State of Maine
Office of the Public Advocate
112 State House Station, Augusta, Maine 04333-0112
(207) 624-3687 (voice) 711 (TTY)
www.maine.gov/meopa

Janet T. Mills
GOVERNOR

William S. Harwood
PUBLIC ADVOCATE

Testimony In Support of
LD 987, "An Act to Promote Electricity Price Stability for Standard-offer Service"
March 23, 2023

Senator Lawrence, Representative Zeigler and distinguished members of the Joint Standing Committee on Energy, Utilities, and Technology,

My name is William Harwood and I am the Public Advocate, here today to testify in support of LD 987, "An Act to Promote Electricity Price Stability for Standard-offer Service."

The OPA thanks Senator Vitelli for sponsoring this important bill. LD 987 is a direct response to the two most recent annual increases in Maine Standard Offer (SO) prices. On January 1, 2022, SO prices increased over 80% and on January 1, 2023, they increased again by approximately 40%. These increases created financial havoc for many families and small businesses living on tight budgets.

In the month of February our office received almost 400 calls from angry, frustrated ratepayers -- approximately 4 times the usual volume. One woman simply told us "I can't pay this," despite already receiving LIHEAP and ELP benefits and being on a CMP payment plan. Another woman complained, "I'm 85, retired, my husband passed a short time ago and I can't afford this on my fixed social security income." Like many others, these Mainers just can't afford electricity at today's price of approximately 25 cents per kilowatt hour.

It does not take much imagination to understand the devastating impact of increasing annual electricity costs to over $1,900/residential customer on an annual household budget of only $20-25K.

These increases were primarily driven by large increases in worldwide natural gas prices. In New England, gas fired generation of electricity accounts for approximately 50% of all the electricity generated. So, when we allow the competitive market to "put most of its eggs in the natural gas basket", electricity consumers suffer the consequences. When gas prices go through the roof, electricity supply prices go through the roof!!

So, we can all sit back, do nothing and just blame Putin for starting the war in Ukraine and the resulting impact on worldwide natural gas prices. Or, as Senator Vitelli is doing by bringing this bill forward, we can look inside our own house to see if our own process for setting SO prices may have contributed to this unfortunate result. And in my view, there is plenty of room for that discussion.

Several years ago, the PUC adopted a practice of inviting bids just once a year and based on the winning bid, the PUC set SO prices for the following calendar year. Previously, SO prices had been set on a rolling three-year basis whereby approximately 1/3 of the needed supply was put out to bid each year, locking in 1/3 of the total cost for the next 3 years. This had the benefit of stabilizing SO prices and minimizing the impacts of fluctuations in the price of natural gas. The current practice of accepting bids for all the needed supply once each year exposes Maine consumers to large swings in SO prices.

Now, it is said that what goes up, must come down and energy prices are no exception. I concede it is likely that in the next year or two, natural gas prices are likely to decline, resulting in a decline in electricity supply costs in New England and a decline in Maine SO prices. However, the fact that prices may come down next year does not eliminate that crushing burden this year on those consumers who live paycheck to paycheck.

It is well established in financial literature that price stability is highly valued by consumers. The pivotal Benton Massell study from 1969 concludes that price stabilization improves social welfare. Consumers and all the various charitable and government agencies that support them can, over time, adjust to permanently high prices. But they cannot respond easily to sudden, temporary large price fluctuations.

The concept underlying LD 987 is supported by the recent study prepared for OPA by Exeter Associates, pursuant to Public Law 2021, Chapter 164 (LD 318 in the 130th

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Legislature). In the OPA Report submitted to this Committee on February 1st, the consultants from Exeter concluded that in order to promote price stability, SO supply contracts should be 6-10 years in length, rather than the current one-year term.

In addition, by soliciting bids for only one year, consumers are forced to pay a premium to the supplier. Specifically, the supplier must estimate what the retail demand for electricity will be during the twelve-month period, including the impact of how much of that demand will be served through net metering (NEB), and how much the load will increase due to additional heat pumps and EVs. If the supplier underestimates demand, it may have to incur the additional cost of going into the wholesale supply market to purchase more supply at a time when costs are high. Conversely, if the bidder overestimates demand, it may have to suffer the loss of having to dump the excess energy into the market at a time when prices are lower. Either way, the supplier faces a financial risk and consequently is forced to add a risk premium to its bid that all of us must pay.

LD 987 is an attempt to implement the recommendations of the Exeter Report. The bill gives the PUC the explicit authority to designate a standard offer provider for a period up to 10 years. By expanding the time horizon beyond one year, the recent price volatility can be minimized. Furthermore LD 987 gives the PUC authority to enter into a long-term arrangement with a reputable supplier and allow, with the approval of the PUC, SO prices to be periodically adjusted during that period to make sure the supplier can earn a reasonable profit but also protect consumers from being overcharged.

This approach also allows the PUC to arrange for the SO Provider to receive all the energy that is currently being purchased by CMP and Versant under the State's renewable energy programs, including the NEB program. CMP and Versant don't need or want this energy. As soon as they receive it, they simply turn around and immediately dump it into the wholesale spot market. Hopefully, a long term SO Provider can find a way to use it to help supply Maine SO customers.

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For many years, our electric utilities, subject to PUC approval, passed on supply costs to ratepayers. Today our local gas utilities pass on supply costs to their ratepayers. LD 987 gives the PUC the tools to move the SO program a step away from the volatile ups and downs of the competitive market and closer to the regulated model with which we are all familiar.

Thank you for your time, attention, and consideration of this testimony. The Office of the Public Advocate looks forward to working with the Committee on LD 987 and will be available for the work session to assist the Committee in its consideration of this bill.

Respectfully submitted,

William S. Harwood

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