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Electricity Shopping Guide, Vol. 3, Oct. 2000

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ELECTRICITY SHOPPING GUIDE

Maine Public Advocate Office

Volume 3 — October 2000

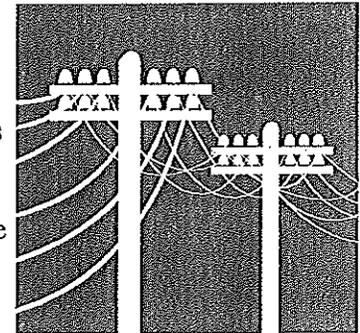
THE STATE OF ELECTRIC COMPETITION

The retail sale of electricity has now been open to competition in Maine for six months and it is safe to say that competition has not swept Maine's residential consumers off their collective feet. The reasons are the same as were reported in our last issue: there is little competition in the New England wholesale market and, with the exception of Bangor Hydro, there are low standard offer prices that competitors cannot beat. Interestingly, there has been relatively significant activity in Aroostook County, where more than 4% of customers have switched to a competitive supplier. [See Aroostook County: "The Home Team Advantage" page 3.] In other parts of the state, however, competitive suppliers have wooed less than one percent of customers away from the standard offer.

Looking at it another way, however, we can say that between 20 and 40% of the kilowatt hours sold in the state (depending upon which utility territory you are in) are being provided by competitive suppliers. The reason for this is that many of the state's industrial customers, some of whom measure their service in megawatts, not kilowatts, have contracted with competitive suppliers. Thus, although there are few such customers, they represent a large percentage of the overall load. These findings are detailed in the chart on page 2. By contrast, in Pennsylvania, where the electric industry was restructured about a year earlier than in Maine, only two of seven utility territories have total "migration" rates (in terms of kilowatt hours) that are higher than 18%.

Customers in the service territory of Bangor Hydro are in a unique and unenviable position with regard to energy supply. Last year, when the Commission sought to determine who would provide standard offer service and at what price, the only bids received to serve Bangor Hydro

customers were rejected because they were deemed to be too high. Bangor Hydro itself was then ordered to secure energy for the standard offer. With the approval of the PUC, Bangor Hydro procured 40% of the energy mix through the New England spot market. The remainder was purchased via long-term contracts. As a result, Bangor Hydro's standard offer customers have been exposed to some of the fluctuations in that market, which are in turn subject to the volatile worldwide energy markets.



Because of price increases in the New England spot market, the Commission recently approved an increase in Bangor Hydro's standard offer prices, effective October 1, 2000. After that date, the standard offer price for residential service will be 6.1 cents. The PUC chairman indicated that this amount is still below the price contained in the lowest bid received in last fall's failed auction. This new standard offer price, when combined with the distribution price, results in a total price to Bangor Hydro residential customers of 15.5 cents/kWh through February 2001. Beginning in March 2001, a new standard offer price will be put in place for Bangor Hydro customers. That price will be the result of a bid process that begins this October.

The Public Advocate agrees with the chairman of the PUC that this new high price is not attributable to deregulation in Maine. If anything, it is likely that the restructured form of regulation has only changed the timing of the imposition of this price increase upon customers. We think it likely that, as historical (stranded) costs are paid off and as the distribution rates decrease as a result, Bangor Hydro's residential total electric price will come down over the next five years. Much depends, however, on the regional wholesale market.

NUMBER OF CUSTOMERS SERVED BY A PROVIDER OTHER THAN THE STANDARD OFFER PROVIDERS OF 8/31/00				
	Residential/Small Commercial	Medium Commercial	Large Commercial	Total
Central Maine Power	76	409	117	602
Bangor Hydro-Electric	35	30	6	71
Maine Public Service	1,375	95	10	1,480

% OF CUSTOMERS SERVED BY A PROVIDER OTHER THAN THE STANDARD OFFER PROVIDERS OF 8/31/00				
	Residential/Small Commercial	Medium Commercial	Large Commercial	Total
Central Maine Power	.01	3.7	25.2	.1
Bangor Hydro-Electric	.03	2.2	9.4	.06
Maine Public Service	3.8	47.3	58.8	4.1

% OF CUSTOMERS LOAD SERVED BY A PROVIDER OTHER THAN THE STANDARD OFFER PROVIDERS OF 8/31/00				
	Residential/Small Commercial	Medium Commercial	Large Commercial	Total
Central Maine Power	.01	5.7	60.4	28.0
Bangor Hydro-Electric	.13	1.7	42.5	18.7
Maine Public Service	6.6	66.5	52.4	38.1

WILL THE "CALIFORNIA" PROBLEM OCCUR IN MAINE?

California, the first state to restructure its electric industry, has been in the news recently and the news has not been good. In the San Diego area, customers have been frustrated and angered by price spikes that in some cases have led to bills being three times their pre-restructuring levels. Will that happen here in Maine? We think not, for two primary reasons. First, southern California has seen a significant increase in the electricity needs of customers, largely because of business and population growth, during a time when no new generation plants are being built. So, failure to build new generators and sharply increased demand have combined to contribute to higher prices. By contrast, in Maine and the rest of New England, there has been relatively little business and population growth but several new generation plants have been built and a few more are under

construction. (Most of these new plants will use natural gas to generate electricity, including new plants in Maine providing 1500 megawatts of power.)

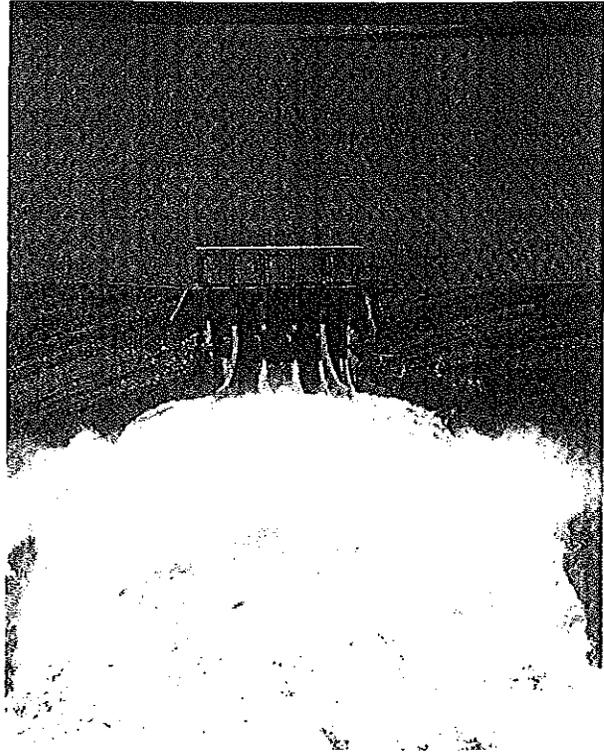
Second, the California standard offer is different than ours in at least one important way. In Maine, we have relatively fixed standard offer retail prices which shield customers from what can be large increases in the wholesale price of electricity. In California, however, the default power provider is allowed to "flow through" all of these price changes so that customers never know what their overall power bill is likely to be from one month to the other. In response to these fluctuations, the California PUC just "reregulated" electricity by establishing a price cap.

Although there could be supply price increases in Maine, we are not as vulnerable to swings in the wholesale market as they are in California.

GREEN POWER

As of today, there is still only one "green" electricity product on the market and that is Energy Atlantic's PureGreen. After an initial splash, Energy Atlantic has done little to advertise this product, and we are unsure how many customers have signed up. Another entity, known as Maine Interfaith Power & Light, has received a license from the Public Utilities Commission and is seeking letters of intent from potential customers interested in buying power generated from renewable resources. As an aggregator, however, they must obtain a sufficient number of potential customers before they can seek to match customers with suppliers.

What is green power? Legally, green power has not yet been defined. It is a term, however, most often used to describe power that is generated in a manner that is the least harmful to the environment. Examples include solar, wind, hydro and biomass burners.



DISTRIBUTION SERVICE

Although the generation of electricity has opened up for competition, delivery remains a regulated monopoly. Here are two mergers to report on, however, one now completed and the other just begun.

CMP. Energy East recently completed its acquisition of Central Maine Power Co. having paid CMP's shareholders \$900 million. Energy East, a holding company that owns New York State Electric and Gas and two Connecticut gas utilities, received Maine PUC approval for this acquisition on January 4, 2000. CMP will remain regulated by the Maine PUC. Under a 7-year price cap plan approved on September 18 by the PUC, CMP's rates will be capped through 2007 at a predetermined fraction of the annual inflation rate. We project rate decreases for CMP's distribution rates of almost \$140 million over the seven-year period ending in 2008.

Bangor Hydro. In July, Bangor Hydro announced that it had signed an agreement to be acquired by a Nova Scotia holding company known as Emera Inc. for \$206 million. Emera owns Nova Scotia Power, a utility that serves almost all the electric customers in Nova Scotia and has indicated that if the merger is approved and completed, Bangor Hydro will retain its name and its local management. There are many questions that will be asked and answered prior to a final PUC decision in February 2001. At this point, the Public Advocate's Office is investigating this matter but has not taken a position on the application. If this merger is approved and completed, Bangor Hydro will remain regulated by the Maine PUC. The PUC has already stated its desire to establish a price cap plan for BHE that is similar to the 7-year plan approved for CMP on September 18.

AROOSTOOK COUNTY: "THE HOME TEAM ADVANTAGE"

Customers of Maine Public Service, serving the majority of Aroostook County, have switched to competitive suppliers in greater numbers than elsewhere in the state. As of August 31, 1,480 customers, out of a total of 36,540, representing 38.1% of the total load, had left the standard offer. There are a couple reasons for this. Energy Atlantic, the same company that won the bid to serve CMP's residential standard offer customers, is headquartered in the area. Its local presence is apparently a significant factor in encouraging customers to switch. Energy Atlantic's primary competitor in Northern Maine, WPS Energy Services, ran radio advertising during the summer and convinced some customers to switch. Then, in August, Energy Atlantic advertised a product with a price somewhat (just barely) lower than the standard offer, and induced some customers, particularly medium sized commercial customers, to switch.

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LICENSED SUPPLIERS

To date, the PUC has issued thirty-three licenses to competitive electricity suppliers. Many of these licensees are not yet active, and most that are work only with large customers. For a list of licensees contact the PUC at 287-3831 or visit <http://musashi.ogis.state.me.us/puc/html/electricsuppliers.htm>



ABOUT THE PUBLIC ADVOCATE OFFICE

Stephen G. Ward, the Public Advocate, and his staff of seven represent Maine's telephone, electric, gas, and water customers before the Maine Public Utilities Commission, the courts, and federal agencies. Our mission is to work for reasonably priced, safe, and reliable utility services for Maine people. Website: <http://janus/state.meus/meopa> (Telephone 287-2445)