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Committee on Energy, Utilities and Technology

LD 1708: An Act to Create the Pine Tree Power Company

Testimony of Samuel May in Support

Senator Lawrence, Representative Berry, members of the Committee, my name is Samuel May of Portland. I am submitting this testimony in support of LD 1708 – An Act to Create the Pine Tree Power Company.

Maine has admirably articulated ambitious climate goals. De-carbonization of our energy economy means replacing fossil fuel power sources, which means we will use electricity to power our lives. A de-carbonized Maine will load our transmission and distribution grid with many more electrons. This transition will take a significant amount of money.

More than half of an electric bill goes to T&D. LD 1708 proposes a major cost savings for Maine ratepayers by forming the Pine Tree Power Company.

Why is a ratepayer/consumer owned utility so much less expensive? It is called the cost of capital or rate of return. Investor Owned Utilities, such as CMP and Versant, use equity and debt and are guaranteed by law a rate of return of approximately 10%. This cost is borne solely by ratepayers.

Additionally, mandated returns are based on building fixed assets, not finding cost savings efficiencies. I quote,

"Under standard cost-of-service regulation, utilities earn a rate of return on capital investments. But operating expenses (labor, fuel, etc.) are typically recovered dollar-for-dollar. In other words, utilities earn profits for their shareholders if they build new stuff, but they do not similarly profit from figuring out how to use the stuff they already have more efficiently."

Our grid of the future must be incented in a different manner.

COUs have no shareholders to repay capital to. With no equity costs, COUs rely solely on debt called revenue bonds. The bonds issued have numerous advantages, primarily exemption from Federal income taxes and a low-risk rating due to repayment secured by future revenues. Like a turnpike authority, revenue bonds are issued at very low interest rates. The cost capital for COUs is in the range of 3-4% with current rates below 3%. The market for these types of bonds in the US is $4 trillion. It is a massive market.

The cost differential between IOU capital and COU capital is around 6.5%. That is a tremendous amount of savings – in fact, $9 billion over 30 years for Maine ratepayers, according to Dr Silkman's detailed analysis, presented to this committee a year ago.

These bonds are not State of Maine obligations. There is no balance sheet connection whatsoever between a COU and the State. There is no implication of obligation. No crowding out of the State's ability to raise and spend general obligation bonds for schools, bridges, etc.

To summarize, COUs have no shareholders to return high rates for equity, no higher priced corporate bonds, just low-cost, secure revenue bonds amortized over long time horizons, secured by future revenues and exempt from Federal income taxes.

Maine ratepayers save billions of dollars and own, rather than rent, the grid of the future.

Sam May is a former Wall St analyst with significant experience in both Silicon Valley and Hong Kong. He lives in Portland and is co-founder of Maine Harvest Federal Credit Union.