

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2006-513

December 19, 2007

MAINE PUBLIC UTILITIES COMMISSION
Standard Offer Bidding Procedure For
Customers of Maine Public Service Company

ORDER APPROVING
INTERIM STANDARD
OFFER PRICE ADJUSTMENT

ADAMS, Chairman; REISHUS and VAFIADES, Commissioners

I. SUMMARY

We approve an interim standard offer price increase of \$0.002 per kWh for all customer classes in the Maine Public Service Company (MPS) service territory. The price adjustment will be subject to refund or surcharge depending on the final outcome of our review of Integrys' capacity costs.

II. BACKGROUND

On December 18, 2006, the Commission issued in this docket its Order Granting Reconsideration and Designating Standard Offer Provider. The December 18th Order designated Integrys Energy Services (Integrys) as the standard offer provider for all customer classes in the MPS service territory for the 26-month period beginning January 1, 2007. The Integrys standard offer bid accepted by the Commission included a bidder condition that would allow for a price change to reflect costs resulting from the subsequent imposition of a capacity requirement in northern Maine through a FERC finding or a market rule change. In such a case, standard offer prices would increase based on Integrys' reasonable, incremental costs as determined by the Commission. The accepted bidder conditions included price increase caps associated with two types of capacity requirements: 1) installed capacity obligation; and 2) available capacity obligation. The capped prices differ depending on the type of capacity requirement that is imposed.

On October 26, 2007, Integrys filed a petition for a standard offer price adjustment pursuant to the capacity requirement bidder condition to become effective on November 1, 2007. The October 26th petition stated that the FERC, on October 19, 2007, had accepted Northern Maine Independent System Administrator (NMISA) tariff revisions and market rule amendments that include new Market Rule 10, entitled Capacity Obligations. The rule requires retail suppliers in northern Maine to secure capacity resources to cover projected peak load and projected operating reserve requirements for a Capacity Period. New Market Rule 10 is in effect for the six-month Capability Period beginning November 1, 2007.

The October 26th petition stated that the adoption of Market Rule 10 triggers the bidder condition, requiring a standard offer price adjustment. Integrys stated that its total capacity obligation is 162 MW (NMISA projected peak of 141 MW plus required

operating reserves of 21 MW) and that it does not have sufficient capacity commitments to meet the obligation for the Capability Period and would therefore need to purchase additional capacity. Because Integrys had not yet purchased the required capacity, the incremental cost of the obligation was not known. Accordingly, Integrys and our Staff agreed that there would be no price adjustment on November 1, 2007, but that a subsequent adjustment based on actual cost data would be retroactive to November 1st.

On November 26, 2007, Integrys filed an Affidavit of Dwayne Conley (Integrys Power Marketing Executive) to provide evidence regarding capacity purchases made to satisfy its shortfall and the costs of those purchases. Based on those costs, Integrys states that the standard offer price adjustment should be an increase of \$0.00331 per kWh if prices had increased on November 1, 2007. Integrys asks that its incremental costs be recovered through the remainder of the Capability Period, which would require a larger price adjustment. Integrys also stated that the capacity requirement adopted by the NMISA and approved by FERC does not fall within either the installed capacity obligation or available capacity obligation categories in the bidder condition and therefore the bidder condition price caps are inapplicable.

Through discussions with Integrys and a technical conference held on December 12, 2007, Staff has identified issues with the proposed allocation of incremental capacity costs, as well as other questions that require further review. Integrys and Staff did agree that it would be appropriate to allow some level price adjustment on an interim basis pending completion of the review of a permanent adjustment.

On December 16, 2007, Integrys filed a Memorandum Regarding Interim Standard Offer Price Adjustment, requesting an interim price adjustment of \$0.003 per kWh effective immediately. Integrys states that this price change is reasonable as an interim change in that it would result in recovery of significantly less than its incremental capacity costs, because the rate change would not be in effect for the entire Capability Period. In addition, Integrys states that the amount recovered would be similar to that which would occur if it did not prevail on the two issues Staff has identified to date: 1) incremental capacity costs are allocated over the entire northern Maine load, (rather than over the MPS standard offer load as argued by Integrys); and 2) capacity costs associated with operating reserves are not recovered.

III. DISCUSSION AND DECISION

There is no dispute that FERC's acceptance of new Market Rule 10 triggers the bidder conditions that allow for a standard offer price adjustment. However, the actual amount of that price adjustment will require a careful review. We agree with Integrys that an interim price adjustment of some amount would be appropriate. Such an adjustment is necessary to avoid the potential for significant rate shock that might occur if Integrys' incremental capacity costs need to be recovered over a shortened period of time due to the need for a process to review the costs and proper allocation. However, we are cognizant that electricity customers in northern Maine received a large increase

in standard offer rates at the beginning of this year and that higher usage patterns make a price increase in the winter especially difficult for many customers. Accordingly, the interim price adjustment should be as low as possible and should be no higher than the lowest price increase that might result after our full review is complete.

Based on the issues identified so far by Staff, it is possible that a rate adjustment at the conclusion of our review may be in the range of \$0.002 per kWh. In addition to the allocation issue, there is a possibility that all or a portion of the costs of capacity related to operating reserves are already being recovered in the base standard offer prices. If the incremental capacity costs are allocated over all of Integry's northern Maine load and the operating reserve portion of the costs are removed, the price adjustment would be approximately \$0.002 per kWh.¹ There is also a possibility that our review may reveal that Integry's capacity purchase were not reasonable, resulting in a lower price adjustment. We understand Integry's position that two months of the Capability Period have passed, resulting in a higher price adjustment if all the costs are recovered over the remainder of the Period. However, after our review, we might decide that, for rate stability purposes, some costs occurred to satisfy the capacity requirement during the winter Capability Period should be recovered in subsequent periods.

Upon these considerations, we conclude that the interim price adjustment should be \$0.002 per kWh. This price adjustment will be subject to refund if our final determination is less than the interim price adjustment. If our determination is that the amount should have been higher, we will adjust the prices so that Integry's recovers its prior costs prospectively from standard offer customers. Because we are unable at this point to determine the reasonable, incremental costs of the capacity obligation as required by the bidder condition, we direct MPS to hold the funds produced by the \$0.002 per kWh price increase in an interest-bearing account until a final decision is made on the price adjustment. The interim price adjustment will become effective on December 21, 2007.

Dated at Augusta, Maine this 19th day of December, 2008.

BY ORDER OF THE COMMISSION

Karen Geraghty
Administrative Director

COMMISSIONERS VOTING FOR: Adams
Reishus
Vafiades

¹ Assuming it was recovered over the entire November – March period.

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21 days** of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.