Testimony of Central Maine Power
Opposing
L.D. 1646, An Act To Restore Local Ownership and Control of Maine's Power Delivery System
May 14, 2019

Senator Lawrence, Representative Berry and Members of the Energy, Utilities & Technology Committee, my name is Carlisle Tuggey. I am the General Counsel and Secretary of Central Maine Power Company (CMP). I'm also a resident of the Town of Cumberland raising three small children there. I am here today testifying in opposition to L.D. 1646, An Act To Restore Local Ownership and Control of Maine's Power Delivery System.

My testimony will address aspects of the bill that would likely lead to lost efficiencies that likely will result in increased costs for the proposed consumer-owned utility and therefore no savings and possibly even higher rates for electricity customers. I'll also touch briefly on some other important points for your consideration such as tax revenues and complex management issues.

As expressed by Eric Stinneford previously, the promised rate savings do not account for certain increases in operating costs that would be experienced by the new entity. These lost efficiencies will result from the loss of certain shared services, common executive management and shared back office platforms leading to increased annual operating costs totaling tens of millions of dollars for the new utility. The premise here is simply one of economies of scale and the ability to rely on shared company services to maintain or lower operating expenses. Specifically, CMP currently receives services from Avangrid Service Company, the centralized shared service company for the Avangrid Networks group, Avangrid Management Company, and from other Avangrid affiliates, which services including human resources, IT, legal, marketing and communications, regulatory, security, supply chain, general services finance, executive and governance, among others. In CMP's 2008 electric distribution rate case, the cost savings associated with the shared service model were estimated at over $20M per year. Current cost savings from shared services are estimated to be $40-50 Million/year. The proposed stand-alone consumer-owned entity will lose the economies of this shared management structure and will need to replicate the full executive management structure internally. In fact, LD 1646 envisions that the new entity will seek a contractor to provide operating services. Any new utility operator providing such services is going to seek recovery of not only its actual operating costs, but also a profit margin that is commensurate with the risks and obligations that it would be accepting in such a contract. Although not quantifiable without conducting a solicitation for the actual services, this margin is likely to be significant. In addition, the stand-alone entity here will need to invest in new back-office systems, including accounting and customer relations and billing systems, to replace those that CMP's affiliates currently provide the Company and which are located outside of Maine.

By way of example, and for context, PSEG Long Island, LLC the investor-owned utility that was formed to take over operations of the consumer-owned Long Island Power Authority ("LIPA") effective on January 1, 2014, after New York State regulators determined that LIPA should be "reprivatized" due to repeated management and reliability failures, is paid tens of millions of dollars to manage LIPA's distribution and transmission assets. In fact, the Amended and

Restated Operations Services Agreement between LIPA and PSEG Long Island contemplates the payment of an annual management service fee to compensate for senior management wages, corporate overheads and a management profit. The annual management service fee includes a fixed component (equal to $36.3 million annually for years 2014 and 2015 and $58 million, escalated for inflation, annually for each of the remaining 10 contract years) plus an annual incentive compensation component, contingent upon favorable performance based on certain performance metrics, that goes from $5.44 million annually during years 2014 and 2015 and $8.7 million, escalated for inflation, annually for each of the remaining 10 contract years. In addition, LIPA pays, as pass through expenses, all costs and expenses incurred by the service provider in the course of providing the operations services.

The two key take-aways around shared services are (1) it is not the case that the legislature can simply change the owners and the new entity will function, but rather the services and support systems it currently receives will also have to be completely reconstituted and replaced, and (2) this endeavor will be time consuming and costly, costing tens of millions of dollars.

Touching briefly on tax implications, the Committee should consider that the State of Maine and the Municipalities in the State may lose tax revenues. CMP has paid $65 Million in State income tax, and $213 Million in local property taxes during the past 5 years. CMP in fact is one of the largest property taxpayers in the State. LD 1646 provides no certainty that the proposed consumer-owned utility will continue to pay such revenues to the State of Maine and the municipalities. In fact, the bill only contemplates payments to the State in lieu of the income taxes paid by CMP if the consumer-owner alternative utility completes its seizure of the investor-owned utilities before the end of fiscal year 2020-21, which is doubtful given the likely protracted litigation that will occur, as discussed in Catharine Connor's testimony, should this bill be enacted.

Lastly, operating a utility is complex and challenging. The deregulated wholesale electricity markets are difficult to navigate. There is no assurance that operation will improve under public ownership. In fact, one likely consequence of the bill is that the experienced executives, and other non-union employees who currently lead the State's investor-owned utilities (and are not promised to keep their positions under the bill) will lose their jobs as a result of this takeover, thereby causing a significant loss off institutional know-how, experience and leadership void. There is also no assurance that overall sound financial performance may be achieved. With a consumer-owned utility the business risk will be borne directly by consumers and/or taxpayers, whereas under the current structure such risk is borne in large part by investors.