated risk premium imbedded in the supply rate, they would only experience savings if the actual costs passed through were less than or equal to the amounts assumed by the supplier, plus the risk premium included in the bid price.

The Commission has traditionally held that all obligations and risks associated with serving standard offer load should be borne by the suppliers. Nevertheless, for the 2023 and 2024 terms, certain out-of-market ISO-NE costs related to regional fuel security initiatives were passed through to Maine ratepayers. The Commission found those charges to be extraordinary in nature as informed by the standard offer bidding process and thus accepted bids that included a direct pass through to customers of those costs. Institutionalizing pass-through costs, however, would run afoul of Commission precedent, the structure and intent of the competitive supply market in Maine and may result in some level of administrative burdens for both utilities and the Commission.

Suppliers Paid for Load Served (pass-through of NEB risk)

Suppliers indicated that they include a risk premium associated with the Net Energy Billing (NEB) kilowatt-hour (kWh) credit program. Their risk comes from an imbalance between load obligation and billed load resulting from the load settlement process. At least one supplier advocated for payments based on their load obligation rather than their settled load. The Commission is considering this and other strategies to mitigate the impact of the NEB program

[1] Resolves 2023, chapter 39

on standard-offer prices.

Procure some or all of standard-offer service in the market

It is possible to direct utilities to supply full or partial customer load by procuring energy and related products in the market rather than hedging the full standard-offer load through the Commission's procurement. This approach, proposed by, for example, Eversource in New Hampshire, could expose ratepayers to market volatility, but may result in lower prices over the long term. This would be a significant departure from previous practices, with several hurdles to be addressed.

Soliciting more bidders could serve to increase competition in the market

The Commission may consider reducing the minimum tranche size on which a supplier must bid in an effort to increase the number of potential suppliers participating in the Commission's procurement. Currently, for example, the residential and small commercial class load is offered in minimum tranches of 25%, that is suppliers must bid on 25%, 50% 75% or 100% of the class. Reducing the minimum obligation may lower the price and load risks for suppliers and thus increase interest from smaller suppliers who do not typically participate in the standard offer solicitation thereby increasing competition. Unlike other strategies, the Commission does not expect there would be material downside risk of implementing this strategy.

III. Conclusion

As stated in the Commission's testimony on LD 568 the current practice of procuring residential standard-offer service for a one-year term is intended to promote State policy by offering customers market-based rates, but also to provide some level of rate stability through one-year contract terms (as opposed to prices that vary more frequently). This practice has resulted in supply prices that have been, on average across the entire year, on the lower end compared to other New England states, which offer a standard-offer service in six-month increments or multiple times per year. While the Commission is continuously assessing options to procure supply service, it is important to note that any shift in methodology should not be rushed, and it involves several important considerations. Over the next several months, the Commission will continue to explore the options discussed above and will seek input from suppliers, other states and possibly the utilities and will keep the Committee apprised of any anticipated changes.