

Executive Summary of the Work Group on Electric Industry Restructuring

This report presents a summary of the issues and discussions of the Work Group on Electric Industry Restructuring. The Work Group was created by Resolves of 1995, chapter 48 (Appendix A), as the first phase of a two phase study of electric industry restructuring in Maine. The Work Group met 9 times during the interim between the First and Second Regular Sessions of the 117th Legislature. A list of Work Group members is attached as Appendix B.

Resolves of 1995, chapter 48, gave the Work Group a broad charge to study the issues raised by deregulation of the electric utility industry and to begin the process of planning the transition of the electric industry in the State from a regulated monopoly to a competitive market.

Throughout the group's discussions there has been a tension between the desire to create a "free market" for sales of electric energy and the desire to establish regulatory parameters to protect or promote certain interests. Those interests include protecting utility shareholders from stranded costs, protecting the integrity of existing contractual arrangements, promoting the ability of new players effectively to compete in the new marketplace, protecting customers from market abuse or neglect, protecting and promoting environmental quality. Although these issues were not resolved in this phase of the process, the Work Group was able to make a significant first step by identifying both the functional components that will most likely emerge in a competitive electricity market and how and where among those functional components a variety of functions that various group members believe need to be provided might be provided. That analysis is summarized in this report in Chart A, entitled "Restructuring; Issues and Options," and is discussed more fully in section 2.

The Work Group engaged in substantive and lengthy discussions on stranded cost recovery, an issue that many in the group felt was the most important transition issue associated with restructuring. Although the group did not reach consensus as to how (or even whether) full recovery of stranded costs should be addressed, the concepts, concerns and suggestions of the members of the Group are summarized in this report in Chart B, entitled "Stranded Investment."

The Work Group attempted to focus primarily on those topics that are likely to fall within Maine's jurisdiction. However, the report emphasizes that resolution of issues not within the state's jurisdiction is a prerequisite to effective restructuring of the industry.

The fact that Maine is not able to resolve those issues on its own does not in any way suggest that Maine can ignore those issues.

Another issue central to restructuring is whether the functional sectors of a competitive electric market need to be separate legal entities or whether so-called functional unbundling is sufficient. Underlying the issue is a fundamental concern of electric utilities that actual unbundling or mandated divestiture could result in irreparable financial damage to them, loss of benefits of low-cost hydroelectric and nuclear power to Maine consumers and loss of the economies of vertical integration. Others believe that continued vertical integration could provide unfair market advantage to utilities and that the benefits of increased competition could outweigh such losses, if any.

Various proposals for restructuring were offered by members of the group in the course of the group's work. Those proposals are summarized in Chart C, entitled "Restructuring Plans."

A subgroup of the Work Group developed on its own a more detailed proposal which was discussed at the Work Group's penultimate meeting. That proposal ("Paradigm" proposal) is attached as Appendix D. Many members of the group provided written comments on that proposal; these are attached as Appendix E. At the final meeting of the Work Group, two alternative proposals were offered ("Alternative Proposal #1" and "Alternative Proposal #2"). These are attached as Appendix F and Appendix G.

At the final meeting, the group voted on Alternative Proposal #1 and Alternative Proposal #2. Alternative Proposal #1 (see Appendix F) was supported by eight members of the Work Group. Alternative Proposal #2 (see Appendix G) was supported by four members of the Work Group. Copies of the voting sheets are included with the two alternative proposals in the respective appendices.