



STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Philip L. Bartlett, II
CHAIRMAN

R. Bruce Williamson
Randall D. Davis
COMMISSIONERS

Harry Lanphear
ADMINISTRATIVE DIRECTOR

Testimony Neither For Nor Against
LD 1350 – An Act To Expand Maine’s Clean Energy Economy
April 20, 2021

Senator Lawrence, Representative Berry, honorable members of the Committee on Energy, Utilities, and Technology, the Public Utilities Commission (Commission) testifies neither for nor against LD [1350](#), *An Act To Expand Maine’s Clean Energy Economy*.

The Commission is currently administering the first of two procurements for renewable resources that fulfill Maine’s [Renewable Portfolio Standard](#) (RPS) as directed by [Public Law 2019, Chapter 477](#), codified into law in [Title 35-A, section 3210-G](#). This Act further amends the RPS law to authorize two additional solicitations by the Commission for contracts fulfilled entirely by Class IA resources to procure, in total, an amount of energy or renewable energy credits equal to 15% of retail electricity sales in the State in 2019. The Commission would be authorized to adopt routine technical rules and would be required to give “special consideration” to project viability and regional economic conditions in the solicitations.

It is important to consider that long-term (e.g., 20-plus year) power contracts come with substantial risk to ratepayers. This risk occurs because of the difficulty of accurately predicting energy supply costs 20 years into the future. A benefit of long-term contracting is that it helps project financing by allowing lending institutions to forego the risk associated with energy price fluctuations. This risk is shifted to utility customers through long-term contracts. If future supply costs are lower than the contract rates, ratepayers will pay the above market costs and customer bills will increase; conversely, if the opposite is true, ratepayers will be the beneficiaries.

Maine's History with Long-Term Contracting

The State of Maine to this day shares the burden of ratepayer risk exposed by its experience with Qualifying Facility (QF) long-term contracts entered into by Maine utilities in the 1980's and early 1990's. Pursuant to federal law, these QF contracts with renewable power and cogeneration facilities had prices based on predictions of the utility's "avoided costs" or based on competitive solicitations. At the time, future prices were expected to be very high due in large part to oil price forecasts that proved inaccurate. The costs of executing these QF contracts at what proved to be above market rates continue to be paid by ratepayers to this day through what is referred to as "stranded costs." Over time, stranded costs related to QF contracts paid for ratepayers have totaled hundreds of millions of dollars. For example, from March 2002 through March 2005, stranded costs for CMP and Versant (Bangor Hydro and Maine Public Service at that time) were projected to total \$543M.¹

To a large extent, the restructuring of the electricity industry in 2000 was a response to these QF contract stranded costs. One of the major goals of restructuring was to deregulate electricity supply and to have that supply provided through a competitive market in which the suppliers, rather than the ratepayers, would take on the risk of market price fluctuations. Long-term contracts for large amounts of electricity can be at odds with that goal of exposing suppliers rather than customers to risks.

There are, on the other hand, significant environmental and economic benefits to the state from having renewable projects sited here. These long-term contracts also provide the benefit of serving as a ratepayer hedge against fluctuating supply prices. An important policy question is how to balance these benefits against the risk of substantial new stranded costs.

An Act to Reform Maine's Renewable Portfolio Standard, [Public Law 2019, Chapter 477](#), required the Commission to conduct two renewable energy procurements for an amount of energy equal to 14% of retail electricity sales, which amounts to approximately 800 MW. Although the Commission believes that the prices obtained in the first round of the procurement will benefit ratepayers based on energy price forecasts, history has proven that unforeseen changes in market conditions should be expected.

¹ MPUC Annual Report on Restructuring, December 31, 2002.

As mentioned above, the Act would require two additional solicitations to acquire energy equal to 15% of retail sales, also equivalent to approximately 800 MW. For reference, Maine's peak load is approximately 2100 MW and Maine currently has 4,500 MW of generating capacity in the State. Much of the energy produced by these plants is in excess of Maine's demand and thus serves load in other states in the region. Maine has been a net exporter of power for many years.

Grid Considerations

The development of significant amounts of additional generation capacity on Maine's grid could harm existing renewable generators by creating transmission constraints that could result in negative market prices² and the need for transmission upgrades. While the Commission tries to incorporate the potential for negative pricing in evaluating bids in a procurement, there is significant uncertainty in doing so.

For these reasons, the Commission urges the Committee to carefully consider how this legislation fits into the larger context of the State's long-term strategy to meet the State's renewable energy goals. Important questions include: When will additional generation be needed to serve Maine consumers? How much risk should ratepayers take on at a time? Is there a benefit to spacing out procurements to allow for an evaluation of changes in regional electricity markets?

The Commission welcomes any questions and will be present for the work session.

Sincerely,



Garrett Corbin
Legislative Liaison

cc: Energy, Utilities, and Technology Committee Members
Deirdre Schneider and Daniel Tartakoff

² Negative market prices occur when transmission constraints require generators in a particular area to either curtail or actually pay to generate electricity. For example, when the Weaver Wind project became operational at the end of last year, bringing on a significant amount of extra supply, the region was impacted by negative pricing which requires existing wind generators to either curtail or actually pay to deliver power to the grid.