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 Eric Stinneford. I am Vice President, Controller and Treasurer of Central Maine Power Company (CMP) and 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.

CMP recognizes that over the last two years our company has fallen short of the expectations of our regulators, our elected officials and, most importantly, our customers. On behalf of the nearly 1,100 CMP and Avangrid employees here in Maine, I want to assure this Committee that we take these concerns seriously and we are actively taking the necessary steps to improve our customer service and restore public trust and confidence in our company. We have increased staffing in a number of areas, corrected problems with implementation of our new customer information system and eliminated the backlog in customer bills.

As Mr. des Rosiers will explain, the Public Utilities Commission is thoroughly examining all of these issues, as well as CMP's responsive actions. Even as CMP is working hard to better meet our customers' needs, I am confident that the Commission will do the job it is entrusted to do, and hold our feet to the fire and ensure that the Company follows through on these commitments. With all due respect to the proponents of this bill, this is the appropriate remedy. We do not believe that taking private companies and turning them into public authorities will improve customer service and be in the best interest of Maine.

The remainder of my testimony will address several financial aspects of the bill and, more specifically, the bill's promised rate benefits and the likelihood that those benefits will be achieved.

LD 1646 has been put forth with representations that this legislation will lower prices for Maine electric customers. At CMP, we feel strongly that this is not the case. Let me start by providing some perspective on how Maine's current electric rates stack up in our region. According to the most recent national data published by the Energy Information Administration (EIA), Maine's electric rates are the lowest among all states in the Northeast. Lower than all five other states in New England, New York and New Jersey.

Table 1
Northeast Electric Prices*

Northeast States	Average retail price (cents/kwh)
Maine	**13.02**
New Jersey	13.32
Vermont	14.60
New York	14.74
California	16.06
New Hampshire	16.17
Rhode Island	16.42
Massachusetts	17.12
Connecticut	17.55

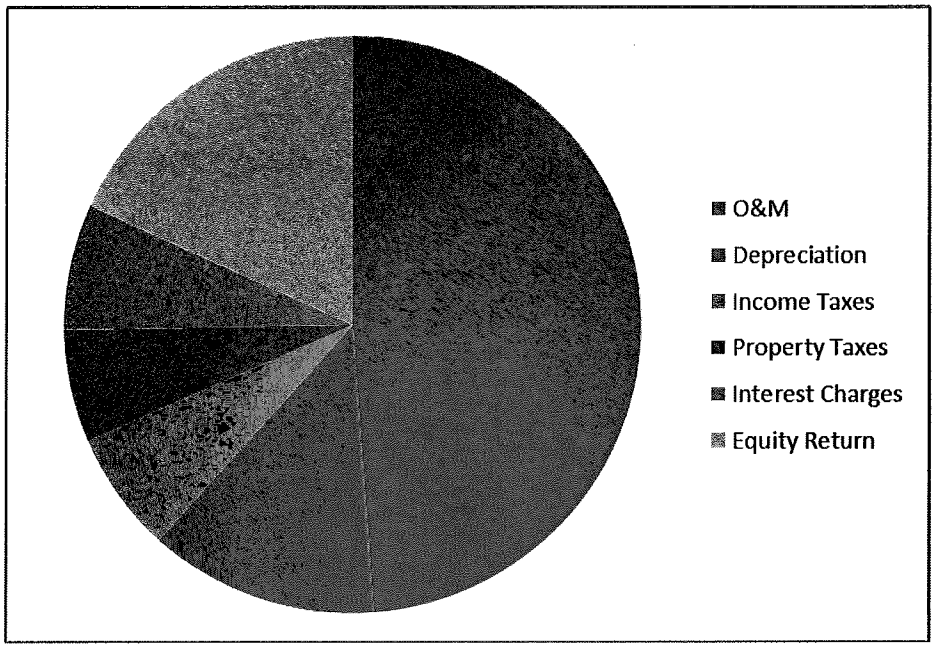
* Source: EIA State Electricity Profiles available at https://www.eia.gov/electricity/state/

Focusing within our state borders, CMP's residential delivery rates are lower than those of half of Maine's consumer owned utilities (COU), including those of Eastern Maine Electric Cooperative, the only COU whose larger rural service territory begins to approach the span of the state's investor owned utilities. See attached Exhibit 1 for a summary of these rates as displayed on the website of the Public Utilities Commission.

I have also attached to my testimony Exhibits 2 and 3 which set forth bar charts that provide historical details of electric price components. I provide these to emphasize several points: (1) CMP's delivery prices have been remarkably stable for nearly two decades, and (2) the price components responsible for the vast majority of price volatility over this period will not be affected by the utility's ownership structure. As Exhibit 2 indicates, when expressed in real dollars, CMP's residential delivery prices have declined more than 25% since electric restructuring was implemented in 2000 and the Company's current prices are lower than they were in 2006, before CMP was acquired by Iberdrola. Turning to the bundled residential supply and delivery prices shown in Exhibit 3, it is clear that the two biggest contributors to volatility and price increases in the last decade have been electric supply prices and regional transmission rates. The customers of a consumer-owned utility acquiring CMP's assets would still be purchasing capacity and energy from the same ISO New England wholesale market and exposed to these same supply price impacts. Similarly, Maine electric consumers will still need to pay their allocated share of regional transmission tariff charges, regardless of the utility ownership structure. These two components alone represent more than 50% of the residential electric bill and would not be materially changed by a shift to consumer ownership.

The remainder of the average residential CMP electric price, approximately 8 cents/kWh, reflects the operations and maintenance (O&M) costs of operating the utility, depreciation expense, taxes, interest expense and return on shareholders' invested equity. Figure 1 below provides an illustration of the relative contribution of these components in CMP's current rates.

Figure 1
CMP Current Revenue Requirement Components



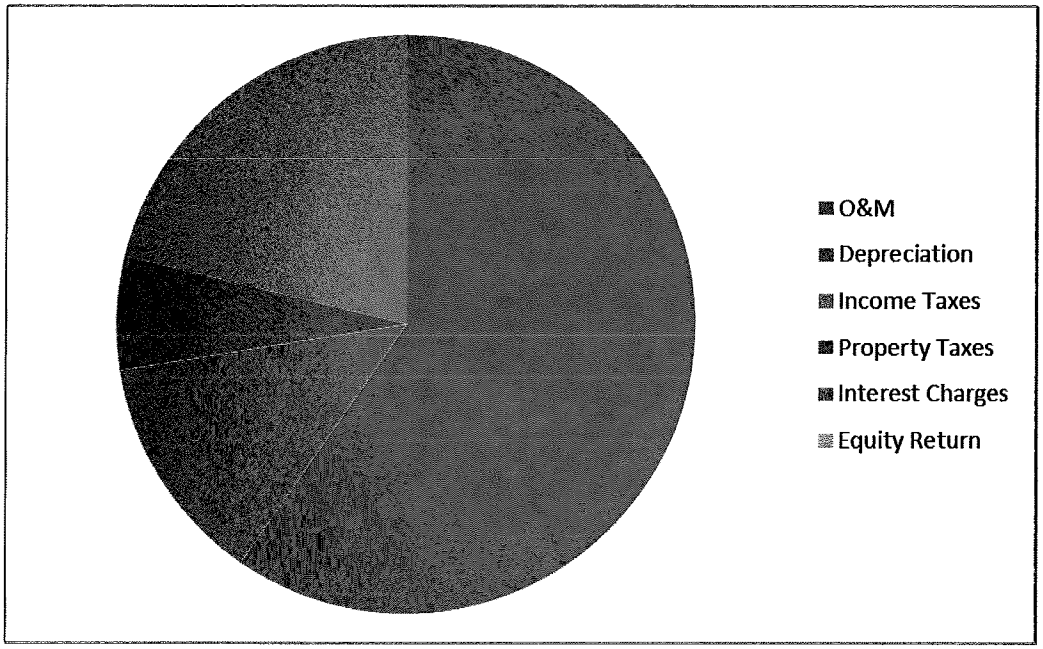
Proponents of this legislation have claimed that a 15% rate reduction can be achieved by effectively "refinancing" the utility's capital structure, replacing shareholder equity with lower cost debt, and eliminating its income tax liability. These savings projections are unrealistic and ignore several critical considerations. First, it is highly unlikely that a newly created consumer-owned entity will be able to achieve financing rates lower than the average debt rate of approximately 4% realized by CMP as a well-established, A-rated utility with strong financial backing from a large parent company. A new entity seeking $7-9 billion in revenue bond financing, with no recourse to the state, will be challenged to secure this debt at all, much less at rates comparable to CMP's current rates. This is particularly true since the State of Maine's existing total outstanding debt, including borrowing by the Maine Turnpike Authority and the University of Maine System, is approximately $4.9 billion,

Even if the newly created entity is able to secure debt financing, the amount of principal to be financed will be multiples of CMP's currently financed amount. CMP's current capital structure is comprised of approximately $1.1 billion in debt and $2.6 billion of equity. As the recently announced Emera Maine transaction has demonstrated, a fair market acquisition of the Company's assets would require refinancing all existing debt, plus as much as two times the current equity. This would mean expanding the current debt burden for CMP customers from

$1.1 billion to $6-7 billion. This added debt principal and higher risk nature of the new debt would substantially erode the projected 15% savings of displacing shareholder equity.

The promised rate savings also ignore the certain increases in operating costs that would be experienced by the new entity. As described in the accompanying testimony of Carlisle Tuggey, the lost efficiencies achieved by CMP through shared services, common executive management and shared back office platforms would result in increased annual operating costs totaling tens of millions of dollars for the new utility. Thus, with consideration of substantially higher debt costs and higher operating costs, a representation of the new entity's revenue requirement structure is shown in Figure 2.

Figure 2
Representative Revenue Requirements of New COU Entity



However, the information provided above presents only a static financial view. LD 1646 also raises concerns around the ability of such a consumer-owned utility to meet future investment needs. Electric utilities are by their nature a capital intensive industry. As illustrated in Table 2 below, CMP has been investing approximately $300 million per year to meet the ongoing needs of its transmission and distribution network. Throughout the historical period depicted, CMP has financed this new investment with a balanced portfolio of debt and shareholder equity. In fact, since Iberdrola acquired CMP, approximately **107%** of CMP's net income (profit) has been reinvested in Maine by the Company's shareholders, enhancing the reliability, intelligence and resiliency of the CMP network and improving the Company's customer service systems.

Table 2
CMP Capital Investment

Year	Capital Expenditures ($000)
2009	126,206
2010	233,718
2011	523,528
2012	509,435
2013	401,555
2014	283,906
2015	225,389
2016	207,518
2017	251,777
2018	184,715
Total	**$2,947,747**
Average	**$ 294,775**

The proposed consumer-owned utility will need to continue to maintain reliability, including meeting Federal reliability mandates from the North American Electric Reliability Corporation (NERC), replacing aging infrastructure and addressing the demands created by the increasing frequency and intensity of storms. In addition, it will need to meet the needs and expectations of policy makers for a more robust, intelligent and flexible grid to address the threats of climate change through initiatives such as promotion of distributed generation, new renewable generation development and electrification of the transportation and heating sectors. These initiatives will require the proposed consumer-owned entity to incur substantial levels of new incremental debt each year to keep up with these investment needs, without the benefit of shareholder equity infusions. A political structure, such as the governing consumer board proposed in LD 1646, will find it extremely challenging to overcome public resistance to such new debt issuance, exposing Maine to a deteriorating electric infrastructure that suffers from the same lack of maintenance and investment we have seen in our schools, roads and bridges.

For these and related reasons, we respectfully urge the Committee to vote ought not to pass on LD 1646. Thank you for considering our comments.

EXHIBIT 1

Delivery Rates

Below is a chart providing the average annual residential electricity rates for each electric utility in Maine as of 2015. The average annual Delivery Rate is broken down by the actual transmission and distribution cost as well as stranded cost. For example, Central Maine Power's average annual delivery rate in 2015 was 7.8 cents/kWh (7.7 cents/kWh for transmission and distribution costs and .1 cents/kWh for stranded costs).

RESIDENTIAL ELECTRICITY RATES IN MAINE
As of December 31, 2015*

	% of State Residential Load	kWh	Delivery Rate T&D ¢/kWh	Delivery Rate Stranded Cost ¢/kWh	Delivery Rate Total Delivery ¢/kWh	Standard Offer Rate ¢/kWh	Total Rate ¢/kWh
INVESTOR-OWNED UTILITIES							
Central Maine Power*	78.8%	3,682,211,999	7.7	0.1	7.8	6.6	14.4 ¢/kWh
Emera Maine - BHD*	13.4%	626,576,503	9.1	1.7	10.8	6.6	17.4 ¢/kWh
Emera Maine - MPD*	4.1%	190,259,091	6.5	-0.4	6.1	8.5	14.6 ¢/kWh
COOPERATIVES & MUNICIPAL-OWNED UTILITIES							
Eastern Maine Electric Cooperative	1.2%	56,848,305	9.2	N/A	9.2	6.7	15.9 ¢/kWh
Houlton	0.7%	31,133,209	3.7	N/A	3.7	6.7	10.4 ¢/kWh
Van Buren	0.2%	7,752,920	4.8	N/A	4.8	6.7	11.5 ¢/kWh
Kennebunk Light & Power	1.0%	48,272,681	4.4	N/A	4.4	7.9	12.3 ¢/kWh
Madison Electric Works	0.4%	17,947,193	6.9	N/A	6.9	8.3	15.2 ¢/kWh
Matinicus	0.0%	212,921	Exempt from Standard Offer requirements				79.9 ¢/kWh
Monhegan	0.0%	309,479	Exempt from Standard Offer requirements				73.0 ¢/kWh
Fox Island	0.1%	6,485,461	19.1	N/A	19.1	3.8	22.9 ¢/kWh
Isle au Haut	0.0%	190,097	32.3	N/A	32.3	12.8	45.1 ¢/kWh
Swans Island	0.0%	2,106,495	25.0	N/A	25.0	12.8	37.8 ¢/kWh
STATE AVERAGE	100.0%	4,670,306,354	7.8	0.3	8.1	6.7	14.8¢/kWh

* Central Maine Power, Emera Maine - Bangor Hydro District and Emera Maine - Maine Public District information based on residential rates as of 7/1/15 and standard offer rates to be in effect March 1, 2016. Consumer-owned utilities' information based on 2014 annual reports (filed in 2015) and supply rates in effect 12/31/15.

Electricity Statistics (2010)

Note: Revenues and prices below are for delivery service only and do not include the cost of electricity supply. Except as noted, electricity supply prices are in addition to the prices noted below (see Standard offer rates for standard-offer supply prices).

http://www.maine.gov/mpuc/electricity/delivery_rates.shtml

EXHIBIT 2

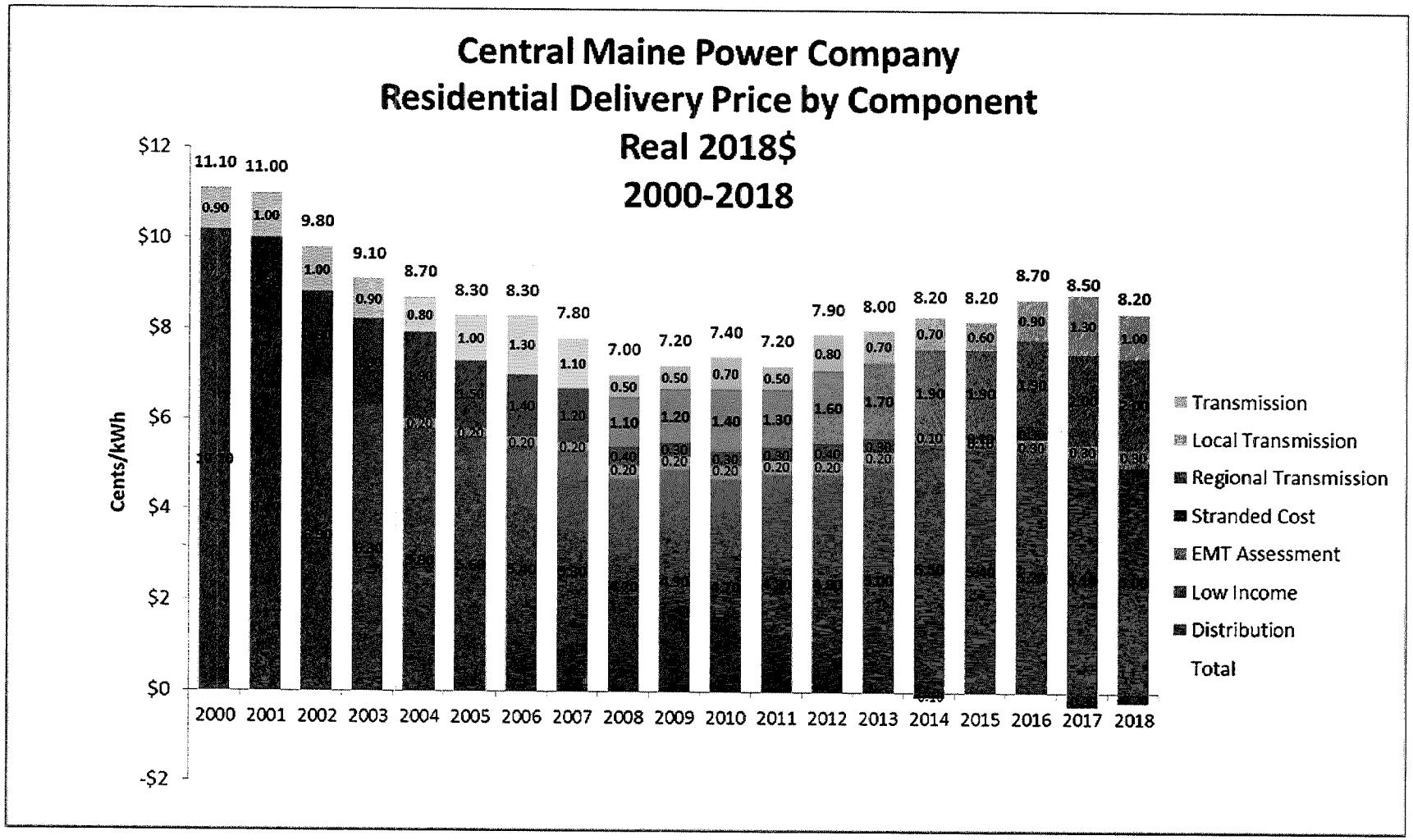
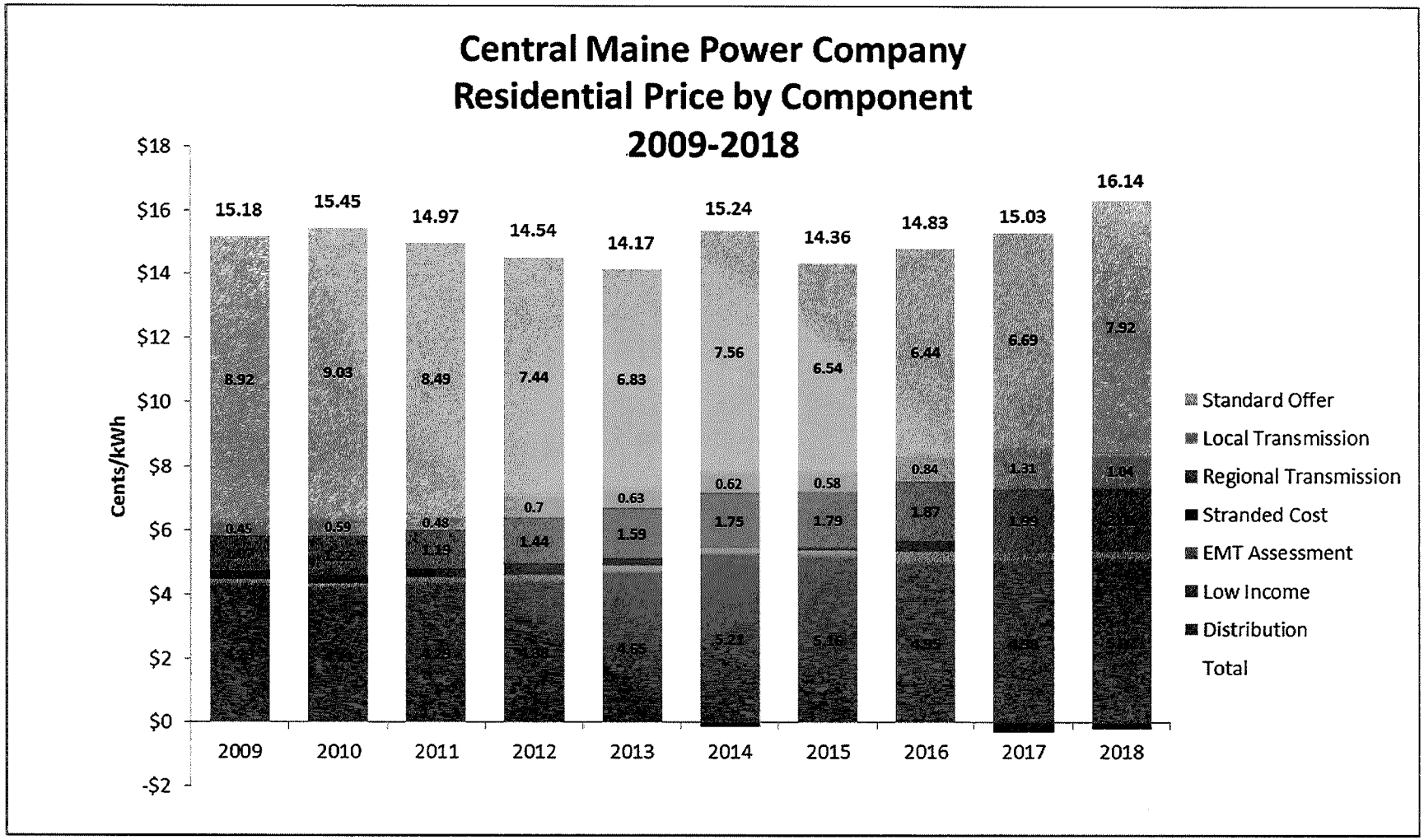

Central Maine Power Company
Residential Delivery Price by Component
Real 2018$
2000-2018
Cents/kWh
$12
$10
$8
$6
$4
$2
$0
-$2
2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016 2017 2018
11.10 11.00 9.80 9.10 8.70 8.30 8.30 7.80 7.00 7.20 7.40 7.20 7.90 8.00 8.20 8.20 8.70 8.50 8.20
Transmission
Local Transmission
Regional Transmission
Stranded Cost
EMT Assessment
Low Income
Distribution
Total

EXHIBIT 3


Central Maine Power Company
Residential Price by Component
2009-2018
Cents/kWh
$18
$16
$14
$12
$10
$8
$6
$4
$2
$0
-$2
15.18
15.45
14.97
14.54
14.17
15.24
14.36
14.83
15.03
16.14
8.92
9.03
8.49
7.44
6.83
7.56
6.54
6.44
6.69
7.92
0.45
0.59
0.48
0.7
0.63
0.62
0.58
0.84
1.31
1.04
1.44
1.59
1.75
1.79
1.87
1.99
2009
2010
2011
2012
2013
2014
2015
2016
2017
2018
Standard Offer
Local Transmission
Regional Transmission
Stranded Cost
EMT Assessment
Low Income
Distribution
Total