

STATE OF MAINE
BEFORE THE
PUBLIC UTILITIES COMMISSION

CENTRAL MAINE POWER COMPANY
Request for Approval of an Alternative Rate
Plan (ARP 2014) Pertaining to Central Maine
Power

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Docket No. 2013-168

TESTIMONY OF

GLENN S. POOLE

ON BEHALF OF

INDUSTRIAL ENERGY CONSUMER GROUP

DECEMBER 12, 2013

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1 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

2 A. My name is Glenn S. Poole, and my business address is 2 River Road, Bucksport,
3 Maine, 04416.

4 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

5 A. I am employed as Manufacturing Support Manager – Energy for Verso Paper.
6 My responsibilities are to manage energy for Verso at its three paper mills in
7 Maine and Michigan. At its two Maine facilities, Verso employs over 1500
8 employees and spends more than \$450 million dollars a year in business with
9 Maine based companies.

10

11 **Q. PLEASE DESCRIBE YOUR BUSINESS AND PROFESSIONAL**

12 **BACKGROUND.**

13 A. I hold a Bachelor of Science degree in Electrical Engineering with Honors from
14 the University of Maine. I have worked at the Bucksport Mill for Verso and prior
15 owners of the Mill for over 41 years, holding various positions in electrical and
16 energy operations and management. I have experience as the project leader on the
17 Bucksport Energy Plant which was installed at the Bucksport Mill in 2001, and
18 prior to that I led the development of a project that installed a 72 MW steam
19 turbine at the Bucksport Mill in 1988. After Verso's acquisition of the
20 Androscoggin mill in Jay, Maine, I led the effort to re-start the gas turbine
21 complex there. Until recently, I also served as a member of the Board of Directors
22 of the Efficiency Maine Trust.

1 My experience at Verso (and its predecessors) has included decades of
2 rate analysis, rate and contract negotiation, including participation in every major
3 CMP rate design case since 1980 before the MPUC usually either as a witness or
4 as an officer of IECG, and similar participation in CMP and ISO-New England
5 rate proceedings in front of FERC. Early in my career, I worked in the Rate
6 Department of Bangor Hydro-Electric as an analyst. I apply my understanding of
7 retail and wholesale rate designs in my position with Verso in advising senior
8 management in key investment and operating decisions regarding long term
9 contracting, the design and development of mill power plants and systems, and
10 other energy-related matters affecting Verso's facilities.

11

12 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

13 A. The purpose of my testimony is to address certain aspects of the rate design
14 proposal Central Maine Power Company ("CMP"), including its proposed
15 standby rates and its proposed elimination of Rate O. I will also address briefly
16 CMP's proposed decoupling mechanism. My testimony is presented on behalf of
17 the Industrial Energy Consumer Group ("IECG").

18

19 **Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS.**

20 A. Rates and rate design are powerful social tools that must be developed carefully
21 because of the enormous influence that they have on the Maine economy. It is not
22 an exaggeration to say that CMP's rate design, including Rate O, have
23 significantly affected whether mills were built and expanded here or elsewhere,

1 whether mills constructed and expanded highly efficient cogeneration, and
2 whether large manufacturers continued to employ thousands of Maine people.
3 Companies like Verso make huge investment decisions based in part on rate
4 designs. CMP's proposed elimination of Rate O is a clear example of a
5 counterproductive rate design effort that should be rejected. Although, as CMP
6 points out, no customers currently take service under the rate, several customers
7 on special rate contracts are eligible for Rate O and rely on it as a default. In
8 addition, Rate O is integrated into a prior FERC settlement. Elimination of Rate
9 O would harm customers that are party to that settlement. Most importantly,
10 elimination of Rate O will hurt the Maine manufacturing economy. I therefore
11 urge the Commission to reject CMP's proposal to implement standby rates and to
12 eliminate Rate O. Second, CMP's standby rate proposal is punitive to customers
13 with self generation and, as a result, constitutes an illegal exit fee under Maine
14 law. Regardless of whether the Commission determines that the proposal fits the
15 definition of an exit fee, though, the proposal is not just and reasonable because it
16 does not properly reflect the costs that may be imposed on the distribution system
17 of the installation of self generation equipment by ratepayers. Finally, I urge the
18 Commission to move cautiously in implementing any decoupling mechanism to
19 avoid undermining the historical regulatory incentives for utilities to operate and
20 invest efficiently.

21

22 **Q. WHAT IS RATE O?**

1 A. Rate O is the Temporary Power Delivery Rate. It is available only to a limited
2 group of large industrial customers who were eligible for the service prior to the
3 closing of its availability. The rate has been in place for over seventy years.
4 Indeed, it is my understanding that Rate O originated at the time CMP built the
5 Wyman dam, which resulted in CMP having power in excess of its load in many
6 hours. To make efficient use of this power, CMP built Seaboard Paper in
7 Bucksport, as well as a transmission line directly from Wyman dam to Bucksport,
8 and established Rate O.

9 Today, Rate O offers backup service to large customers with self
10 generation on an interruptible basis. Because of the availability of Rate O, large
11 mills in the CMP territory have been able to make significant investments in
12 onsite generation that have improved the economics of their facilities and saved
13 Maine jobs. These investments have added mass to the Maine grid and, because
14 of their size and geographic dispersion, reduced the need for transmission
15 investment by CMP.

16 The Commission may recall that CMP proposed the elimination of Rate O
17 previously in the 1990s, but was rebuffed. Then, as now, it appeared that no one
18 at CMP was aware of its origin or of its importance to the Maine manufacturing
19 economy.

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21 **Q. ARE ANY CUSTOMERS TAKING SERVICE UNDER THIS RATE**
22 **TODAY?**

23 A. I am not aware of any.

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Q. WHY IS IT IMPORTANT THAT THE RATE REMAIN AVAILABLE?

A. First, most of the customers eligible for Rate O take service under special rate contracts. However, these contracts have fixed terms. At some point in the future it will be necessary to renegotiate these contracts or to revert to tariffed service. For many of these customers, reverting to Rate O may be a preferred option as compared to entering a new special rate contract or taking tariffed service under an LGS rate. Further, eliminating Rate O unfairly changes the negotiating dynamic in special rate contract discussions by imposing a more expensive default rate on customers able to meet the requirements of Rate O.

Q. WHY AREN'T THE LGS RATE CLASSES SUFFICIENT AS DEFAULT RATES?

A. Rate O allows eligible customers to take service on an interruptible basis. The LGS classes do not include the option of taking service on an interruptible basis. Because of this difference, it is fundamentally a different class of service with different cost implications for CMP.

Q. DOES RATE O INCLUDE DEMAND CHARGES?

A. No, because the service is fully interruptible, Rate O does not include demand charges.

1 **Q. WHY IS IT APPROPRIATE FOR RATE O NOT TO INCLUDE A**
2 **DEMAND CHARGE?**

3 A. Because it is fully interruptible, there are no transmission capacity costs imposed
4 on the CMP system as a result of a customer taking service under this rate.
5 Further, and perhaps more importantly, pursuant to Rate O, CMP retains “the
6 right to deny service under this rate or to discontinue furnishing service under this
7 rate, in whole or in part, immediately upon notice to the customer that the
8 Company’s transmission or distribution system is approaching a capacity
9 constraint.” Thus, the maximum demand is absolutely limited to the existing
10 physical capability of the system and CMP is not responsible for upgrading the
11 system to serve the distribution load served under Rate O. Again, taking service
12 under the rate imposes no capacity costs on the CMP system.

13
14 **Q. ARE THERE ANY OTHER PROBLEMS WITH ELIMINATING RATE O?**

15 A. Yes, Rate O is an integral part of a FERC settlement relating to transmission
16 charges for eligible customers. This settlement is reflected in part in Schedule 12,
17 Section B of CMP’s Open Access Transmission Tariff:

18 5. Notwithstanding any other provision in this Schedule, the Local
19 Network Load of a customer taking non-firm service under Rate O in any
20 month shall be the load placed on the system by the customer at the time
21 of Central Maine’s monthly system peak for the load taken under Rate O,
22 without regard for Behind-The-Meter Generation.

23
24 This tariff provision and other aspects of the settlement that it reflects provide
25 substantial value to customers eligible for Rate O.

1 CMP states in its response to Oral Data Request No. 85-1 that upon the
2 elimination of Rate O, it will “file proposed amendments to Schedule 12 to reflect
3 such elimination yet maintain the continued ‘grandfathered’ treatment of the
4 applicable Rate O customers in a manner consistent with the Settlement
5 Agreement.” We appreciate CMP’s expression of good intentions to respect the
6 prior settlement. However, as the Commission is aware, the reopening of any past
7 proceeding introduces the potential that other parties may intervene and raise new
8 issues that could change the result sufficiently to undermine some or all of the
9 value of the prior resolution. CMP has presented no compelling reason to
10 eliminate Rate O. Preserving the sanctity of the transmission rate settlement that
11 incorporates Rate O is an important reason not to eliminate this rate.

12

13 **Q. DO YOU HAVE ANY FINAL COMMENTS REGARDING RATE O?**

14 A. Yes. CMP suggests that elimination of Rate O is appropriate essentially as a
15 “housekeeping” matter. If CMP is correct that no customers are likely to take
16 service under this rate in the future, there is no harm in leaving it in place. As I
17 have described, however, there are several important reasons to preserve Rate O.
18 I therefore urge the Commission to reject CMP’s proposal to eliminate Rate O.

19

20 **Q. PLEASE DESCRIBE CMP’S STANDBY RATE PROPOSAL.**

21 A. CMP is proposing to impose a demand ratchet on all customers in the MGS class
22 or larger classes, with any amount of self generation. A demand ratchet is a
23 monthly recurring charge based upon a customer’s demand in a single month

1 applied over an extended period. CMP's proposed demand ratchet would be
2 imposed based upon the customer's individual noncoincident peak over a trailing
3 twelve month period.

4

5 **Q. IS CMP'S STANDBY RATE PROPOSAL JUST AND REASONABLE?**

6 A. No. A customer's noncoincident peak does not correlate well to the capacity
7 costs imposed by a customer on a utility system. Transmission and distribution
8 systems must be planned for a utility's summer peak. CMP is now a summer
9 peaking utility and becoming more so. However, even if it were still a winter
10 peaking utility, its summer peak would be most relevant for planning purposes.
11 This is because the ability of a transmission and distribution system to deliver
12 electricity is inversely related to the temperature. At colder temperatures, the
13 system has significantly greater delivery capability. On the coldest day of the
14 year, when the winter peak is likely to occur, the delivery capability will be at its
15 maximum. Conversely, at the time of summer peak, the delivery capability will be
16 at its lowest. The necessary level of capital investment in a transmission or
17 distribution system is therefore is directly tied to the demand at the time of
18 summer peak.

19 Customer peaks vary widely depending on the nature of their
20 consumption. One IECG member is a ski area whose load is close to zero at the
21 summer peak, but which has significant load during the winter. Schools tend to
22 have little or no load during the summer. Manufacturers have a fairly steady load,
23 but many have the ability through on site generation or demand response

1 capability to reduce load to avoid summer peaks. Office building or retail stores,
2 on the other hand, may have significant air conditioning loads that contribute to
3 summer peak. Regardless of its proposed linkage with self generation equipment,
4 imposing a ratchet based upon noncoincident peak makes no sense since only the
5 summer peak is relevant for planning purposes, and nonincident peak is a poor
6 predictor of the likelihood of a customer's contribution to coincident peak. In
7 fact, the sum of a utility's non-coincident peaks obviously exceeds its annual
8 peak. One purpose of the grid is to take advantage of diversity of load.

9 CMP's proposal compounds this flaw by targeting the ratchet to customers
10 with self generation. Self generation technologies vary widely, and many of them
11 have the ability to reduce, rather than increase, CMP's costs at the time of
12 summer peak, including solar PV, baseload generation, and dispatchable
13 generation. This cost reduction capability should be rewarded, not penalized.
14 The presence of such generation destroys any arguable linkage between system
15 costs and the proposed standby rate.

16 Further, the proposed rate is discriminatory. There is no evidence that the
17 load characteristics of a customer with self generation will be any different than
18 one without such generation. For example, a customer with a combined heat and
19 power unit that does not run in summer months, resulting in the customer being a
20 summer peaker, may have a load factor and coincident peak identical to another
21 customer with no self generation but with a significant air conditioning load.
22 CMP's proposal would charge the customer with self generation a ratchet based
23 on this peak, but not the customer whose peak is due to seasonal load.

1 Alternatively, a customer that makes an efficiency improvement or participates in
2 demand response may have a load factor and coincident peak as a customer that
3 achieves the same result with a self generation project. Yet, CMP proposes to
4 treat these customers in a completely different manner. This is a quintessential
5 case of undue discrimination.

6

7 **Q. HOW ARE DEMAND CHARGES APPLIED AT THE TRANSMISSION**
8 **LEVEL?**

9 A. Historically, ISO-New England’s transmission demand charge has been
10 calculated on the customer’s coincident peak, not its noncoincident peak.

11

12 **Q. IS THE PROPOSED STANDBY RATE AN EXIT FEE?**

13 A. Yes, it is clearly an exit fee. Maine law provides:

14 A customer who significantly reduces or eliminates consumption of
15 electricity due to self-generation, conversion to an alternative fuel or
16 demand-side management may not be assessed an exit or reentry fee *in*
17 *any form* for the reduction or elimination of consumption or
18 reestablishment of service with a transmission and distribution utility.

19
20 35-A MRSA Sec. 3209(3). I emphasize “in any form” because the Legislature
21 clearly anticipated that utilities may attempt to circumvent a more simple or direct
22 prohibition, which is precisely what CMP has done here. Since, as discussed, the
23 charges bear no relationship to the cost of service and are tied to the use of self
24 generation, CMP’s proposed standby charge is assessing a fee for the reduction of
25 consumption.

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1 **Q. DO YOU HAVE ANY OTHER BASIS FOR CONCLUDING THAT THE**
2 **STANDBY CHARGE IS AN EXIT FEE?**

3 A. Yes. I have reviewed the Edison Electric Institute (“EEI”) report entitled
4 “Disruptive Challenges: Financial Implications and Strategic Responses to a
5 Changing Retail Electric Business” dated January, 2013. EEI is a trade
6 association of investor-owned electric utilities of which CMP is a member. The
7 report concludes that the electric industry faces a direct and significant threat from
8 “disruptive challenges,” arise due to a convergence of factors, most notably
9 distributed energy resources, which EEI refers to as “DER.” The report advises
10 members to take proactive steps to reduce their exposure to this risk. The
11 recommended actions included

- 12 - *Consider a stranded cost charge* in all states *to be paid by DER* and fully
13 departing customers to recognize the portion of investment deemed stranded
14 as customers depart;

15
16 EEI Report at 18.

17 CMP’s standby rate proposal is clearly a direct implementation of the
18 strategy. Indeed, other aspects of CMP’s proposal in this proceeding also reflect
19 EEI’s recommendations, including the overall thrust of its rate design proposal to
20 shift cost recovery to customer and demand charges. It is notable that EEI treats
21 customers with distributed generation as equivalent to customers completely
22 departing the system. This parallels the Maine statutory language defining an exit
23 fee, which refers both to “self-generation” and any “reduction or elimination of
24 consumption.”

25

1 **Q. ARE YOU AWARE OF ANY OTHER LEGAL PROBLEMS WITH THE**
2 **PROPOSAL?**

3 A. Yes. Because many of the affected generation units are qualifying facilities under
4 PURPA, charging a discriminatory rate for backup service would violate federal
5 law. The relevant regulation is 18 CFR Sec. 292.305.

6

7 **Q. PLEASE COMMENT ON CMP'S DECOUPLING PROPOSAL.**

8 A. I am not familiar with all of the details of CMP's decoupling proposal, but believe
9 it is necessary to comment generally on decoupling mechanisms, especially their
10 poor history in Maine. Specifically, as the Commission considers CMP's
11 proposal, IECG urges the Commission to move cautiously. Specifically, we urge
12 the Commission to balance CMP's desire to be insulated from revenue losses
13 arising from the improved efficiency of its customers' use of electricity against
14 the need to preserve traditional regulatory incentives for CMP to manage
15 carefully its decisions regarding capital investments and operating costs. A
16 poorly designed decoupling mechanism would increase the risk that a utility will
17 make imprudent investments based on an inappropriate expectation of cost
18 recovery.

19 The Commission has seen this risk come to fruition several times. Most
20 notably, CMP's Electric Rate Adjustment Mechanism ("ERAM") of the 1990's
21 led to an unintended windfall to CMP by providing an automatic rate increase for
22 a downturn in the economy. Any decoupling mechanism must be linked only to
23 efficiency improvements, not declines in load generally. For example, apparently

1 due to the financial crisis of 2008, electric load fell at CMP and nearly every other
2 U.S. utility. Decoupling isn't intended to deal with such events.

3 Further, it is now clear that the load forecast on which CMP's investment
4 in MPRP was based upon overly optimistic assumptions. CMP is unlikely to
5 reach the forecasted load levels used to justify MPRP for an extended period.
6 However, the FERC formula rate under which transmission investments are
7 recovered guarantees CMP's recovery of these costs. I question whether CMP
8 would have been as anxious to undertake the full scope of MPRP if recovery of its
9 cost was subject to traditional cost based regulation, including regulatory lag and
10 the lack of any ability to recovery of Construction Work in Progress in current
11 rates.

12 I cited the January 2013 EEI report earlier. Among the sound
13 recommendations of this report is to "[a]pply more stringent capital expenditure
14 evaluation tools to factor-in potential investment that may be subject to stranded
15 cost risk." CMP is clearly aware of the risks presented both by distributed
16 generation and improved efficiency by its customers. It should not be encouraged
17 to make investments that may later prove to be unnecessary through an overly
18 generous reconciliation mechanism.

19 Finally, implementation of a decoupling mechanism would substantially
20 reduce the level of risk faced by equity investors related to CMP's provision of
21 distribution service. To the extent the Commission grants CMP's request, we
22 urge the Commission to adjust CMP's allowed return on equity downward to
23 reflect this reduction in risk.

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2 Q. **DOES THIS CONCLUDE YOUR TESTIMONY?**

3 A. Yes.