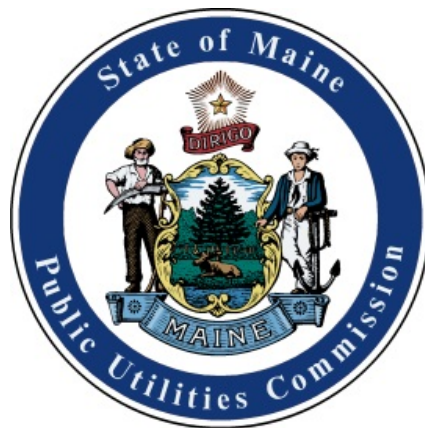


STATE OF MAINE PUBLIC UTILITIES COMMISSION



2016 Annual Report

February 1, 2017

Maine Public Utilities Commission

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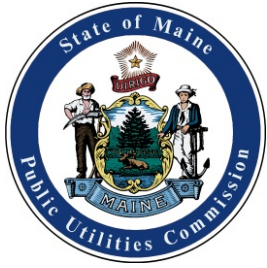
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Table of Contents

<u>Section</u>	<u>Page</u>
1. Commissioners' Letter	1
2. Organization Overview	4
3. Executive Summary	6
4. Telecommunications	8
5. Electric	18
6. Natural Gas	36
7. Efficiency Maine Trust	48
8. Gas Safety	50
9. Dig Safe	54
10. Water	58
11. Emergency Services Communication Bureau	62
12. Consumer Assistance	70
13. Summary of Commission Rulemakings.....	77
14. Summary of Law Court Appeals	78
15. Reports to the Legislature	81
16. Fiscal Information	82
17. Commissioners' Biographies	85
18. Past Commissioners	86



Commissioners

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Commissioners' Letter

This report provides an overview of the work conducted by the Maine Public Utilities Commission (Commission) in 2016 administering the laws concerning public utilities in Maine. This past year included work on several complex cases involving gas and electric utilities, as well as work to carry out legislative directives including Provider of Last Resort (POLR) obligations, determining the allocation of \$13.4 million from the undesignated surplus of the General Fund to four qualified biomass bidders from Maine, and enhancing the region's energy infrastructure through gas pipeline capacity as well as liquefied natural gas storage.

Emergency Services Communications

The Commission's Emergency Services Communication Bureau established the rules governing the implementation of Emergency Fire Dispatch and successfully implemented the protocols at three of Maine's Public Safety Answering Points in the fall of 2016. Like existing medical protocols, fire protocols will allow first responders to more efficiently respond to and address fires in Maine. The fire protocols were approved by the legislature in 2015.

Pipeline and Infrastructure Safety

The Commission's Consumer Assistance and Safety Division (CASD) enforced several gas safety violations and dig safe violations totaling approximately \$400,000. In addition, the CASD received a 100% score for the second consecutive year from the United States DOT's Pipeline & Hazardous Materials Safety Administration (PHMSA) for the administration of its pipeline safety program and a 96% score for its damage prevention program. The CASD resolved about 900 consumer complaints in 2016, most concerning credit and collection activity from electric utilities.

Electricity

Retail electricity supply prices for most customers in Maine declined slightly in 2016. The Standard Offer request for proposals conducted by the Commission resulted in electricity supply prices for CMP residential and small business consumers effective January 1 through December 31, 2016, of 6.46 cents/kWh and 6.62 cents/kWh for Emera Maine – Bangor Hydro District residential and small business consumers. These prices are 1%-3% lower than the prior year standard offer prices. The medium business class prices were 11% lower in CMP's territory and 17% lower for Emera Maine's Bangor Hydro District. The standard offer price reduction created savings for Maine consumers and businesses in 2016. In November 2016, the Commission's request for proposals for standard offer prices beginning January 2017 resulted in slightly lower rates for many customers, but a slight increase for CMP residential and small business consumers.

Natural Gas

The Maine Energy Cost Reduction Act (ECRA) authorized the Commission, in consultation with the Public Advocate and the Governor's Energy Office, to execute or direct one or more utilities to execute an "Energy Cost Reduction Contract" (ECRC) to procure capacity on a natural gas pipeline that would increase the flow of natural gas into New England. In September 2016, the Commission found that both ECRC proposals, Spectra Energy Partner LLC's Access Northeast (ANE) and Portland Natural Gas Transmission's Continent to Coast (C2C) were commercially reasonable, in the public interest, reasonably likely to be cost effective and increase pipeline capacity into the region, and enhance system reliability. The Commission voted to proceed with ANE, conditioned on similar approval in other New England States. In November, the Commission elected to postpone proceeding with ANE pending either positive developments in the region regarding regional pipeline efforts or the termination of the Commission's statutory authority on December 31, 2018 to direct the execution of an ECRC.

Telecommunications

Public Law 2015, Chapter 462 (the Act) passed in 2016, directed the Commission to conduct a major substantive rulemaking to implement certain provisions of the Act relating to the removal of the POLR obligation in certain municipalities, as well as possible additional municipalities in the future if certain service quality standards are met. The Commission coordinated and held public meetings in each of these communities to inform consumers about the Act. The new rules have been provisionally adopted as of January 2017. The Act also directed the Commission to review its POLR service quality rule, Chapter 201, and make any changes to be consistent with service quality provisions in the Act. This work was completed in November 2016.

On December 5, 2016, Consolidated Communications Holdings, Inc., headquartered in Illinois, announced it had entered into an agreement to acquire FairPoint Communications, Inc. The proposed merger plan was filed with the Commission on December 23, 2016. The Commission will review this proposed merger carefully to protect the interests of Maine ratepayers. The Commission has up to six months to complete its review.

Water

Several water utilities asked for and received relatively modest rate increases in 2016. The major reason for the increases was to allow these utilities to replace their aging infrastructure. The cost associated with replacing this aging infrastructure for all Maine water utilities over the next 20 years is estimated at over \$1 billion.

Finally, drought conditions in 2016 dictated that the Commission look closely at its rules to ensure that water utilities could address the possible adverse consumer impacts of a severe drought. The Commission proactively collected data from water utilities and opened an inquiry to explore the issue. The Commission may propose new rules in the spring of 2017.

The Commission is also actively involved with the Drought Task Force being coordinated by the Maine Emergency Management Agency.

Conclusion

The Executive Summary of the report is detailed on page 6 and highlights some of the more noteworthy cases and events that occurred during calendar year 2016.

The Commission has a very dedicated and talented group of employees. In addition to their hard work for the people of Maine, we are proud to report that our employees exceeded the goal for the Maine State Employees Combined Charitable Appeal (MESECCA) by 17%.

In all aspects of its work, the Commission continues to diligently exercise its regulatory, adjudicatory and public policy responsibilities to ensure that utility services for Maine residential and business consumers are provided at rates that are just and reasonable and consistent with good utility practice. We look forward to working with the Legislature this year on utility issues.

With regards,



Mark A. Vannoy
Chairman



Carlisle J. T. McLean
Commissioner



R. Bruce Williamson
Commissioner

2. ORGANIZATION OVERVIEW

The Maine Public Utilities Commission regulates electric, gas, telephone and water utilities to ensure that Maine citizens have access to safe and reliable utility services at rates that are just and reasonable for residential and business consumers.

The Commission, created by the Maine Legislature in 1913, has broad powers to regulate public utilities in Maine including electricity, telephone, water, and gas providers. The Commission also responds to customer questions and complaints, grants utility operating authority, regulates utility service standards and monitors utility operations for safety and reliability and has authority over rates and service of ferry transportation in Casco Bay.

Like a court, the Commission adjudicates cases and may take testimony, subpoena witnesses and records, issue decisions or orders, and hold public and evidentiary hearings. The Commission encourages participation by all affected parties, including utility customers. The Commission also conducts investigations and rulemakings, investigates allegations of illegal utility activity and responds to legislative directives.

The three full-time Commissioners are nominated by the Governor, reviewed by the Legislature's Joint Standing Committee on Energy, Utilities and Technology and confirmed by the full Senate, for staggered terms of 6 years. The Governor designates one Commissioner as Chairman. The Commissioners make all final Commission decisions by public vote and action of the majority.

The Commission's staff of 60 includes accountants, engineers, lawyers, financial analysts, economists, consumer specialists, and administrative and support staff. It is divided into six operating areas (See Figure 1) according to industry area or function.

The Telephone and Water Division and the **Electric and Gas Division** are designated to work on the issues related to these industries. Division staff conduct technical and financial investigations and analyses of utility operations, analyze applications by utilities to issue securities, advise the Commissioners on matters of rate base, revenues, expenses, depreciation, cost of capital, engineering, rate design, energy science, statistics and other technical elements of these utility areas. Staff also conduct various supply procurement processes, including standard offer service.

The Emergency Services Communication Bureau manages the statewide Enhanced 911 (E911) system, including program development and implementation. The statewide 911 system is the component of the emergency response system that delivers 911 calls and displays the telephone number and physical location of the caller at one of Maine's 26 Public Safety Answering Points (PSAPs).

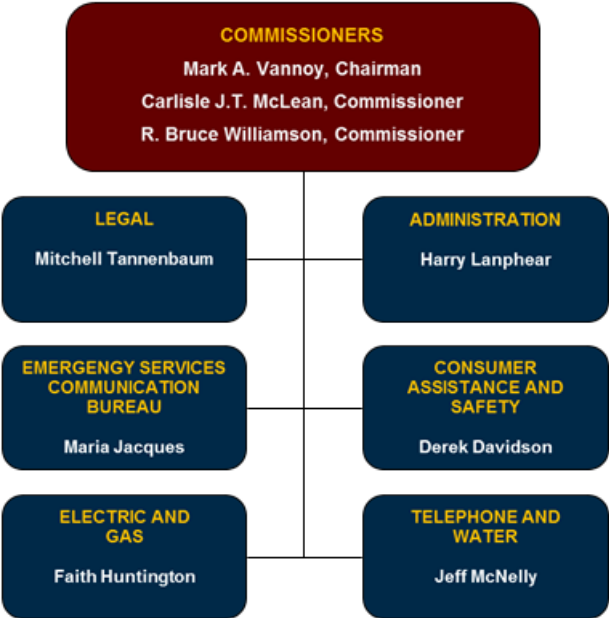
The Consumer Assistance and Safety Division (CASD) provides information and assistance to utility customers to help them resolve disputes with utilities. CASD investigates a variety of complaints involving utility service, including quality of utility service, billing disputes, payment arrangements, rates or charges, disconnection, and utility repairs. The CASD educates the public and utilities about consumer rights and responsibilities and

evaluates utility compliance with state statutes and Commission rules. The CASD also oversees gas safety regulation and enforcement as well as underground facilities damage prevention.

The Legal Division provides hearing officers in cases before the Commission and assists in preparing and presenting Commission testimony on legislative proposals. This division represents the Commission before federal and state appellate and trial courts, and various regional and federal administrative and regulatory agencies.

The Administrative Division handles day-to-day operational management of the Commission, with responsibilities for fiscal and personnel matters, contract and docket management, legislative analysis and the Commission's facilities. This division also oversees information technology including the Commission's Case Management and Consumer Complaint System.

Figure 1 – Commission Organizational Chart



3. EXECUTIVE SUMMARY

This section of the annual report highlights some of the more noteworthy cases and events that occurred during calendar year 2016.

Topic	Description
Awards	The United States DOT's Pipeline & Hazardous Materials Safety Administration (PHMSA) gave the CASD a perfect score of 100% for the Commission's pipeline safety program. PHMSA also gave the CASD a 96% score for its damage prevention program (Dig Safe).
Emergency Fire Dispatch	The Emergency Services Communication Bureau established new rules and successfully implemented Emergency Fire Dispatch protocols at three of Maine's Public Safety Answering Points in the fall of 2016. Like existing medical protocols, fire protocols will allow first responders to more efficiently respond to and address fires in Maine. The fire protocols were approved by the legislature in 2015.
Standard Offer Price Reduction	The Standard Offer RFP conducted by the Commission in late 2015 resulted in price reductions for all CMP and Emera residential and small business consumers in 2016. Of note, the medium business class prices were 11% lower in CMP's territory and 17% lower for Emera Maine's Bangor Hydro District.
Efficiency Maine Trust (EMT) Funding	On December 17, 2015 EMT filed its proposed three year plan describing efficiency measures for eight programs to provide information, incentives, and quality assurance related to customer-sited energy upgrades. EMT proposed a total budget of \$216.5 million over the 3-year period. A settlement among the parties resulted in a stipulation which was approved by the Commission on July 6, 2016 providing funding for cost-effective efficiency measures for 2017-2019 of \$57.8M, \$59.9M and \$67.8M.
Maine Energy Cost Reduction Act	The Act authorized the Commission, in consultation with the Public Advocate and the Governor's Energy Office, to execute or direct one or more utilities to execute an "Energy Cost Reduction Contract" (ECRC) to procure capacity on a natural gas pipeline that would increase the flow of natural gas into New England. In September 2016, the Commission found that both ECRC proposals, Spectra Energy Partner LLC's Access Northeast (ANE) and Portland Natural Gas Transmission's Continent to Coast (C2C) were commercially reasonable, in the public interest, reasonably likely to be cost effective and increase pipeline capacity into the region, and enhance system reliability. The Commission ordered final precedent agreement negotiations to proceed with ANE, conditioned on similar approvals in other New England States. In November, the Commission elected to postpone proceeding with ANE pending either positive developments in the region regarding regional pipeline efforts or the termination of the Commission's statutory authority on December 31, 2018.

EXECUTIVE SUMMARY CONTINUED

Topic	Description
Biomass	Public Law 2015, Chapter 483 (the Act) directed the Commission to initiate a competitive solicitation and direct investor-owned T&D utilities to enter into one or more 2-year contracts for up to 80 megawatts of biomass resources at above-market costs not to exceed \$13.4 million. The Act specifies that \$13.4 million from the unappropriated surplus of the General Fund be transferred to the Commission for this purpose. On June 17, 2016, the Commission issued the biomass RFP. Winning bidders were selected on December 13, 2016 and contracts are currently being finalized with four biomass plants in Maine.
Maine Natural Gas Rate Case	In 2015, Maine Natural Gas Company (MNG) filed for an increase in its delivery service rates by 21% in year 1, 21% in year 2 and 39% in year 3. The major driver of these proposed increases was MNG's investment for its Augusta expansion project. A contested Stipulation was presented to the Commission, and was rejected. The case was concluded in June 2016 when the Commission approved residential delivery increases ranging from 5.7% to 6.8% in the first three years with slightly higher increases in later years.
Gas Safety	The Commission's Gas Safety team investigates all underground utility damage incidents in Maine. Incident rates for these Dig Safe events increased significantly in 2016 for natural gas facilities. The increase in the natural gas incident rate is partly attributable to the extensive amount of new natural gas infrastructure installed in 2014 and 2015. Dig Safe and other gas safety violations issued by the Commission totaled over \$400,000 in 2016.
Telephone Provider of Last Resort (POLR) Legislation	Public Law 2015, Chapter 462 (the Act) passed in 2016 directed the Commission to conduct a major substantive rulemaking to implement certain provisions of the Act relating to the removal of the provider of last resort (POLR) obligation in certain municipalities, as well as possible additional municipalities in the future if certain service quality standards are met. As directed by the Act, the Commission coordinated and held hearings in Portland, South Portland, Lewiston, Auburn, Bangor, Biddeford and Sanford to inform consumers about the Act. The new rules have been provisionally adopted as of January 2017.
Emera Maine	On March 21, 2016, Emera Maine filed a proposed rate increase with the Commission requesting that the company's revenues for its distribution infrastructure and operations be increased by 8.3%. The Commission's review of the proposed increase included a management audit, which identified shortcomings in the company's handling of its customer service functions and the implementation of its new billing system. The Commission decision provided a 3.75% increase, which reflected a disallowance of a portion of the costs of the new billing system, as well as a lower return on equity that, in part, was warranted by the management shortcomings noted above.

4. TELECOMMUNICATIONS

REGULATION OF THE TELEPHONE INDUSTRY IN MAINE

As a result of changes in law enacted by the 125th Maine Legislature, the only retail telephone service offering that falls within the Commission's regulatory authority is Provider of Last Resort (POLR) service. POLR service is offered by incumbent local exchange carriers (ILECs) and provides consumers with the ability to receive flat rate service with voice-grade access to the public switched telephone network within a basic calling area. POLR service also includes the ability of the customer to access emergency services, operator services, interexchange service and directory assistance, and it provides for a toll limitation option for low-income customers. The non-POLR service offerings of the ILECs and the Competitive Local Exchange Carriers (CLECs), including ancillary services and in-state long distance service, are no longer subject to Commission rate regulation. In addition, the services offered by wireless (i.e., cellular) carriers and Voice over Internet Protocol (VoIP) carriers are explicitly excluded under Maine law from regulation by the Commission.

During the 2016 session of the 127th Maine Legislature, additional changes were made to the Commission's telephone regulatory authority. Specifically, P.L. 2015 c. 462 "An Act to Increase Competition and Ensure a Robust Information and Telecommunications Market" (the Act) was enacted. The Act provided that on August 28, 2016, FairPoint was no longer obligated to provide POLR service in Portland, Lewiston, Bangor, South Portland, Auburn, Biddeford and Sanford. However, for one year from the date of the removal of the obligation to provide POLR service in those municipalities, FairPoint must continue to offer to customers in the affected cities a service that has the same attributes as the POLR service that FairPoint continues to offer to its remaining POLR customers. After one year, FairPoint will have the ability to alter, without Commission approval, the rates, terms and conditions under which it provides voice telephone service in the affected municipalities. FairPoint, however, may not discontinue, reduce or impair the service it provides in any municipality unless it receives specific approval from the Commission.

In addition to the initial seven municipalities, the Act provides for FairPoint to be relieved of its POLR service obligation in fifteen other named municipalities. The relief will occur in groups of five municipalities, beginning six months after the effective date of the Act and continuing at six month intervals. In order for FairPoint to be relieved of the POLR service obligation, FairPoint must meet certain Service Quality Index (SQI) standards.

After the obligation to provide POLR service in the 22 municipalities named in the Act has been removed, FairPoint, as well as Community Service Telephone Company and Northland Telephone Company, may seek to have its POLR service obligation removed in any of the remaining municipalities that it serves. In order to make such a request to the Commission, the carrier must have met all of the SQI standards for the two quarters immediately preceding the filing of the request. Further, based on evidence supplied by the requesting carrier, the Commission must find that at least 95% of the households in the municipality have the ability to obtain service from another traditional wireline carrier, and that one or more cellular providers offer, on a combined basis, service to at least 97% of the households in the

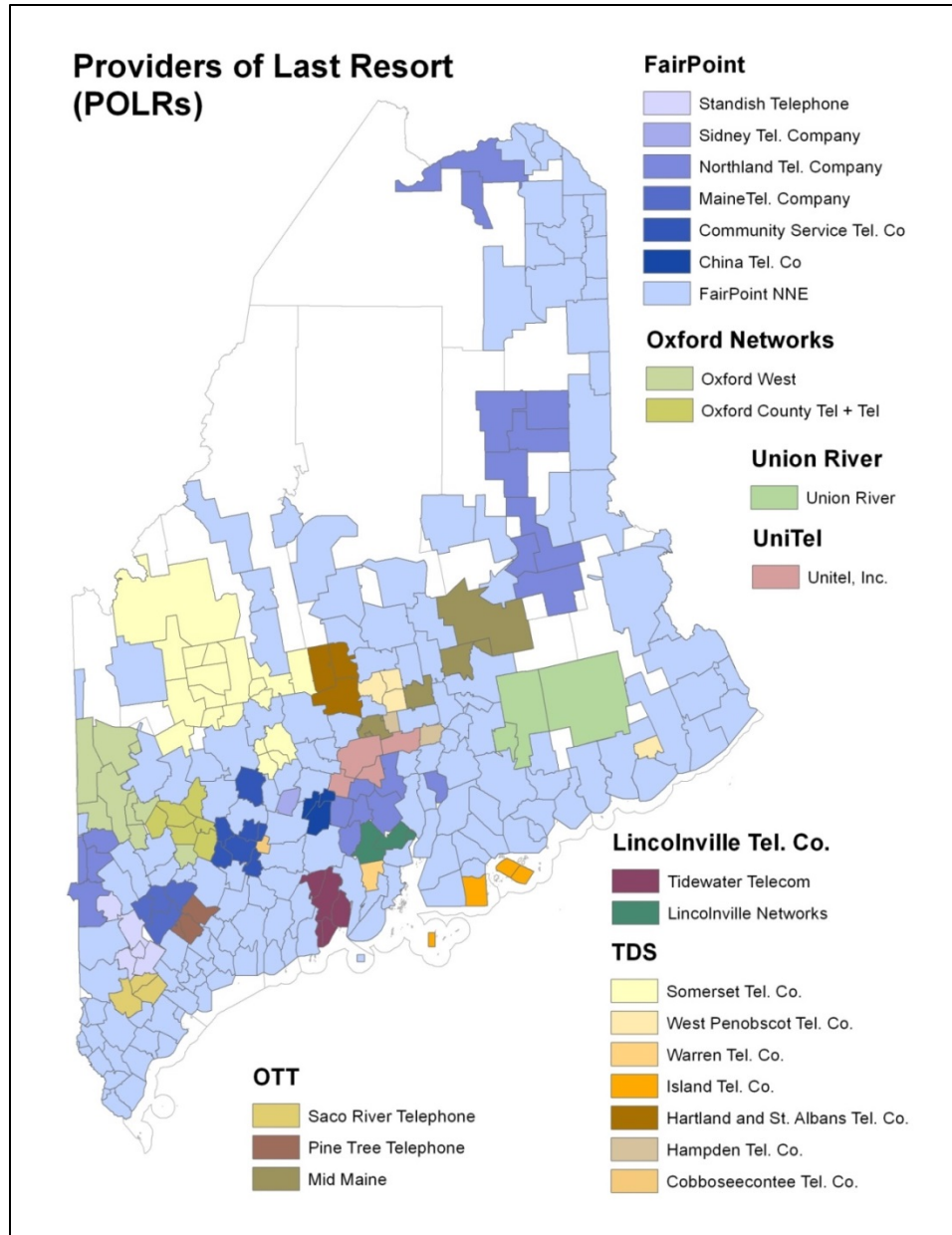
municipality. The Office of Public Advocate (OPA), members of the public, and other interested persons may offer comments and/or evidence about the availability of wireline or wireless service in the municipality for which relief is requested. The Commission itself may supplement the coverage information by conducting field surveys if the Commission finds that such additional information is necessary.

A Price Cap ILEC must provide 90 days' notice of its intent to file an application for relief from the POLR service obligation in any municipality not named in the Act, and it must notify its customers in the affected municipality of its intent to file. With its notice of intent, the Price Cap ILEC must describe the information that it intends to offer in support of its petition, and it must describe the source of the information. In processing an application for POLR service relief, the Commission must hold a public witness hearing in the affected municipality. At the public witness hearing, the Price Cap ILEC must present the evidence that purports to support its application, and residents of the municipality will be able to provide testimony objecting to the petition. Residents may also file written objections after the public hearing. The Commission must render its decision within 180 days from the filing of the application, although the Commission may extend the deadline by an additional 30 days, if it determines such an extension is necessary. As with the municipalities named in the Act, in any municipality for which relief from the POLR service obligation is granted, the Price Cap ILEC must offer, for one year, to those customers who were receiving POLR service on the effective date of the relief, a phone service that has the same attributes as the POLR service that the Price Cap ILEC offers to its remaining POLR customers in other municipalities.

The Commission has provisionally adopted Chapter 220 of its Rules in order to implement the provisions of the Act related to relief from the obligation to provide POLR service. This is a Major Substantive Rule, which was forwarded to the EUT Committee in January for its consideration. The Commission will finally adopt Chapter 220 after the Legislature returns it to the Commission.

Wholesale services and the enforcement of certain provisions of the Federal telecommunications statutes remain subject to Commission jurisdiction. In addition, the Commission continues to certificate CLECs. The Commission does not regulate the broadband services offered by telephone, cable television, cellular telephone companies or other broadband providers. Interstate services are regulated by the Federal Communications Commission, which also has regulatory authority over wireless carriers. Figure 2 on the following page shows the service territories of the POLR providers in Maine.

Figure 2 – Provider of Last Resort Service Territories



INDUSTRY TRENDS

Competition

The telecommunications industry in Maine is characterized by increasing competition. All consumers can obtain long distance service from an interexchange carrier (IXC) other than their local exchange carrier. CLECs serve a large portion of Maine’s customers. Telephone service employing VoIP technology – particularly the offerings of cable television providers– competes aggressively with traditional ILEC service in those areas where cable broadband is available. The mobile cellular market now has more than 1.2 million cell phone subscribers in the state. This compares to approximately 266,346 retail wireline access lines in use by customers served by ILECs. An increasing number of customers are substituting mobile

wireless service for traditional wireline service. Satellite VoIP service is also emerging as a new option for retail phone and broadband service in rural areas. Table 1 below, for calendar years 2010 through 2015, details a 39% reduction in traditional wireline telephone service throughout the state. From 2014 to 2015, there was a reduction of 45,303 access lines, the largest reduction recorded to date confirming the move to cell phones by many in Maine.

Table 1 – ILEC Access Line Summary

ILEC	2010 Access Lines	2011 Access Lines	2012 Access Lines	2013 Access Lines	2014 Access Lines	2015 Access Lines	Change 2014- 2015	Change 2010- 2015
China Telephone	2,032	1,775	1,517	1,328	1,181	1,036	-12%	-49%
Northland Telephone Co.	17,381	16,232	15,342	14,193	13,243	12,303	-7%	-29%
Community Service Telephone Co.	7,306	6,684	6,314	5,786	5,303	4,674	-12%	-36%
Sidney Telephone Co.	933	777	719	631	540	482	-11%	-48%
Maine Telephone Co.	5,928	5,125	4,772	4,239	3,745	3,371	-10%	-43%
Standish Telephone Co.	4,093	3,440	3,097	2,772	2,466	2,258	-8%	-45%
FairPoint NNE	340,333	313,254	289,412	266,161	237,812	198,325	-17%	-42%
UniTel Co.	4,001	3,817	3,677	3,527	3,417	3,295	-4%	-18%
Union River	1,190	1,169	1,115	1,074	1,050	1,064	1%	-11%
Cobboseecontee Tel & Tel Co.	501	478	457	418	385	348	-10%	-31%
Hampden Telephone Co.	2,439	2,229	2,084	2,105	1,973	1,835	-7%	-25%
Hartland & St. Albans Telephone Co.	3,104	2,993	2,823	2,713	2,565	2,447	-5%	-21%
Island Telephone Co.	591	593	580	556	557	549	-1%	-7%
Somerset Telephone Co.	9,200	8,874	8,422	8,177	7,911	7,560	-4%	-18%
Warren Telephone Co.	1,250	1,187	1,091	1,014	942	865	-8%	-31%
West Penobscot Telephone Co.	1,963	1,906	1,839	1,781	1,722	1,687	-2%	-14%
Lincolville Networks	1,689	1,630	1,598	1,571	1,550	1,534	-1%	-9%
Tidewater Telecom	9,378	8,954	8,667	8,342	7,787	7,236	-7%	-23%
Mid-Maine Communications	4,228	3,890	3,592	3,204	2,954	2,647	-10%	-37%
Pine Tree Tel & Tel Co.	4,202	3,751	3,435	3,052	2,755	2,409	-13%	-43%
Saco River Tel. & Tel Co.	5,444	4,881	4,447	4,019	3,609	3,219	-11%	-41%
OxfordWest Telephone Co.	5,709	5,438	5,228	4,934	4,472	3,975	-11%	-30%
Oxford Telephone Co.	5,032	4,810	4,527	4,183	3,710	3,227	-13%	-36%
Total Retail Lines	437,927	403,887	374,755	345,780	311,649	266,346	-15%	-39%

Provider of Last Resort (POLR) Service

As discussed above, presently, all ILECs (the traditional wireline carriers) are obligated to offer POLR service to any customer desiring to purchase it, and they must do so throughout the entirety of their service territories. Also, as noted above, the 127th Legislature deregulated seven communities in 2016, and provided a path to deregulation in 15 more over the course of 18 months starting July 29, 2016, provided certain provisions are met.

Table 2 – POLR Access Line Summary

ILEC	2014	2015	Change 2014-2015
China Telephone	241	186	-23%
Northland Telephone Co.	2,344	1,303	-44%
Community Service Telephone Co.	1,133	794	-30%
Sidney Telephone Co.	162	32	-80%
Maine Telephone Co.	932	670	-28%
Standish Telephone Co.	542	237	-56%
FairPoint NNE	24,488	21,001	-14%
UniTel Co.	428	358	-16%
Union River	1,048	1,062	1%
Cobboosecontee Tel & Tel Co.	77	67	-13%
Hampden Telephone Co.	314	274	-13%
Hartland & St. Albans Telephone Co.	441	345	-22%
Island Telephone Co.	209	199	-5%
Somerset Telephone Co.	1,586	1,378	-13%
Warren Telephone Co.	184	165	-10%
West Penobscot Telephone Co.	282	246	-13%
Lincolnvile Networks	154	145	-6%
Tidewater Telecom	1,070	919	-14%
Mid-Maine Communications	1,343	1,165	-13%
Pine Tree Tel & Tel Co.	1,802	1,578	-12%
Saco River Tel. & Tel Co.	1,723	1,519	-12%
Oxford West Telephone Co.	4,348	3,856	-11%
Oxford Telephone Co.	3,666	3,201	-13%
Total POLR Lines	48,517	40,700	-16%

As is the case with traditional wireline service in general, an ever-decreasing number of individuals and businesses are electing to purchase POLR service. For instance, in the year ending 2012, approximately 29,000 FairPoint customers purchased POLR service. Currently, approximately 21,000 FairPoint customers purchase POLR service. In 2015, 40,700 residential and business customers purchase POLR service in Maine. Table 2 above provides the number of POLR service customers for each of Maine's ILECs.

POLR SQI Rule (Amendments to Ch. 201, Provider of Last Resort Service Quality)

Also as required by the Act, the Commission adopted, in the fall of 2016, changes to Chapter 201 of its Rules in order to implement the provisions of the Act that established the SQI mechanism applicable to Price Cap ILECs. The Act mandated four service quality metrics that the Price Cap ILECs must track and report quarterly to the Commission on a rolling one-year average basis. The Act also established the standards, or benchmarks, that the Price Cap ILEC must meet for each metric. The changes to Chapter 201 were routine technical rule changes that became effective for Price Cap ILECs on July 1, 2016. Therefore, the first reporting period for the Price Cap ILECs under the new SQI mechanism was the third quarter of 2016. FairPoint's filing showed that it was able to meet each of the benchmarks for that quarter. The provisions of Chapter 201 that continue to apply to non-Price Cap ILECs were not substantively changed by the rulemaking.

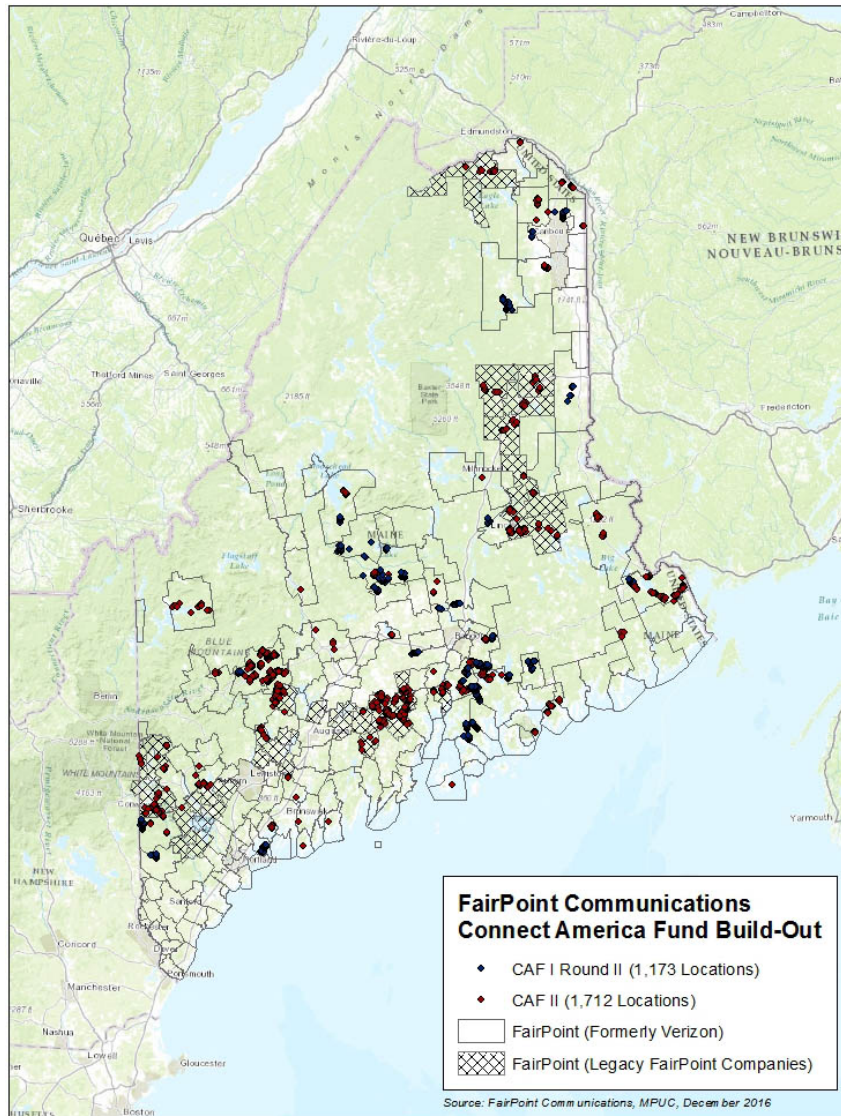
Broadband

The Commission does not directly regulate broadband services although it does, within the scope of its authority, support the State's goal of extending broadband access to as many Maine residents as possible. For instance, the Commission's order approving FairPoint's acquisition of the network previously operated by Verizon, required FairPoint to expand broadband coverage to a large portion of its network. This was accomplished through multi-protocol label switching (MPLS) in rural areas of the FairPoint network with suitable copper loop lengths.

In 2014, the FCC continued in its efforts to modernize the federal Universal Service Fund by redirecting resources previously used to support voice services in high cost area to focus on the support of broadband services. In August of 2015, FairPoint announced that it accepted \$13.3 million in annual support from Phase II of the Connect America Fund (CAF II) or nearly \$80 million total over the course of six years. Over the course of this six year broadband buildout program, FairPoint will receive CAF II support for approximately 35,500 locations in Maine. The new funding will upgrade approximately 22,565 currently underserved locations to speeds of 10 Mbps download and 1 Mbps upload, while 12,935 unserved locations will eventually get 10/1 service. As of July 2016, FairPoint reports that it has added 1,712 new broadband locations or nearly five percent of the six-year plan. By the end of 2017, FairPoint is required to build out up to 40% of its locations. All broadband build out locations must be completed by the end of 2020. Support for these locations includes areas that were once served by Verizon and also legacy FairPoint companies such as Northland Telephone Company.

In addition to CAF II funding, FairPoint continues to receive support for CAF I Round II broadband build out from the federal government. Support from this earlier version of the Connect America Fund is responsible for the addition of 1,173 broadband locations in FairPoint's service territory. This support is limited to territory that was once Verizon. The Commission does not possess oversight authority in connection with the use of CAF II funds. Figure 3 below identifies the particular locations in which the CAF I and CAF II funds have been spent.

Figure 3 – FairPoint CAF I and CAF II Funding Expenditures



Preservation of Area Code 207

The Commission continues to enforce measures designed to ensure that telecommunications carriers use numbering resources in Maine efficiently to maintain a single area code (207) for as long as possible. In this regard, the Commission enforces rules established by the FCC. In general, the industry has cooperated with these efforts. With more customers relying on wireless phones and devices, as well as increased direct machine-to-machine communications, there is increased pressure on the State’s numbering resources. The latest forecast from Neustar, the national number administrator, estimates that the area code 207 exhaust will occur by the end of quarter four in 2023, which is four years later than that indicated in the 2014 forecast. The Commission will continue its activities to promote efficient use of numbering resources.

KEY EVENTS

FairPoint SQI Investigation

The Commission is currently conducting an adjudicatory proceeding of FairPoint for its failure to meet the SQI benchmarks that were in effect from July 2014 through June 2016. The Commission has consolidated into a single proceeding its investigation into the company's failure to meet the SQI benchmarks during each of the eight quarters in that time period. During those eight quarters, FairPoint consistently missed the benchmarks for two of the metrics (Percentage of Trouble Reports Not Resolved within 24 Hours and Percentage of Install Appointments Not Met) that were in effect, and the company missed two other metric benchmarks (Network Trouble Report Rate and Average Delay Days for Missed Appointments) for all four quarters of 2015. As required after each quarterly failure, FairPoint filed explanatory letters, which per rule, are required to explain why the Company was unable to meet the metric benchmarks contained in Chapter 201 of the Commission's rules. FairPoint asserted that several factors led to its failure to meet the metric benchmarks, including the following: a denial of service attack on its broadband network; a strike by its unionized employees in late 2014, lasting into early 2015; and several extreme winter storms in November 2014. FairPoint also argues that the benchmarks were unfair and unattainable for a company of FairPoint's size, which serves a large and diverse service territory. After considering the reasons and assertions contained in FairPoint's explanatory letters, the Commission concluded that a formal investigation was required. A schedule for the case has been established; under that schedule the Commission will reach its decision in the summer of 2017.

Pole Attachment Inquiry

In December, 2016 the Commission closed an inquiry to obtain information and insights from utilities and telecommunications companies regarding possible amendments to Chapter 880 of the Commission's rules. Chapter 880 governs joint use of utility poles and the attachment on those poles of facilities. The Commission closed the inquiry because provisions of current Maine law may raise questions regarding the Commission's authority to amend Chapter 880 to apply to modern communications technology. The Commission submitted legislation to resolve ambiguities regarding statutory authority.

LEGISLATIVE MANDATES

Maine Telecommunications Education Access Fund (MTEAF)

The Commission administers the MTEAF, which provides funding to Networkmaine (an entity within the University of Maine System) to operate the Maine School and Library Network (MSLN). The MSLN provides qualified schools and libraries within the State with high-speed Internet access, content databases and search capabilities, content filtering and training, as needed. The MTEAF receives funds from all carriers offering telecommunications services in Maine. An independent administrator collects the required contributions and reimburses Networkmaine for MSLN's expenses. The Commission approves the annual budget request from Networkmaine and establishes the contribution rate. In 2016 the Commission approved a budget for MSLN of \$3.5 million for fiscal year 2016/17 and a contribution rate of 0.7% of reported intrastate revenues. The 2016/17 budget amount is \$630,000 less than the 2015/16

MSLN budget, with the decrease mainly due to a projection of lower revenues by carriers who must contribute to the MTEAF.

Public Interest Phones (PIPs)

Beginning in 2007, pursuant to 35-A M.R.S. § 7508 and Chapter 252 of the Commission's Rules, the Commission has overseen the installation of Public Interest Payphone (PIP) sites throughout Maine. Most recently in November, a new payphone was installed in Biddeford. The annual cost of the program, which currently includes 35 PIPs, is approximately \$36,000 and is funded by the Maine Universal Service Fund (MUSF).¹

Communications Equipment Fund

Section 7104 (5) of Title 35-A requires the Commission to transfer annually \$85,000 from the MUSF to the Communications Equipment Fund (CEF) established under Title 27, Section 1419-A. In addition, at the request of the Department of Labor, Bureau of Rehabilitation Services, the Commission will transfer an additional \$100,000 to the CEF if the Bureau of Rehabilitation Services (BRS) does not receive from federal or other sources sufficient funds to carry out the purposes of the CEF and requests the additional amount. The CEF is used by the Division of Deaf, Hard of Hearing and Late Deafened within the BRS for the purchase, lease, distribution, upgrading, installation, maintenance and repair of specialized customer communications equipment for deaf, hard of hearing, late deafened or speech impaired persons and persons with disabilities, for training in the use of such equipment and for administrative costs associated with these uses of the fund. In each of the past six years, the BRS has requested that \$185,000 be transferred to the CEF, and the Commission has transferred that amount from the MUSF. The same section of Title 35-A allows the BRS to request that up to \$57,500 be transferred annually from the MUSF to the CEF to support the emergency alert telecommunications service program, which is established pursuant to 26 M.R.S. § 1419-A (6). Prior to transferring the funds, the Commission must find that the funds are necessary to carry out the program and that sufficient attempts have been made by the BRS to maximize federal support for the program. BRS has not requested funds under this provision for the past five years.

Telecommunications Relay Services

Section 7104 (7) of Title 35-A requires the Commission to establish funding support within the MUSF for telecommunications relay services (TRS) in Maine, including related outreach programs. TRS are used to allow deaf, hard-of-hearing and speech impaired persons to place and receive voice telephone calls with the assistance of a third-party intermediary. The funding level for the TRS is established by the Commission based upon the recommendation of the Telecommunications Relay Services Advisory Council, as established in 35-A M.R.S. § 8704. The statute further directs the Commission to require contributions to the MUSF to meet the established TRS funding support levels. In determining the reasonable funding levels for the TRS, the Commission may consider whether the recommended funding is for TRS that are (1) federally required; (2) services provided in other states with a similar deaf, hard-of-hearing and speech impaired population as Maine; and (3) services that are designed to maximize the effectiveness of TRS through the application of new technologies.

¹ The Commission is required to report on this information pursuant to 35-A M.R.S. § 7508(4).

The provision of TRS, including outreach programs, in Maine has been handled for many years through a contract between the TRS Advisory Council and Hamilton Telecommunications. The monthly contract amount is \$50,000 per month, or \$600,000 annually. The contract contains provisions that require a reduction (liquidated damages) in the monthly amount due to Hamilton's failure to meet certain service quality benchmarks. Very small amounts of liquidated damages have been assessed each year. The TRS Advisory Council continues to monitor the use of TRS in Maine.

Lifeline

The Federal Lifeline program provides a monthly benefit on home or wireless phone and broadband service to eligible households. The Lifeline benefit can lower or eliminate the cost of a monthly phone or internet bill for those who qualify. Only one benefit is available per household; either phone service (home or wireless) or internet (home or mobile), but not both. Some companies, however, may offer a bundle option. To participate in the program, consumers must have an income that is at or below 135% of the federal poverty guidelines or participate in a qualifying state, federal, or tribal assistance program. Consumers qualify for Lifeline if they, or one or more of the consumer's dependents, or the consumer's household receives benefits from one of the following federal programs: Medicaid, Supplemental Nutrition Assistance Program, Supplemental Security Income, and the Federal Public Housing Assistance. In December 2016, federal changes eliminated the Low-income Home Energy Assistance Program, Temporary Assistance to Needy Families Program and the National School Lunch Program from the eligibility requirements. Eligibility verification is determined through a combination of state and federal databases that carriers must use to ensure that eligible subscribers, or their dependents or household units, receive only one Lifeline subsidy.

Eligible Lifeline subscribers receive a federal discount of \$9.25 off their bill as well as a state discount up to \$3.50, which is used to offset the eligible subscriber's basic local rate. In Maine, U.S. Cellular, Safelink Wireless, Assurance Wireless, Cintex, Life Wireless, Budget Mobile, Q Link Wireless, Tag Mobile, and TerraCom also receive federal subsidies in order to offer Lifeline service to their wireless customers. In general, a wireless Lifeline customer receives a free cellular phone and a fixed amount of minutes of use each month at no charge.

Telephone Exemptions In accordance with statutory changes passed in the 125th Maine Legislature, the Commission may grant exemptions from certain portions of Title 35-A to POLR service providers. The Commission received no requests for exemptions from POLR service providers in 2016.²

² Pursuant to 35-A M.R.S. § 120(5), the Commission is required to report on this information in its annual report.

5. ELECTRIC

THE ELECTRIC INDUSTRY IN MAINE³

Electricity service to Maine consumers is comprised of two components: delivery and supply. Delivery includes transmission, distribution and customer-related items such as metering and billing, and supply includes the production and provision of electric energy and capacity. Delivery encompasses high-voltage transmission and lower-voltage distribution systems, including the construction, operation and maintenance of those facilities. Delivery is considered to be a monopoly service and is fully regulated. Supply is not considered to be a monopoly service, and is provided by various entities operating in regional and state wholesale and retail markets with less regulation and oversight. At the retail level, consumers in Maine receive delivery service from a regulated transmission and distribution (T&D) utility, and supply service from a licensed competitive electricity provider (CEP).

T&D rates are comprised of three components: transmission, distribution, and stranded costs. Transmission rates cover the cost of constructing and operating the transmission system in Maine, as well as costs allocated to Maine for regional pool transmission facilities (PTF) -- high voltage transmission lines which serve as the backbone of the New England system and are paid for by all New England ratepayers. Distribution rates cover costs incurred by the T&D utility to construct and operate the local distribution system, as well as costs for customer-related activities such as metering and billing. Stranded cost rates cover the net, above-market costs for generation obligations that utilities incurred prior to industry restructuring, as well as net costs from more recent contracts authorized pursuant to specific statutory provisions, such as the long-term contracting statute (35-A M.R.S. § 3210-C), the Community-based Renewable Energy Pilot Program statute (35-A M.R.S. § 3601-3609), and unallocated language, Section A-6, of the Ocean Energy Act (PL 2009, Ch. 615).

Most of Maine is part of the regional bulk power and wholesale market systems that are operated and administered by the New England Independent System Operator (ISO-NE). The exception to this is northern Maine, which is not directly interconnected with the ISO-NE system. Northern Maine is interconnected to the New Brunswick Power system, and has its own system administrator, the Northern Maine Independent System Administrator (NMISA).

Electricity use by Maine consumers is currently about 12 million megawatt hours (MWh) per year, with a peak demand of about 2,200 MW. Maine is currently a net electricity exporter, with total generation capacity from in-state plants in the range of 3,200 MW.

The Commission regulates the operations and rates of the Maine T&D utilities, except for transmission rates, which are regulated by the Federal Energy Regulatory Commission (FERC). The Commission licenses retail electricity suppliers and marketers, and generally

³ In addition to reporting on the electric industry, this section includes the Commission's Reports on Electric Restructuring required pursuant to 35-A M.R.S. § 3217, Electric Incentive Ratemaking required pursuant to 35-A M.R.S. § 3195(5) and Smart Grid Infrastructure pursuant to 35-A M.R.S. § 3143.

oversees the Maine retail market. The Commission also administers competitive procurement processes for standard offer service, and administers other power supply procurement processes pursuant to specific statutory direction and authority. Finally, the Commission monitors regional wholesale markets and bulk power and transmission systems, including the ISO-NE and NMISA systems, and advocates for Maine consumers in regional forums and before FERC.

There are twelve T&D utilities in Maine: two investor-owned utilities (IOUs) and ten consumer-owned utilities (COUs). The IOUs, Central Maine Power Company (CMP) and Emera Maine (EME), serve about 95% of the total state load. Figure 4 below shows the geographic areas each utility serves.

Figure 4 – T&D Service Areas

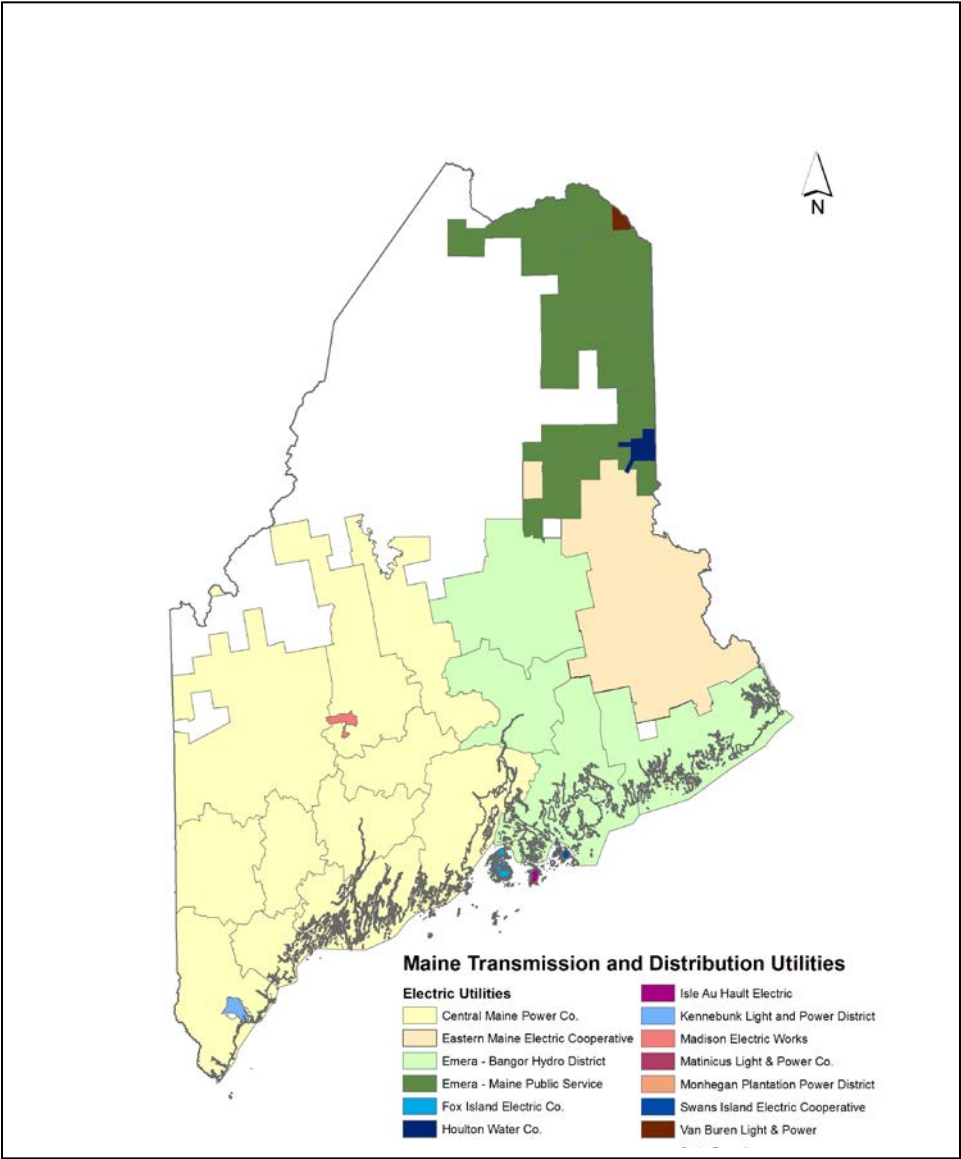


Figure 4 above reflects the 2013 Commission approved merger of Bangor Hydro-Electric Company and Maine Public Service Company into a single utility - Emera Maine. The merger became effective January 1, 2014. Emera Maine currently maintains separate terms and conditions and rate schedules for what is now referred to as the Bangor Hydro district and the Maine Public Service district. In addition, on December 16, 2015 Iberdrola USA (CMP's parent company) and UIL Holdings Corporation (based in Connecticut) announced the closing of a merger between their companies. The merger creates a diversified energy and utility company with \$30 billion in assets and operations in 25 states. The company operates under the name AVANGRID, Inc.

There are approximately 240 Maine-licensed CEPs with whom customers have made arrangements for supply for about 55% of Maine's retail electricity usage. The remaining usage is supplied by the suppliers selected by the Commission to provide "default" service or "standard offer service".

MARKET TRENDS AND CONSUMER PRICES

Wholesale Energy Market

On an annual average basis, regional wholesale energy prices in the ISO-NE spot market during the 12-month period ending October 31, 2016 were \$27.54/MWh, which is about 40% lower than prices during the prior 12-month period. During the most recent winter period, December 2015 – February 2016, prices averaged \$30.32/MWh, which is about 60% lower than the prior winter period and 78% lower than the winter before that. Average wholesale energy prices in the ISO-NE spot market over the last several years are shown in Figures 5 and 6 below.

Figure 5 - ISO-NE Day-Ahead Locational Marginal Pricing (LMP); Average Monthly

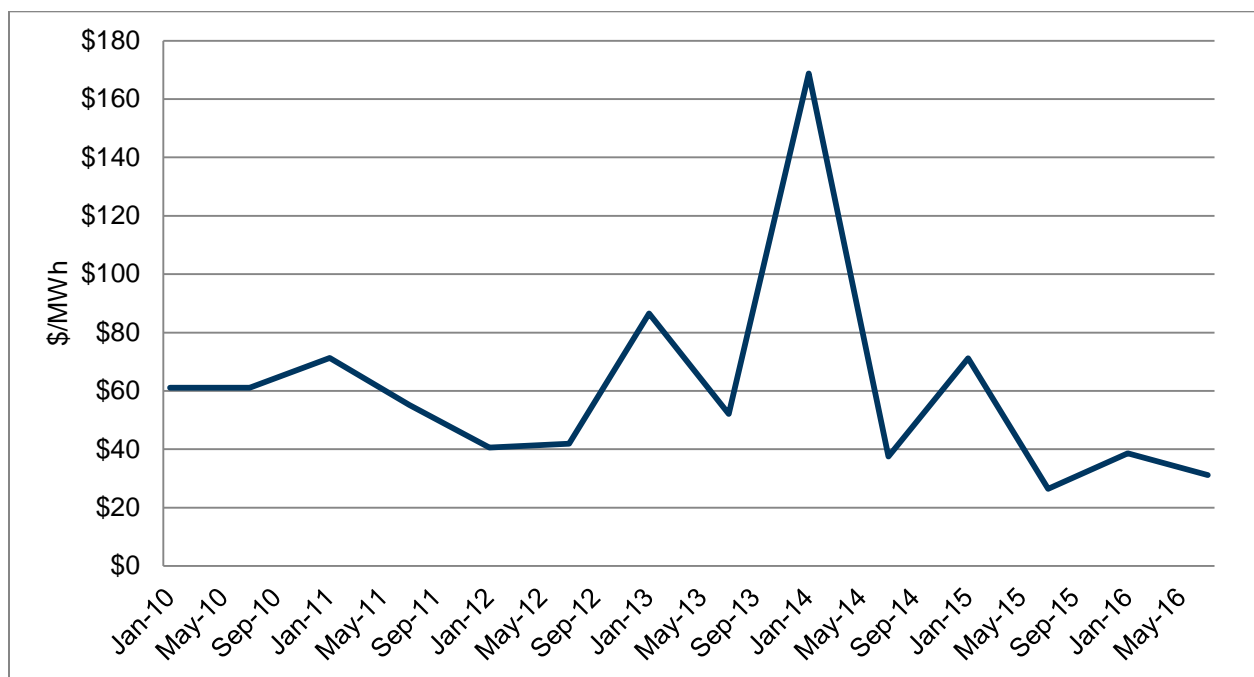
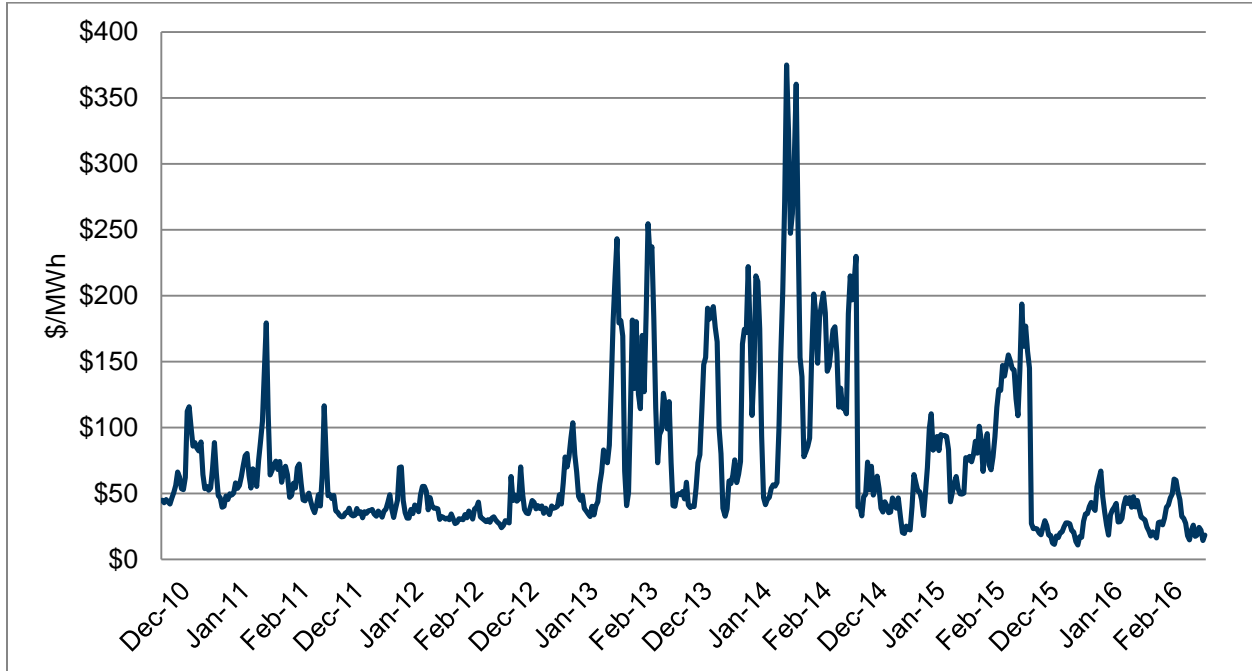
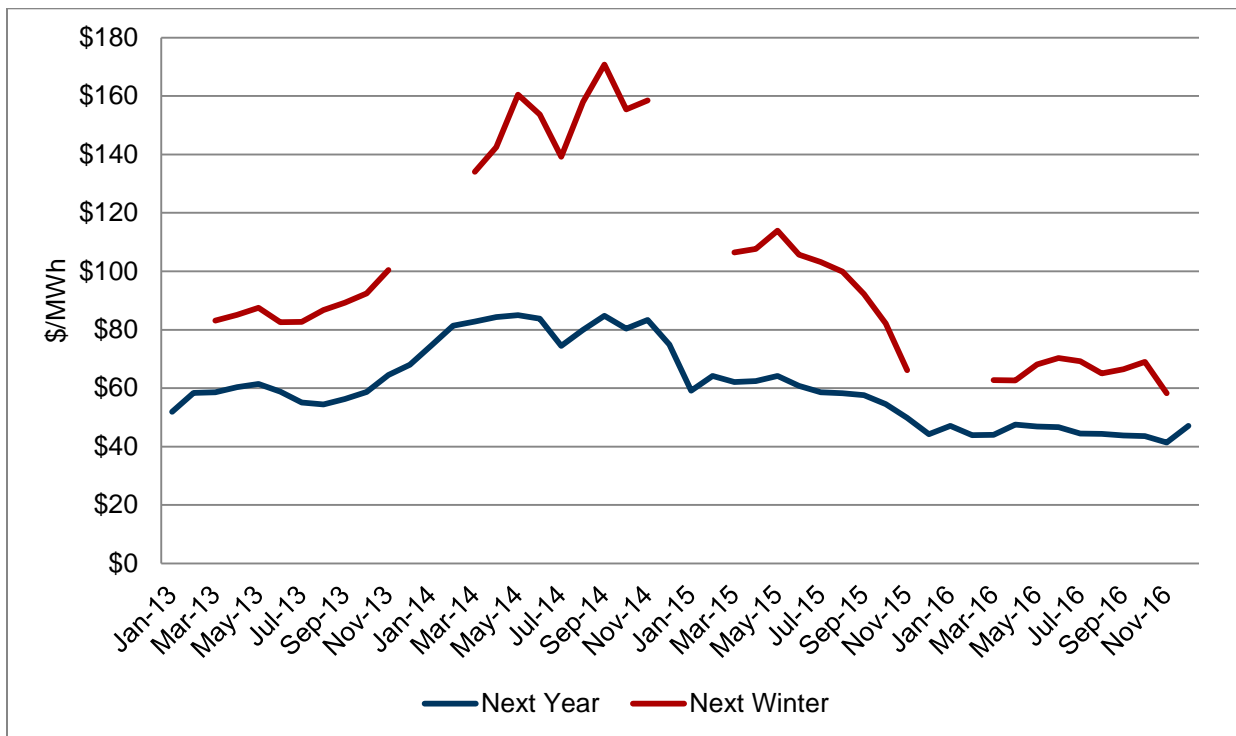


Figure 6 – ISO-NE Day-Ahead LMP; Daily Average Winter Months



Wholesale prices in the forward markets reflected similarly declining trends. As shown in Figure 7 below, the decline is particularly pronounced in the winter months.

Figure 7 – ISO-NE Wholesale Forward Electricity Prices; Average On-Peak LMP for Future Period as of Date Indicated



Retail Supply Prices

Retail electricity supply prices for most customers in Maine declined slightly in 2016. The Standard Offer request for proposals conducted by the Commission at the end of 2015 resulted in electricity supply prices for CMP residential and small business consumers effective January 1 through December 31, 2016, of 6.46 cents/kWh and 6.62 cents/kWh for Emera Maine – Bangor Hydro District residential and small business consumers. These prices are 1% to 3% lower than the prior year standard offer prices.

In September 2016, the Commission accepted bids for new standard offer prices for residential and small and medium business customers of Emera Maine, Maine Public District (MPD). The prices were effective November 1, 2016. The accepted bids were for fixed prices for seven months that are 16.5% and 17.0% lower than prior prices for residential/small commercial and medium commercial customers, respectively. The accepted bids also included indexed pricing after the initial seven months of the term through December 2019, contingent upon FERC approval of certain changes to the NMISA market rules. The market rule changes are currently pending before the FERC.

In November 2016, the Commission accepted bids and set new standard offer service prices for customers of CMP and Emera Maine, Bangor Hydro District (BHD). The new prices are effective for a 12-month term beginning January 1, 2017. For CMP residential and small business customers, the accepted bids resulted in a new standard offer price of 6.69 cents/kWh, which reflected a 3.5% increase compared to prices during 2016. For CMP medium business customers, the new prices equated to about 6.83 cents/kWh on average over the term, which reflected a decrease of 1.3% compared to prices during 2016. The bid accepted for large business customers is indexed to the market, and prices will be set by the Commission in advance of each month based on then-current market prices. For Emera Maine residential and small business customers, the accepted bids resulted in a new standard offer price of 6.322 cents/kWh, which reflected a 4.6% decrease compared to the prior price. For Emera Maine medium business customers, the new prices equated to about 6.70 cents/kWh on average over the term, which reflected a decrease of 0.6% compared to prior prices. Prices for Emera Maine's large business customers have been and will continue to be set in the same manner as described above for CMP.

Prices available from CEPs were varied. For residential and small business customers, CEP prices were generally higher than standard offer prices.

Retail Supply Market Activity

Since March 2000, consumers in Maine have had the right to select their electricity supply products and suppliers. For many years there was a robust market throughout most of Maine for medium and large commercial and industrial (C&I) customers, but virtually none for residential and small commercial customers. However, beginning in 2012, retail competition increased substantially for residential and small commercial customers, and there are now several CEPs serving this sector. During 2016, the amount of residential and small commercial supply served by CEPs continued to decline, as was the case for 2015, due to the availability of lower supply prices for standard offer service. As of the end of September 2016, slightly less than 20% of residential/small commercial supply was served by CEPs, down from a high of 35% in June of 2013. Figures 8 and 9 below show the migration

patterns of customers, by sector, over the past several years, as well as the patterns of residential and small commercial customers over the last several months.

Figure 8 – Load Served by Competitive Electric Providers, Statewide Average by Class; February 2006 - October 2016

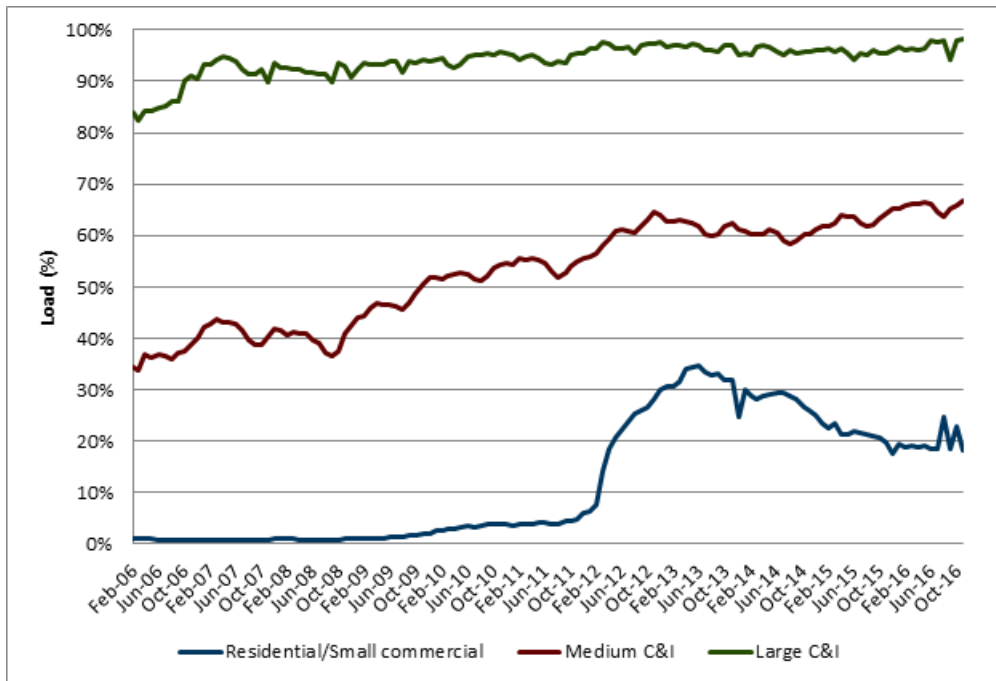
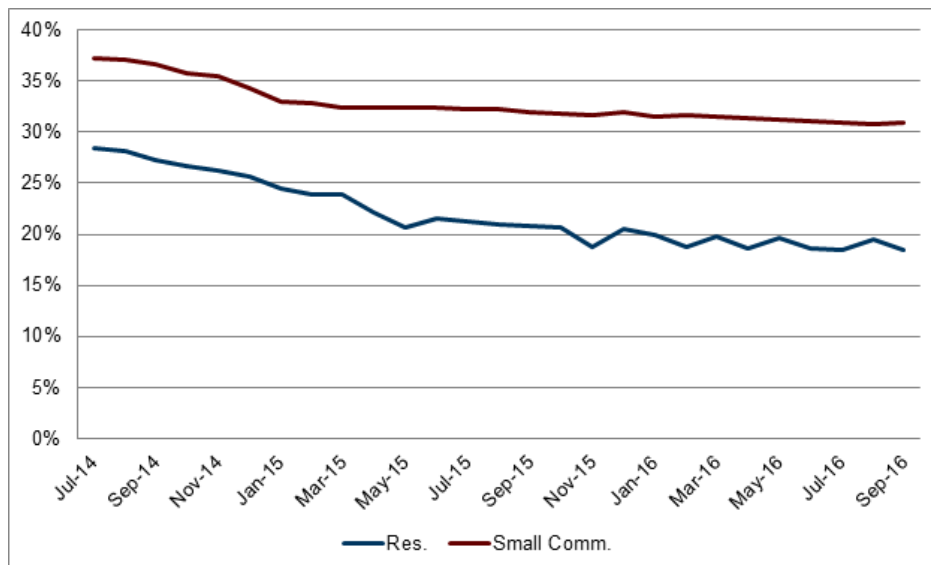


Figure 9 – CMP Small Customer Migration; Percent of Customers with CEPs



Specialized supply products for residential and small commercial customers continued to be available during 2016, including a green power program that allows customers to purchase renewable energy credits (RECs).

As has been the case in prior years, during 2016 competition remained weak in northern Maine due to its electrical isolation from a functional wholesale market, such as the market in the ISO-NE region. This isolation has hindered the retail market from developing in this part of the state since retail access began in 2000.

Utility Delivery Service Rates

Delivery service rates include distribution, transmission and stranded cost components. Distribution rates include the capital and operating costs of the electric distribution systems, as well as customer-related costs such as metering and billing. During 2016, there was a minor decrease in CMP's (2%) and Emera Maine's MPD (5%) distribution rates, while Emera Maine's BHD rates rose approximately 2% in 2016 compared to 2015.

Stranded cost rates include the net costs associated with pre-restructuring power purchase agreements. Net costs that result from more recently approved power purchase contracts authorized pursuant to the long-term contracting statute, the Community-based Renewable Energy Pilot Program statutes and the Ocean Energy Act are not technically stranded costs, but are addressed in the stranded cost rate processes and reflected in stranded cost rates. In addition, expenses associated with prior nuclear power arrangements are also included in the stranded costs. Accordingly, the Department of Energy (DOE) damage awards related to Maine Yankee, Connecticut Yankee and Yankee Atomic companies are also included in stranded cost rates. There have been three Yankee-related damage payments in recent years; the Phase I award, decided in 2013 and paid to the utilities over a three-year period; the Phase II award, decided in 2014 and paid to the utilities in 2014; and the Phase III award, decided in 2016 and paid to the utilities in 2016. The flow back to ratepayers of the Phase I and Phase II awards have already been incorporated in prior stranded cost rates. The flow back to ratepayers of the Phase III award is included in stranded cost reset proceedings currently underway at the Commission for both CMP and Emera Maine.

The flow back of the Yankee-related awards to ratepayers through stranded cost rates results in an unevenness in rates related to the timing of the receipt of the awards. For Emera Maine-Maine Public District, stranded cost rates remained negative during the 2015-2016 period as a result of the inclusion of the amounts related to these DOE awards. Stranded cost rates for the Emera Maine-Bangor Hydro District ratepayers were unchanged in 2016. The Emera Maine-BHD stranded cost revenue requirement increased slightly and the Commission approved deferring any rate change to the next stranded cost revenue requirement case. For CMP, although the stranded cost revenue requirement increased from approximately \$6 million to approximately \$30 million due primarily to removal of the 2015 DOE award money from rates, the residential stranded cost rate effective July 1, 2016 was less than one-half cent per kWh.

Transmission rates include the costs of local transmission facilities, as well as Maine's share of regional Pool Transmission Facilities (PTF). Transmission rates for CMP increased by approximately 14% overall in 2016, for Emera Maine's BHD by about 6%, and increased for Emera Maine's MPD by approximately 23%. A significant portion of this increase is related to the expiration of transmission cost refunds previously approved by the Federal Energy Regulatory Commission. As noted in prior Annual Reports, transmission rates for CMP and

Emera Maine's BHD have increased significantly over the last ten years. These increases are due largely to major transmission system upgrades throughout New England, including by CMP and Emera Maine. Under the ISO-NE tariff, costs of PTF projects in New England are shared among all New England states in proportion to load, so that Maine customers pay 8%-9% of the cost of regional PTF projects regardless of where they are physically located. CMP's and Emera Maine's BHD customers' transmission rate is approximately 3¢/kWh. In contrast, the transmission rate for an Emera Maine's MPD residential customers is about 0.9 ¢/kWh reflecting, in part, the fact that Emera Maine's MPD is not part of the ISO-NE system. Current retail rates for Maine residential consumers are summarized in Table 3 below.

Table 3 - Residential Electricity Rates

RESIDENTIAL ELECTRICITY RATES IN MAINE							
As of December 31, 2016*							
	% of State Residential Load	kWh	Delivery Rate			Standard Offer Rate ¢/kWh	Total Rate ¢/kWh
			T&D ¢/kWh	Stranded Cost ¢/kWh	Total Delivery ¢/kWh		
INVESTOR-OWNED UTILITIES							
Central Maine Power*	79.1%	3,605,003,255	7.7	0.3	7.7	6.4	14.1 ¢/kWh
Emera Maine - BHD*	13.5%	617,294,891	9.5	1.7	11.2	6.6	17.8 ¢/kWh
Emera Maine - MPD*	3.6%	164,456,553	6.8	-0.4	6.7	7.1	13.8 ¢/kWh
COOPERATIVES & MUNICIPAL-OWNED UTILITIES							
Eastern Maine Electric Cooperative	1.2%	56,420,418	9.1	N/A	9.1	7.4	16.5 ¢/kWh
Houlton	0.7%	31,081,478	3.6	N/A	3.6	7.0	10.6 ¢/kWh
Van Buren	0.2%	7,703,980	4.2	N/A	4.2	7.1	11.3 ¢/kWh
Kennebunk Light & Power	1.1%	48,499,451	4.8	N/A	4.8	7.9	12.7 ¢/kWh
Madison Electric Works	0.4%	17,650,045	7.5	N/A	7.5	7.7	15.2 ¢/kWh
Matinicus	0.0%	224,485	Exempt from Standard Offer requirements				77.6 ¢/kWh
Monhegan	0.0%	316,668	Exempt from Standard Offer requirements				75.6 ¢/kWh
Fox Island	0.1%	6,667,437	19.6	N/A	19.6	9.3	28.9 ¢/kWh
Isle au Haut	0.0%	190,097	32.3	N/A	32.3	12.8	45.1 ¢/kWh
Swans Island	0.0%	2,073,581	24.0	N/A	24.0	12.3	36.3 ¢/kWh
STATE AVERAGE	100.0%	4,557,582,339	7.9	0.5	8.1	6.5	14.6 ¢/kWh

* Central Maine Power, Emera Maine - Bangor Hydro District and Emera Maine - Maine Public District information based on residential rates as of 7/1/16 and standard offer rates to be in effect January 1, 2017. Consumer-owned utilities' information based on 2015 annual reports (filed in 2016) and supply rates in effect 12/31/16.

MAJOR CASES, ISSUES AND PROCEEDINGS

Emera Maine Rate Case and Management Audit

On December 2, 2015, Emera Maine filed a Notice of Intent to file for an increase in the distribution rates of both its Bangor Hydro and Maine Public Districts.⁴ The Notice stated that the Company would request a \$6.5 million, or 8.0%, increase in its overall distribution revenues. The proposed increase was based on a return on equity of approximately 10.25%. Emera Maine proposed that the rate increase be recovered through an across the board increase in all core rates for both districts.

⁴ Docket No. 2015-00360

Based on information contained in the Company's filing, as well as additional information available to the Commission, on April 13, 2016, the Commission initiated a management audit of Emera Maine to be conducted as part of this rate proceeding. The Management Audit found significant issues with the company's billing system, customer service and reliability. The Commission decision provided a 3.75% increase, which reflected a disallowance of a portion of the costs of the new billing system, as well as a lower return on equity that, in part, was warranted by the management shortcomings noted above.

Net Metering Inquiry and Rulemaking

Net Energy Billing (NEB) is a metering and billing mechanism used to promote the development and operation of small renewable generation facilities. The Commission's NEB rule (Chapter 313) provides that a transmission and distribution utility shall notify the Commission if the cumulative capacity of generating facilities subject to the rule reaches 1.0 percent of its peak demand and, upon such notification, the Commission would review the rule to determine whether NEB should continue or be modified.

On January 14, 2016, Central Maine Power Company (CMP) filed a letter stating that the 1.0 percent threshold had been met and requesting that the Commission undertake the review. On June 14, 2016, the Commission issued a Notice of Inquiry⁵ to seek comments on whether the current rule should be modified in light of changing economics and markets.

On September 14, 2016, the Commission issued a Notice of Rulemaking and proposed amendments that would make several changes to Chapter 313.⁶ Initial comments on the proposed rule were due October 12, 2016. A public hearing was held on October 17, 2016 and additional written comments were submitted by November 2, 2016. The Commission is currently reviewing the comments received from its September 13, 2016 Proposed Rule on net energy billing and will decide the rulemaking issues during the first part of 2017.

RGGI Disbursements

During its 2016 session, the Maine Legislature enacted An Act To Reduce Electric Rates for Maine's Businesses (Act).⁷ The Act directs the Efficiency Maine Trust (Trust) to transfer to the Commission \$3,000,000 from the RGGI Trust Fund per year for fiscal years (FY) 2016-17, 2017-18, and 2018-19 for the purpose of the Commission making disbursements to "affected" manufacturing customers in proportion to their retail purchase of electricity. In addition to being eligible to receive a disbursement from the Commission, affected customers, under certain circumstances, are eligible to receive matching funds from the Trust to be used towards efficiency measures.

On May 17, 2016, the Commission issued a Notice of Inquiry,⁸ seeking comments from interested parties on issues regarding disbursements eligibility under the Act. On July 20, 2016, the Commission issued an Order Addressing Issues on RGGI Disbursements and

⁵ Docket No. 2016-00120

⁶ Docket No. 2016-00222

⁷ P.L. 2015, c. 498

⁸ Docket No. 2016-00081

Approval of Request for Applications (RFA).⁹ Concurrent with the Order Approving RFA, the RFA was issued, with applications due on or before August 22, 2016. Applicants from 19 entities were received. By Order issued on October 21, 2016, the Commission directed the disbursement of RGGI funds to 16 entities that it found to be eligible affected manufacturing customers (see Table 4).¹⁰ Disbursements will be made on a quarterly basis during this fiscal year, and a Request for Applications for FY 2017-2018 will be released later this year.

Table 4 – RGGI Disbursements

Affected Customers	Annual Disbursement	Quarterly Disbursement
Alltrista Plastic Corp.	\$ 42,008.36	\$ 10,502.09
Catalyst Paper Operations Inc.	\$ 187,467.41	\$ 46,866.85
Cherryfield Foods Inc	\$ 19,507.55	\$ 4,876.89
Elmet Technologies LLC	\$ 31,123.98	\$ 7,781.00
Fairchild Semiconductor International Inc.	\$ 124,544.72	\$ 31,136.18
General Dynamics Bath Iron Works	\$ 186,858.15	\$ 46,714.54
Hancock Lumber Company Inc.	\$ 15,568.00	\$ 3,892.00
Huhtamaki, Inc.	\$ 365,456.77	\$ 91,364.19
Irving Forest Products Inc.	\$ 31,879.52	\$ 7,969.88
Jackson Laboratory	\$ 54,528.89	\$ 13,632.22
Linde LLC	\$ 201,662.76	\$ 50,415.69
Nestle Waters North America	\$ 130,650.26	\$ 32,662.56
Pratt and Whitney North Berwick	\$ 91,471.65	\$ 22,867.91
Sappi North America (SD Warren)	\$ 561,029.12	\$ 140,257.28
Texas Instruments	\$ 189,825.21	\$ 47,456.30
Verso Androscoggin LLC.	\$ 766,417.64	\$ 191,604.41
	\$ 3,000,000.00	\$ 750,000.00

Biomass Contract Solicitation

During its 2016 session, the Maine Legislature enacted An Act To Establish a Process for the Procurement of Biomass Resources (Act).¹¹ The Act directs the Commission to initiate a competitive solicitation for the procurement of energy from up to 80 MW of Biomass Resources and authorizes the Commission to direct T&D utilities to enter into one or more two-year contracts contingent upon available funds. The Act establishes a Cost Recovery Fund to pay the above-market costs of any contract and directs the State Controller to transfer up to \$13.4 million to the Fund at the close of fiscal year 2015-16. Payments under the contracts are contingent upon available funds from the Cost Recovery Fund.

On June 27, 2016, the Commission issued a Request for Proposals for the Sale of Energy from Biomass Resources. The proposals were due on July 29, 2016. Winning bidders were selected by the Commission on December 13, 2016 and contracts are currently being finalized with four biomass plants in Maine.

⁹ Docket No. 2016-00143

¹⁰ P.L. 2015, c. 498 directs the Commission to provide a list of disbursements.

¹¹ P.L. 2015, c. 483

Houlton Water Company - Electric Department

On May 13, 2016, Houlton Water Company (HWC) filed an application requesting Commission approval of several loan agreements pursuant to 35-A M.R.S. §§ 901 and 902.¹² These loan agreements would fund the construction of new transmission and other facilities necessary to support a Network Service Agreement (NSA) and Interconnection Facilities Agreement (IFA) with New Brunswick Power (NB Power). Under the terms of the NSA and IFA, NB Power would provide HWC network integration transmission service, a service which is currently provided to HWC by Emera Maine. On August 23, 2016, the Commission issued an Order which found that HWC's NSA and IFA constituted a significant agreement which required the issuance of a CPCN under 35-A M.R.S. § 3133-A.

On December 8, 2016, the Commission issued an Order approving the HWC application of the loan agreements. As part of this Order, the Commission also issued a Certificate of Public Convenience and Necessity (CPCN), approving the NSA and IFA, subject to HWC providing certain assurances regarding the term of the NSA. The Commission also concluded that the issuance of this CPCN does not require customer cost reimbursement under 35-A M.R.S. § 3132(14) since the issuance of the CPCN would not result in the elimination or material modification of the scope of responsibilities of the Northern Maine Independent System Administrator (NMISA).

Emera Maine Acquisition of Swans Island Electric Cooperative

On September 1, 2016, Emera Maine and Swan's Island Electric Cooperative (SIEC) filed a joint petition pursuant to 35-A M.R.S. §§ 1101, 1104, and 2102 requesting approval of a proposed transaction under which Emera Maine would acquire the assets, service territory, and service obligations of SIEC.¹³ The proposed transaction is related to a stipulation in a prior SIEC rate proceeding,¹⁴ approved by the Commission on July 25, 2014, in which the Parties agreed that that the SIEC would investigate the feasibility, costs, and benefits of a merger with Emera Maine as a means to mitigate SIEC's high rates. As part of the proposed transaction, Emera Maine would provide service to SIEC customers at the same rates and terms and conditions that apply to customers of Emera Maine's Bangor Hydro District. Emera Maine estimates that after acquiring SIEC it would need to make investments in capital projects, including investments to address the condition of the undersea cables that connect Swan's Island to the mainland and to Frenchboro. The results of Emera Maine's initial acquisition of SIEC would be an increase the rates of customers in Emera Maine's Bangor Hydro and Maine Public Districts. The Commission expects to make its decision on this matter within the next month.

Smart Grid/Non-Transmission Alternative Coordinator

On April 4, 2016, the Commission issued a Notice of Investigation, opening an adjudicatory proceeding to examine the possible designation of a Smart Grid/Non-Transmission Alternative (NTA) Coordinator.¹⁵ In an earlier proceeding, the Commission had determined

¹² Docket No. 2016-00086

¹³ Docket No. 2016-00209

¹⁴ Docket No. 2013-00534

¹⁵ Investigation into the Designation of Non-Transmission Alternative (NTA) Coordinator, Docket No. 2016-00049.

that there may be benefits from the presence of a non-utility entity with the relevant expertise and a commercial interest in the successful development of non-transmission alternatives. The purpose of the current investigation is to: (1) develop a framework for selecting a NTA Coordinator; (2) determine the duties of the NTA Coordinator; (3) determine whether a third party or the utilities should perform NTA Coordinator duties; and (4) address the concept of an Advisory Planning Committee playing a role in NTA development. This investigation remains pending.

Boothbay Non-Transmission Alternative Pilot

On April 30, 2012, the Commission approved a Non-Transmission Alternative (NTA) Pilot Project to be coordinated by GridSolar, LLC for the Boothbay region of the Mid-Coast area. Under the terms of the Pilot Project, GridSolar would procure NTA resources to address reliability concerns in the Boothbay region that would otherwise require transmission upgrades. During 2014, GridSolar finalized the procurement of a set of NTA resources, including energy efficiency, solar photovoltaic, a diesel back-up generator, battery storage and peak-load shifting, and also conducted several tests of the NTA resources to determine their viability in meeting the area's reliability needs. GridSolar filed its Final Report on January 19, 2016 regarding the evaluation of the NTA in meeting reliability needs and whether and how the Boothbay Pilot should be extended. Other parties to the Pilot Project case were provided an opportunity to comment on GridSolar's Report. A stipulation was reached and the Commission approved the stipulation in an Order on July 26, 2016 which extended the project by one year for approximately \$5,890 of additional cost.

Albion Road/Maguire Road Substations

On February 2, 2016, the Commission opened an investigation into noise complaints from abutters to Central Maine Power Company's (CMP) Albion Road Substation in Benton, Maine and its Maguire Road Substation in Kennebunk, Maine.¹⁶ These substations were developed as part of CMP's Maine Power Reliability Project.¹⁷ Options to mitigate the noise at both sites were explored throughout the proceeding.

On July 25, 2016, the Commission approved the Partial Stipulation which would result in the construction of a 23 foot sound barrier around the transformer at the Maguire Road Substation. In addition, CMP installed equipment at both sites to gather additional data, and will provide a report of its findings on or before February 1, 2017. With respect to the Albion Road Substation, CMP and the complainants have reached agreements in principle that would resolve the complaints. This case is expected to be concluded in the next month.

REGIONAL MATTERS

The Commission participates in electricity-related regional and national matters in four ways. First, the Commission participates directly in electricity market rule development at the regional stakeholder meetings of the Regional Transmission Operator (RTO), ISO New England Inc. (ISO-NE), and intervenes and files comments in proceedings at the Federal Energy Regulatory Commission (FERC). Second, the Commission may join with other state

¹⁶ Docket No. 2016-00005

¹⁷ Docket No. 2008-00255

commissions in participating in federal advocacy, either through the National Association of Regulatory Utility Commissioners (NARUC) or the New England Conference of Public Utility Commissioners (NECPUC). Third, the New England States Committee on Electricity (NESCOE), an organization established pursuant to an order of the FERC for the purpose of advice and advocacy in energy matters in New England and funded through the ISO-NE tariff provides support and advocacy for New England state commissions and state energy offices. Finally, individual commissioners participate in regional and national activities (such as the Regional Greenhouse Gas Initiative (RGGI) and various committees of NARUC that may have an impact on utilities or utility customers in Maine. Chairman Vannoy sits on NARUC's Water Committee and Critical Infrastructure Committee, and Commissioner McLean serves on the RGGI Executive Committee as Treasurer. Summarized below are the regional matters that the Commission was involved in during 2016.

Forward Capacity Market (FCM)

The tenth ISO-NE forward capacity auction (FCA 10) was conducted in February 2016. The region acquired 35,567 megawatts (MW), including 2,746 MW of demand resources, for the 2019–2020 capacity year. The estimated total cost of the New England capacity market for the FCA 9 period is approximately \$2.99 billion, a reduction of more than \$1 billion from the cost of for the prior period. Changes to the forward capacity market for FCA 11 include a change to the overall system demand curve as well as the implementation of zonal demand curves. The capacity market's sloped demand curves objectives are to meet the regional reliability planning obligations, ensure clearing prices that are sufficient to attract new competitors, and procure capacity in the various zones in a cost effective manner.

Winter Reliability Program 2015/2016

Like last year's program, this year's winter reliability program is aimed at addressing concerns about reliability during cold weather events when natural gas supplies may be constrained. Specifically, the program is designed to ensure there will be adequate fuel supplies by creating incentives for dual-fuel resource capability and participation, offsetting the carrying costs of unused firm fuel purchased by generators, and providing compensation for demand response services. This year's program funds the operating cost for remaining oil inventories after the end of the winter months rather than simply paying for the cost of maintaining a fuel inventory. This year's program is expected to cost approximately \$33 million down from \$41 million for 2015-2016, \$45 million for 2014-2015 and approximately \$71 million in 2013-2014.

Photovoltaic Resources in the Load Forecast

For the first time, ISO-NE, with the encouragement of NESCOE, used a load forecast for FCA 10 that reflects Solar Photovoltaic (PV) resources in the region. The presence of capacity from PV in the forecast reduced the level of capacity required by the FCA by about 390 MW.

Demand Response

In 2016, the Supreme Court ruled in favor of FERC in its argument on appeal of the decision of a divided panel of the D.C. Court of Appeals which had rejected a FERC order (Order No. 745) allowing Demand Response to participate in wholesale energy markets. The Supreme Court's decision means that Demand Response may participate in wholesale electric markets and is eligible to receive the price paid to generation supply resources.

Yankee - Department of Energy Litigation Awards

In October 2016, the Yankee Companies received the proceeds of Phase 3 of the litigation with the federal Department of Energy (DOE). A negotiated settlement, previously approved by FERC, among the Yankee Companies and the affected New England states (Maine, Massachusetts and Connecticut), established a FERC process by which the amount of the awards that would be returned to the states is determined. The Yankee Companies have made informational filings with FERC detailing the recommended amounts to be returned to the states. Simultaneously, Maine Yankee decided to pay its obligation to DOE for the disposal of spent nuclear fuel used prior to 1983. Pursuant to 35-A M.R.S. § 4392, Maine Yankee maintains a Spent Nuclear Fuel Disposal Trust Fund (SF Trust) to secure this obligation. Upon payment of the DOE obligation, Maine Yankee intends to dissolve the SF Trust and distribute the over-funded amount in the SF Trust to its owner utilities. The combined proposed payment of Phase 3 proceeds and distributed SF Trust assets will result in payment to the Maine utilities (CMP and Emera Maine) of approximately \$30 million. The Commission will determine the further disposition of these funds to Maine ratepayers in the context of stranded cost rate proceedings.

Cybersecurity

Significant threats to utility operations continue to emerge. These utility operations are regulated at both the federal and state level. Commissioners have maintained a dialogue with the Federal Energy Regulatory Commission and the Department of Homeland Security concerning the threat and response. The Commission is working with federal regulators, the New England Conference of Public Utilities Commissioners (NECPUC) and the region's large utilities to improve the ability of local utilities to minimize their vulnerabilities and respond to emerging cyber threats.

The Regional Greenhouse Gas Initiative Program Review

Since 2007, Maine has participated in the Regional Greenhouse Gas Initiative (RGGI), a cooperative effort among nine northeastern states to cap and reduce CO₂ emissions from the power sector. Cumulatively, Maine has received in excess of \$80 million from the sale of carbon allowances through this market-based, cap and trade program. Proceeds are primarily used to fund energy efficiency and energy cost reduction programs through the Efficiency Maine Trust (EMT).

The RGGI states are in the midst of the current Program Review, which began in 2016 and has included five public RGGI stakeholder meetings to date as well as additional public outreach from individual states. The Program Review continues in 2017 as RGGI adapts and improves the program and responds to stakeholder feedback. The participating States have not set a deadline for completion of the Program Review.

ELECTRICITY SUPPLY RESOURCES

Renewable Portfolio Standard (RPS)

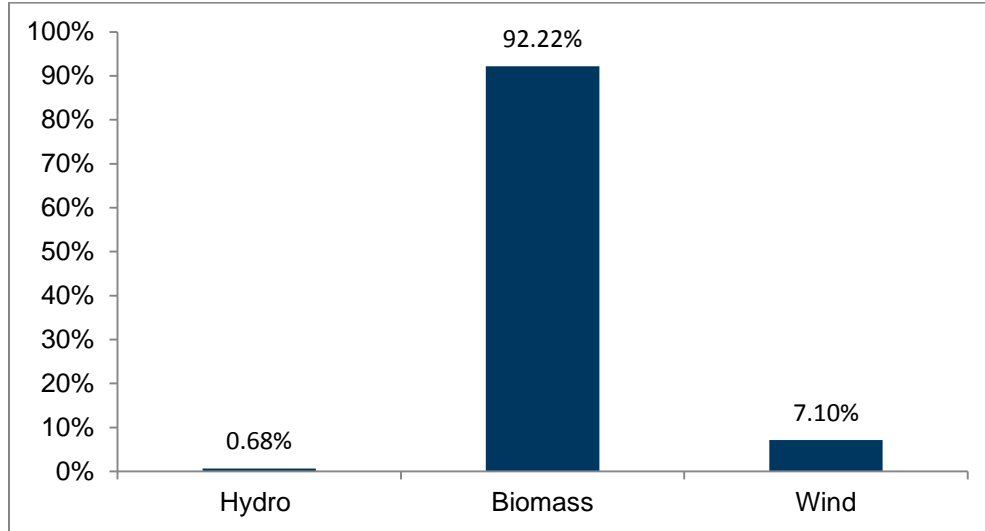
Maine's Electricity Restructuring Act originally established a 30% resource portfolio standard (RPS), requiring electricity suppliers (including standard offer suppliers) to supply 30% of their Maine load from "eligible resources." The Act defined eligible resources to be generating units with capacity that does not exceed 100 MW and that produce electricity from tidal, fuel cells, solar, wind, geothermal, hydroelectric, biomass, or municipal solid waste in conjunction with recycling; that qualify as small power producers under federal regulations; or that are efficient cogeneration units. In 2007, the Legislature expanded the RPS to also require that an additional amount of electricity come from "new" renewable resources, which are generally renewable facilities that have an in-service date after September 1, 2005. New renewable resources include fuel cells, tidal power, solar arrays and installations, geothermal installations, wind generators, hydroelectric generators that meet all state and federal fish passage requirements, and biomass generators including generators fueled by landfill gas. The "new" requirement (also referred to as "Class 1") began at one percent of load in 2008 and increases by one percent per year to ten percent in 2017, unless the Commission suspends the requirement pursuant to the Act.¹⁸

Any generation facility used toward a supplier's Class I RPS obligation must be certified by the Commission. During 2016, the Commission certified seven generators as Class I compliant, bringing the total certified generators to 79, many of which are located in and also certified for the RPS of other New England states. A list of all certified Class I facilities can be obtained from the Commission's website: <http://www.maine.gov/mpuc/electricity/rps-class-i-list.shtml>

To comply with the Maine RPS, and to provide "green" supply products, suppliers use Renewable Energy Credits (RECs) which are traded and tracked through the regional Generation Information System (GIS). RECs represent the attribute of the energy, such as the fuel used for production. Maine suppliers may purchase RECs from energy generated throughout the region. Figure 10 below shows the mix of RECs used for Maine customers in 2014, the most recent year for which data is available.

¹⁸ Pursuant to 35-A M.R.S. § 3210(3-A)(C), the Commission provides a comprehensive report on the RPS to the Legislature by March 31st of each year.

Figure 10 – Class I Renewable Portfolio



As reported in the Commission’s March 31, 2016 Annual Report on New Renewable Resource Requirement, the cost of Maine Class I RECs used for compliance in 2014 ranged from approximately \$1.72 per MWh to \$22.33 per MWh, with an average cost of \$8.56 per MWh and a total cost of approximately \$6,950,000. Maine Class II RECs ranged from \$0.00 per MWh (some RECs were provided for free as part of an energy transaction) to \$1.80 per MWh, with an average cost of \$0.52 per MWh and a total cost of \$1,834,314.

In-State Generation Resources

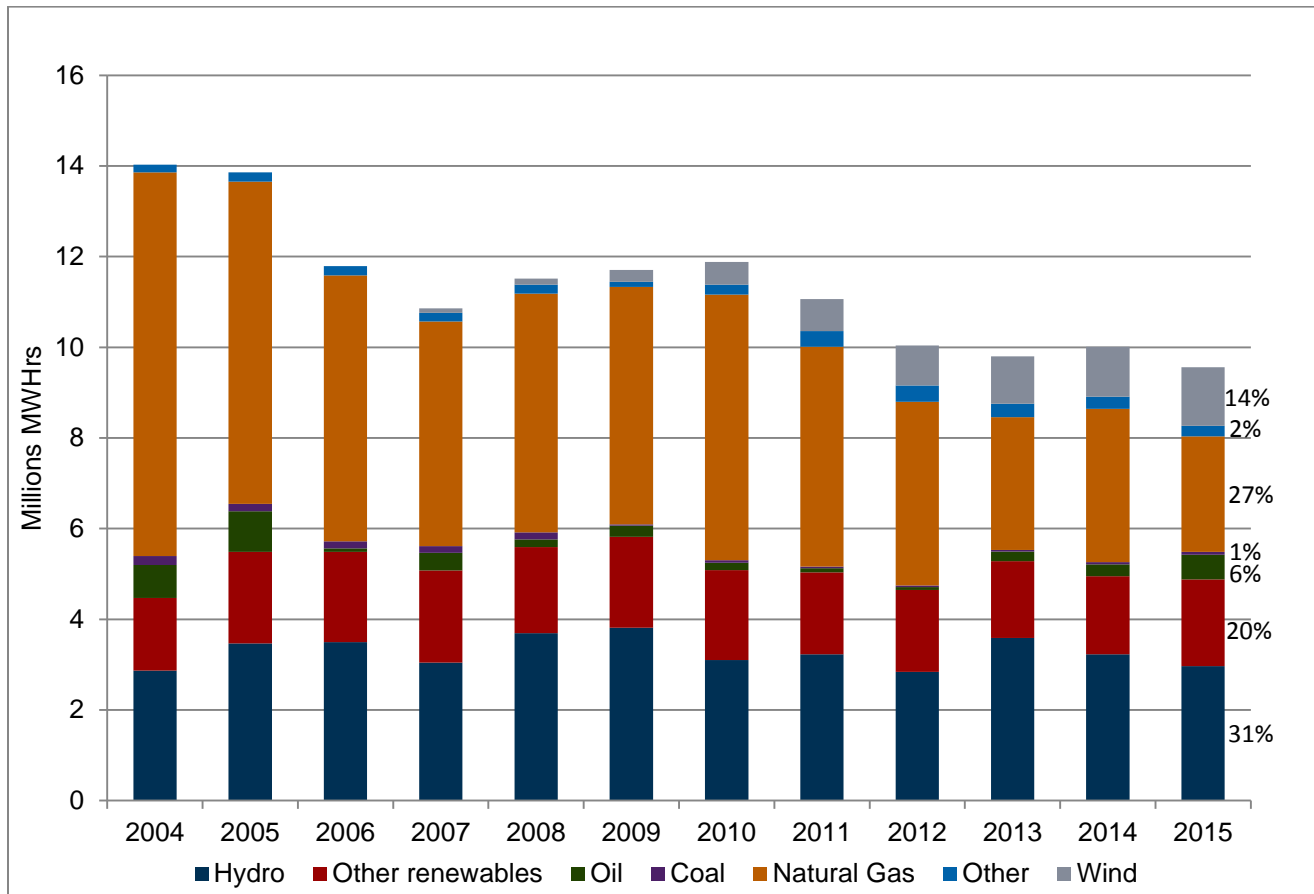
There is about 3,200 MW of generating capacity located in Maine. Much of the energy produced by these plants is in excess of Maine’s demand and, thus, serves load in other states in the region. A complete list of generating plants in Maine is available through:

ISO-NE: http://www.iso-ne.com/genrtion_resrcs/snl_clmd_cap/index.html

NMISA: <http://www.nmisa.com/>

The fuel sources of electricity produced in Maine during 2015 (the most recent year for which data is available) are shown in Figure 11 below. Approximately 65% of electricity produced in Maine in 2015 came from renewable resources.

Figure 11 – Electricity Generation by Fuel



SUMMARY OF ELECTRIC RESTRUCTURING ACTIVITY IN OTHER STATES

The Restructuring Act directs the Commission to report on activities in other states associated with changes in the regulation of electric utilities. Fully implemented restructured markets remain primarily concentrated in the northeast and mid-Atlantic states. Detailed information on a state-by-state basis is provided at the link below:

http://www.eia.gov/electricity/policies/restructuring/restructure_elect.html

REQUIRED REPORTING

Rate Adjustment Mechanisms

The Commission is authorized by statute¹⁹ to adopt rate adjustment mechanisms, such as multi-year rate plans and the decoupling of utility profits from utility sales through revenue reconciliation. The statute requires the Commission to report on any significant

¹⁹ 35-A M.R.S. § 3195

developments with respect to action taken or proposed to be taken by the Commission in this area as part of its annual report.

Currently, CMP is operating under a rate adjustment mechanism through which its rates are adjusted annually through a decoupling process as well as to reflect costs associated with significant weather events. These rate adjustment mechanisms were approved by the Commission on June 27, 2016. Emera Maine is not operating under a rate adjustment mechanism and its rates are set through the traditional ratemaking process. There were no significant developments during 2016.

6. NATURAL GAS

THE NATURAL GAS INDUSTRY IN MAINE

Natural gas service to Maine consumers is comprised of delivery and supply components. Local delivery service is provided by Maine local distribution companies (LDCs) at rates and terms that are regulated by the Commission. Interstate pipeline companies provide for the transportation of natural gas from supply producing regions, such as Canada and the Marcellus Shale, at rates and terms that are regulated by the FERC. Natural gas supply is provided, for some customers, by an LDC and, for others by non-utility suppliers or marketers.²⁰ Prices for supply from the LDCs are set by Commission-approved cost of gas charges, which reflect the actual costs incurred by an LDC for natural gas as well as for upstream transportation and storage arrangements. The supply prices of non-utility suppliers and marketers are not regulated.

The Commission also regulates sales, acquisitions or mergers among corporations owning LDCs doing business in the State. In addition, the Commission oversees the safety aspects of LDC operations and facilities, as well as of certain propane facilities (See Section 8). Finally, in areas of the natural gas industry where federal agencies have jurisdiction over issues that affect Maine consumers, the Commission actively monitors federal proceedings and participates as warranted.

There are four natural gas LDCs authorized to provide service in Maine. Northern Utilities, Inc. d/b/a Unitil (Northern) serves customers in the south-central Maine area, primarily in greater Portland/South Portland/Westbrook, greater Lewiston/Auburn, Biddeford/Saco and Kittery. Maine Natural Gas Corporation serves customers in the Windham, Gorham, Brunswick, Freeport, Bath and Topsham areas, and during 2013 expanded into Augusta. Bangor Gas Company, LLC serves customers in the greater Bangor area. Finally, Summit Natural Gas of Maine (SNG-Maine or Summit) serves customers in the Kennebec Valley area as well as in the municipalities of Yarmouth, Cumberland and Falmouth.

There are three interstate pipelines with facilities located in Maine: Maritimes & Northeast Pipeline, Portland Natural Gas Transmission System (PNGTS), and Granite State Gas Transmission, an affiliate of Northern. Figure 12 below provides a map of the LDC service areas and interstate pipelines located in Maine.

²⁰ Business customers have the option of purchasing their gas supply from a non-LDC supplier or marketer.

Figure 12 – Natural Gas Pipelines and LDC Service Areas

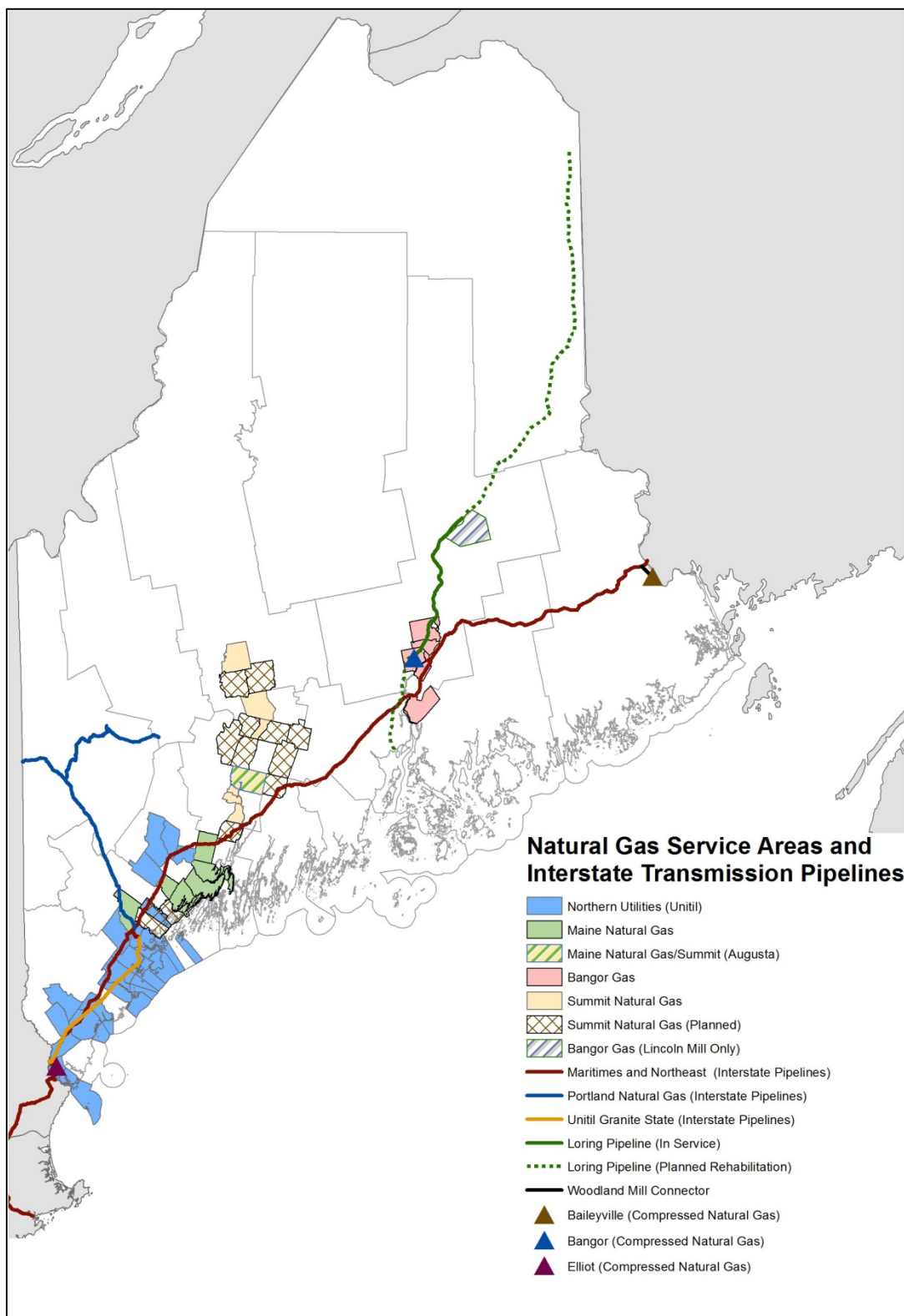


Table 5 below provides a summary of how many customers each LDC has served over the past five years.

Table 5 - Natural Gas LDCs Customers

Company	2012²¹	2013²¹	2014²¹	2015²¹	2016²¹
Bangor Gas	2,929	3,922	5,430	5,838	6,150
Maine Natural Gas	2,937	3,313	4,200	4,432	4,543
Summit Natural Gas	0	0	n/a ²²	n/a ²²	2,998
Unitil	26,128	27,096	30,830	31,544	31,908
Total	31,994	34,331	40,460	41,814	45,599

MARKET TRENDS AND CONSUMER PRICES

Wholesale Market

Wholesale natural gas commodity prices in much of the U.S. have been on the decline over the past several years due to substantial increases in domestic production, most notably, from the Marcellus Shale. Prices stabilized during 2016. As compared to the average spot price in 2015 of \$2.15 per million British thermal units (MMBtu) at Henry Hub (a standard U.S. pricing index as reported by EIA), wholesale prices in 2016 averaged \$2.42/MMBtu. The low price in 2016 was \$1.73 and the high was \$2.99. In recent years, New England wholesale gas prices have diverged significantly from the rest of the country, particularly during cold winter weather conditions. This divergence, referred to as “basis differential” or “basis”, is due to constraints on pipeline capacity into and within the region.

Figure 13 below provides historic wholesale prices at Henry Hub and prices at the Algonquin Citygate (a standard New England index).

Retail Market

Table 6 below provides the current average retail residential natural gas rates for each of the four Maine LDCs, and a comparison to rates a year ago.

²¹ Average number of customers by month.

²² For a limited time period, the Commission granted Summit's request to have its customer count kept confidential.

Figure 13 – Wholesale Prices, Algonquin City Gate (Natural gas) vs. Henry Hub; December 2015-December 2016

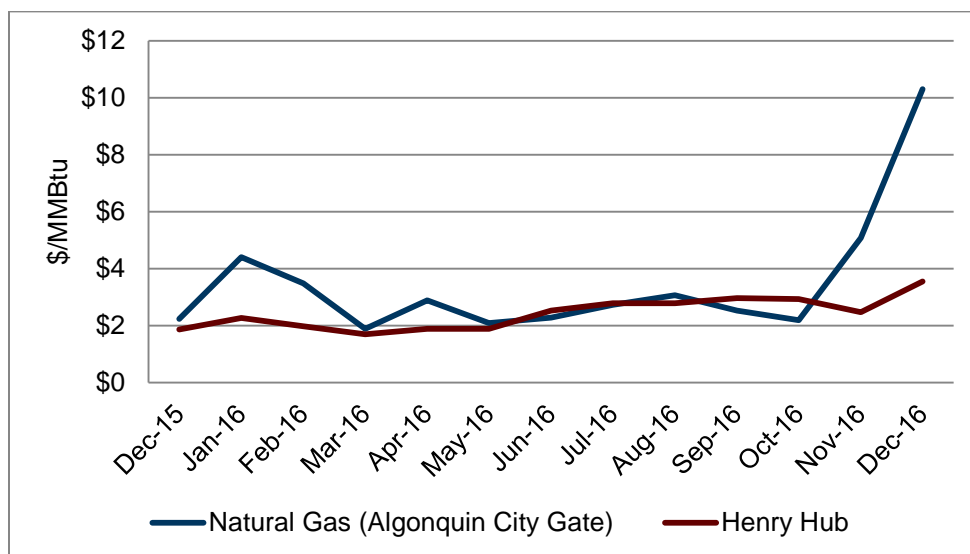


Table 6 – Comparison of LDC Rates

Local Distribution Company	Distribution Rate ⁵	Cost of Gas Rate ⁵	Total Rate	% Change from 2015	Notes
Northern Utilities d/b/a Unitil	\$ 0.6052	\$ 0.7316	\$ 1.3368	11%	1
Maine Natural Gas Company	\$ 0.6434	\$ 0.6014	\$ 1.2448	48%	2
Bangor Gas Company	\$ 0.4960	\$ 0.6540	\$ 1.1500	-24%	3
Summit Natural Gas	\$ 1.0440	\$ 0.6645	\$ 1.7085	-8%	4

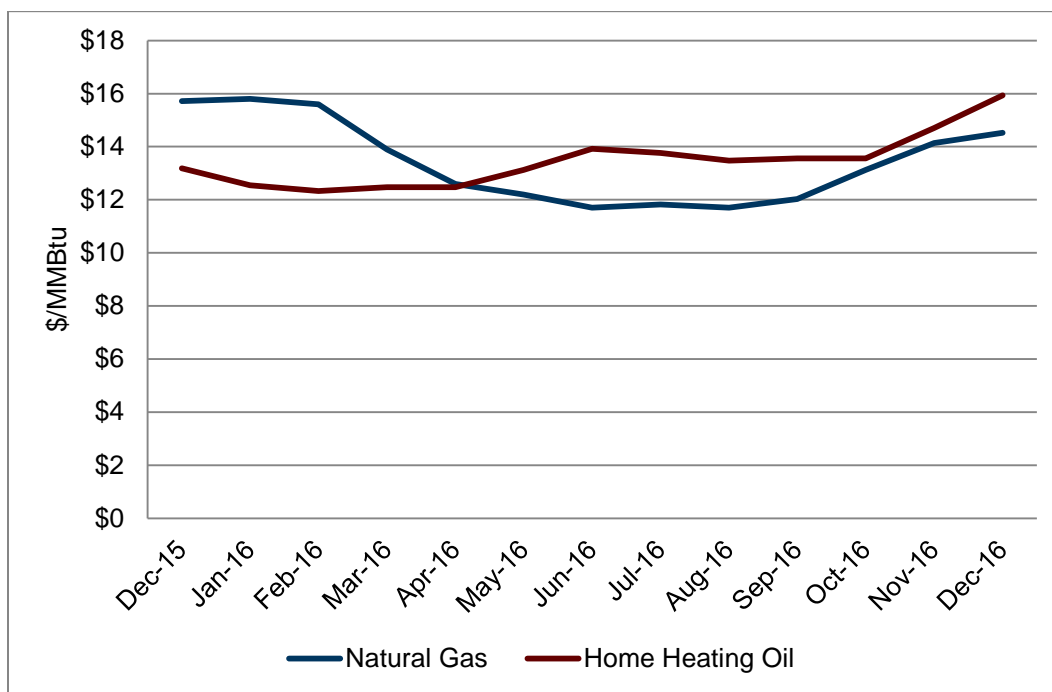
NOTES:

1. Northern Utilities has a seasonal cost of gas rate - above is based on winter season
2. Maine Natural Gas has a monthly cost of gas rate - above is based upon December rates. The distribution rate reflects the rates for customers outside of the Greater Augusta area which are approximately 11% lower than those that will be paid by customers in the Greater Augusta area.
3. Bangor Gas Company has a monthly cost of gas rate - above is based on December rates
4. Summit Natural Gas has an annual cost of gas rate
5. Average rates reflect monthly usage of 120 therms or ccf

For several years, natural gas had a substantial price advantage compared to heating oil. However, the dramatic decline in worldwide oil prices eroded and in some cases even reversed this advantage. During 2016, Brent crude, the European oil benchmark, stabilized maintaining a similar price range between \$40 to \$45 per barrel in November 2016 as in November 2015. WTI, the U.S. benchmark, also maintained similar levels as of November 2016. At the retail level, as reported by the Governor’s Energy Office, consumer prices for heating oil three years ago averaged \$27.11/MMBtu compared to \$15.50/MMBtu for natural gas (delivered). By November 2014, prices were much closer, with heating oil at

\$22.06/MMBtu and natural gas at \$18.82/MMBtu. By November 2015, however, natural gas prices were just above heating oil, with natural gas at \$14.19/MMBtu and heating oil at \$14.78/MMBtu. By December 2016, natural gas prices were again below heating oil prices with natural gas at \$14.53/MMBtu and heating oil at \$15.50/MMBtu. Figure 14 illustrates the retail prices for natural gas and home heating oil in Maine over the past thirteen months.

Figure 14 – Retail Prices in Maine, Home Heating Oil vs. Natural Gas Delivered to the Home; December 2015-December 2016



Pipeline Infrastructure Development

During 2016, the development of several pipeline expansion projects to increase capacity into and within the New England region continued to be developed or pursued.

The Tennessee Gas Pipeline (TGP) Connecticut Expansion Project will provide 72,000 MMcf/day of additional pipeline capacity to gas utilities in southern Connecticut, and is expected to be completed in the fall of 2017.

http://www.kindermorgan.com/business/gas_pipelines/east/connecticut/

The Algonquin Incremental Market (AIM) Project will provide an additional 342,000 MMcf/day of pipeline capacity for the region and went into service on January 7, 2017.

<http://www.spectraenergy.com/Operations/US-Natural-Gas-Operations/New-Projects-US/Algonquin-Incremental-Market-AIM-Project/>

The Atlantic Bridge Project is awaiting final FERC approval. It will provide an additional 132,700 MMcf/day of pipeline capacity into the region and is expected to be in service in November 2017. This project will also allow gas to flow from south to north along the Maritimes and Northeast Pipeline (M&NE) into Maine.

http://www.spectraenergy.com/content/documents/SE/Operations/US_NatGas_Ops/Projects-US/AtlanticBridge/AtlanticBridgeFactSheet.pdf.

In addition, two projects remain under consideration. The Access Northeast (ANE) project offers delivery points at four proposed power plant aggregation areas in Connecticut, Rhode Island, Massachusetts, and New Hampshire/Maine. ANE proposes an “Electric Reliability Service” (ERS) with the intent that Electric Distribution Companies buy gas pipeline capacity on behalf of generators. <http://www.accessnortheastenergy.com/>

The Continent to Coast (C2C) project is an expansion of delivery capacity along the existing Portland Natural Gas Transmission System (PNGTS) by connecting to the existing TransCanada Pipeline (TCPL). C2C offers several gas delivery route options. <http://www.transcanada.com/announcements-article.html?id=1703748>

The Northeast Energy Direct (NED) expansion of the Tennessee Gas Pipeline (TGP), which had been proposed, was cancelled during 2016 due to a lack of adequate firm subscriptions.

MAJOR CASES, ISSUES AND PROCEEDINGS

Energy Cost Reduction Act

During its 2013 session, the Maine Legislature enacted The Maine Energy Cost Reduction Act.²³ The Act authorized the Commission, in consultation with the Public Advocate and the Governor's Energy Office, to execute or direct one or more utilities to execute an “Energy Cost Reduction Contract” (ECRC) to procure capacity on a natural gas pipeline that would increase the flow of natural gas into New England. The Act requires that the Commission consider ECRCs in the context of an adjudicatory process. Before the Commission may authorize an ECRC, the Act requires that it must have pursued, in the appropriate regional and federal forums, market and rule changes that would reduce the constraints on natural gas delivered into New England. Pursuant to the Act, on March 20, 2014, the Commission initiated an adjudicatory investigation to consider issues regarding whether and, if so, how it should exercise its authority to approve an ECRC.²⁴ A Phase 1 Order was issued on November 13, 2014 in which the Commission found that, based on the evidence, it could not determine that an ECRC would be cost-effective. However, given the importance of the issue, the Commission decided to proceed to Phase 2 to receive and consider actual ECRC proposals. The Commission received three proposals in December 2014.

On September 14, 2016, the Commission issued its Order-Phase 2 which concluded that both the Spectra Energy Partner LLC's Access Northeast (ANE) and Portland Natural Gas Transmission's Continent to Coast (C2C) Energy Cost Reduction Contract (ECRC) proposals satisfy the statutory requirements for acceptance and would benefit ratepayers. The Commission further concluded that the ANE project, in the context of participation by other states in New England, would provide greater ratepayer benefits than the C2C proposal. Accordingly, the Commission, in the Order-Phase 2, decided to move forward with

²³ P.L. 2013, c.369, codified at 35-A M.R.S. § 1901 *et seq.*

²⁴ Docket No. 2014-00071

negotiation of a precedent agreement with ANE for Maine's 9% load share conditioned upon comparable precedent agreements with ANE and other New England states at a minimum of those states' respective load shares.

On November 21, 2016, the Commission issued an Order on Petitions for Clarification and Reconsideration, which suspended further activities on the development and review of a precedent agreement pending future developments in other New England states. The Commission took this action in recognition of events in courts and public utilities commissions in other New England states. The Commission will monitor related developments in the region and will renew activity in this proceeding in the future if circumstances warrant.

Liquefied Natural Gas Storage and Distribution Contracts

During its 2016 session, the Legislature enacted An Act To Allow the Public Utilities Commission to Contract for Liquefied Natural Gas Storage and Distribution,²⁵ which amended the Maine Energy Cost Reduction Act to provide additional authority to the Commission to contract for the storage and distribution of liquefied natural gas (LNG). The Act establishes the authority for the Commission to execute or direct one or more of Maine's transmission and distribution utilities, gas utilities, or natural gas pipeline utilities to execute a physical energy storage contract provided that certain requirements are met. Pursuant to the Act, execution of any contracts must be completed prior to June 1, 2017.

Pursuant to the Act, the Commission will evaluate proposals to ensure that any contract: (a) materially enhances LNG storage capacity in the State; (b) provides net benefits to Maine's electricity and/or natural gas consumers; (c) provides the opportunity for access to lower cost natural gas at times of regional peak demand for natural; and (d) enhances electrical and natural gas reliability in the State.

On September 14, 2016, the Commission issued a Request for Proposals and proposals were submitted on November 4, 2016.²⁶ The Act requires that consideration of proposals occur through an adjudicatory process and a schedule for that process has been established. The Commission expects to issue an order in this matter in April 2017.

Maine Natural Gas Rate Case

On March 1, 2015, Maine Natural Gas Company (MNG) filed for an increase in its delivery service rates coupled with a 3-year rate plan.²⁷ Under its proposal, MNG would be authorized to increase its rates over time resulting by approximately 62% for its residential customers at the conclusion of the rate plan. The primary reason for these proposed increases was MNG's investment for its Augusta expansion project. On January 8, 2016, the Commission rejected a Stipulation agreed to by MNG, the Public Advocate and the City of Augusta and opposed by the Town of Brunswick, Bowdoin College and the MidCoast Regional Development Authority.

²⁵ P.L. 2015, c. 445

²⁶ Docket No. 2016-00253

²⁷ Docket No. 2015-00005

On June 1, 2016, the Commission approved an unopposed Stipulation agreed to by MNG, the Public Advocate, the City of Augusta, Bowdoin College, the Town of Brunswick, and the Midcoast Regional Redevelopment Authority, and the County of Kennebec. In approving the Stipulation, the Commission accepted two rate plans for MNG; one which governs rates to be charged for the MNG's Augusta customers and one which governs rates to be charged to the Non-Augusta customers.

The Non-Augusta Section of the Rate Plan is based upon traditional cost-of-service ratemaking principles and the Augusta Section of the Rate Plan is premised upon market-based principles in recognition of the nature of the Augusta service territory in which MNG is competing with another LDC that is also providing service. Both the Non-Augusta and the Augusta Sections of the Rate Plan have a rate effective date of June 1, 2016 and continue for nearly 10 years through April 30, 2026, subject to a review in the seventh year and potential exercise of certain off-ramp provisions.

Northern Utilities Atlantic Bridge Precedent Agreement

On September 20, 2016, Northern Utilities Inc. d/b/a/ Unitil (Northern) filed a letter advising the Commission that it has entered into a Precedent Agreement, as well as an associated Negotiated Rate Agreement, with Algonquin Gas Transmission, LLC for firm natural gas transportation capacity on the Atlantic Bridge Pipeline Project. On September 28, 2016, Northern filed its Verified Petition requesting that the Commission find that the Company's decision to enter into the Atlantic Bridge Agreements is prudent and represents efficient utility operation and the utilization of sound management practices, and that costs associated with acquiring the Atlantic Bridge PA are prudent and may be recovered through Northern's Cost of Gas rates.²⁸ On January 4, 2017, the Commission Staff issued a report recommending that the Commission approve the agreements and allow for the recovery of the associated costs in rates. A final decision by the Commission is expected in February.

Unitil Retail Choice

Northern Utilities, Inc. d/b/a Unitil (Northern) has been operating a Retail Choice Program since 2005, pursuant to a Commission-approved a Stipulation.²⁹ Under the Program, commercial and industrial (C&I) customers may choose to purchase natural gas supply from non-utility suppliers/marketers and take only delivery service from the utility. Other customers take both natural gas supply and delivery service from the utility. To meet its obligations to both sales service and delivery service customers, Northern has acquired a portfolio of capacity and supply resources. Under the original Program, marketers that serve C&I customers have been assigned a portion of Northern's capacity portfolio based on 50% of the peak requirements of the marketer's customers.

On May 9, 2014, Northern filed a petition with the Commission proposing several changes to Retail Choice Program.³⁰ On July 7, 2016, the Commission issued an Order revising the program in certain key respects. Primarily, the Commission found that the resources in

²⁸ Docket No. 2016-00229

²⁹ Docket Nos. 2005-00087 and 2005-00273

³⁰ Docket No. 2014-00132

Northern's portfolio will be assigned to marketers based on 100% of customer demand, rather than at the 50% level reflected in the prior Program; that any customer that meets a defined set of eligibility criteria regarding usage levels and the requirement for a daily meter will be allowed to choose to be capacity exempt and, thus, the customer's marketer would be assigned no capacity for that customer; and that the re-entry fees and stay-period requirements of the Program will be revised to limit the extent to which costs could be shifted between sales and delivery service customers.

Bangor Gas Company's Corporate Reorganization

On August 19, 2016, the Commission approved a corporate reorganization and restructuring of credit facilities for Bangor Gas. The corporate reorganization consolidated the regulated utility operations of the ultimate parent company of Bangor Gas, Gas Natural, Inc., within an intermediate holding company, Energy West, Inc. These regulated utilities are located in Maine, North Carolina, Montana and Ohio. The corporate reorganization also enabled restructuring the long-term and short-term credit facilities available to Bangor Gas and the other regulated utilities that are part of the Gas Natural family. The credit facilities are provided through a long-term facility and a revolving credit facility extended by Bank of America to Gas Natural, Inc. Gas Natural, in turn, has established intercompany facilities with each of its subsidiary borrowers.

On November 23, 2016, Bangor Gas filed an application for approval of a merger between Gas Natural and a merger subsidiary of First Reserve Energy Infrastructure Fund GP II LP. Under this proposed reorganization, all of the outstanding common stock of Gas Natural would be acquired by a First Reserve Infrastructure fund. First Reserve is a global private equity and infrastructure investment firm focused on energy and includes holdings that span from upstream oil and gas to resources, equipment, services and infrastructure. The acquisition of Gas Natural would be their initial investment in gas distribution companies. The proposed First Reserve transaction would not affect the structure of the Energy West credit facilities. The parties expect the transaction to close by mid-2017, pending approval by the Commissions in Maine, North Carolina, Montana and Ohio.

Cost of Gas and Related Proceedings

Maine's four local distribution companies (LDC) recover the cost of gas used to serve their customers pursuant to Chapter 430 of the Commission's Rules. These costs are recovered through a cost of gas rate that is separate from the LDCs' base rates that recover all other costs such as for the construction and maintenance of the distribution system. The cost of gas rates recover costs on a dollar-for-dollar basis, and are initially set using estimates and then reconciled to actual costs to ensure that the LDCs do not over or under recover. Each of the four LDCs has a different recovery method:

- Northern Utilities (Northern), which has been providing service in Maine longer than any of Maine's other LDCs, has a cost of gas mechanism in which a rate is set for the Winter (November to May) and Summer (April to October) periods that is reconciled to actual costs within the same seasonal period.
- Maine Natural Gas (MNG) offers two cost of gas rate options to its customers. One is a Fixed Price Option (FPO), in which the rate is set for a 12-month period beginning each

September based upon MNG's estimate of its cost to purchase gas. The second option offered by MNG to its customers is an Index Price Option (IPO), in which rates are set each month using a market index.

- Bangor Gas Company (BGC) has a monthly cost of gas rate that is set each month based upon a market index.
- Summit Natural Gas (Summit) has a structure in which its cost of gas rate is set on an annual basis for the 12 month period beginning October 1.

2016 Cost of Gas Cases

The following cost of gas related cases were considered by the Commission during 2016.

Docket No. 2016-00025 - Northern By Order issued in this case on August 10, 2016, the Commission approved a mid-course adjustment of \$0.0507 per ccf, or increasing a typical residential customer's bill by 1.05% over the course of the summer period, to Northern's approved Cost of Gas Factor rates for the 2016 Summer Period for all customer classes effective August 1, 2016. The original rates were effective May 1, 2016.

Docket No. 2016-00040 – BGC During its review of BGC's 2014-2015 annual cost of gas report in Docket No. 2015-00199, the Commission noted that gas markets had changed since BGC initiated its gas procurement policies. The Commission therefore directed that a new proceeding be opened (Docket No. 2016-00040) to allow the parties to further examine BGC's hedging and procurement policies and activities. The Commission anticipates completing its review of BGC's procurement and hedging activities in January 2017.

Docket No. 2016-00122 – MNG In this docket, the Commission issued an Order on August 23, 2016, approving MNG's proposed Gas Cost Adjustment reconciliation rate of \$0.0266 per therm applicable to both IPO and FPO customer rates for effect September 1, 2016 through August 31, 2017. The FPO rate was set at \$0.6740.

Docket No. 2016-00123 – BGC By Order issued in this case on October 24, 2016, the Commission denied BGC's proposed change to its methodology to calculate the portion of Maritimes & Northeast Pipeline's reservation charges for the historic Veazie lateral, but allowed the full renegotiated contract capacity on the Orrington lateral for recovery in BGC's Standard Price Option cost of gas rate.

Docket No. 2016-00138 – BGC In this docket, the Commission is considering BGC's Annual Report of Cost of Gas Activities for the Period May 1, 2015 through April 30, 2016. The Commission anticipates completing its review of BGC's 2015-2016 Annual Report in January 2017.

Docket No. 2016-00147 – Summit By Order issued on October 5, 2016, the Commission approved Summit's proposed Cost of Gas Adjustment rate of \$0.6645 per therm for all customer classes, effective October 1, 2016 through September 30, 2017. The Commission, consistent with previous decisions, indicated that it will make a final determination on the

reasonableness of Summit's gas supply arrangements, e.g. actual contract quantities and terms to which Summit commits for the upcoming gas year, during next year's cost of gas proceeding. The Commission also decided to keep this docket open to allow for the further consideration of issues relating to lost and unaccounted for gas and the Fuel Reimbursement Rate to transportation customers.

Docket No. 2016-00174 – Northern. On November 1, 2016 and November 28, 2016, the Commission issued Orders in which it approved Northern's proposed Cost of Gas Factor Rates for the 2016 – 2017 Winter Period as well as a variety of other adjustments, rates and modifications to Northern's Cost of Gas Terms and Conditions of Service. In these Orders, the Commission also directed that a proceeding be opened to address the issues raised by the OPA regarding Northern's current formula for inter-jurisdictional allocations of gas supply and capacity, the Modified Proportional Responsibility allocator, to ensure that costs are equitably allocated to jurisdictions in a manner that follows Maine and New Hampshire customers' usage and reflects recently-approved changes to Northern's Retail Choice program.

35-A M.R.S. § 4706 REQUIRED REPORTING

Alternative Rate-Making Mechanisms

The Commission is authorized by statute³¹ to adopt alternative ratemaking mechanisms for gas utilities "to promote efficiency in operations, create appropriate financial incentives, promote rate stability and promote equitable cost recovery." In particular, the Commission may do the following: adopt multi-year ratemaking plans with mechanisms for future rate changes, reconcile costs and revenue, index revenues or rate changes, establish financial incentives, streamline regulation or deregulate services when not required to protect the public interest, approve rate flexibility programs and modify cost-of-gas adjustment requirements. The statute requires the Commission to report on any significant developments with respect to action taken or proposed to be taken by the Commission in this area as part of its annual report.

As discussed above, the Commission, during 2016, approved alternative rate plans for the Augusta customers and Non-Augusta customers of Maine Natural Gas. Summit Natural Gas Company and Bangor Gas Company continue to operate pursuant to previously established multi-year rate plans. There were no significant developments with respect to these rate plans during 2016.

Low-Income Assistance Programs

Section 4706-B requires the Commission to report on low-income assistance programs offered by LDCs. During 2016, Northern continued to provide a discount of 30% of total service charges to low-income residential customers. Maine Natural Gas provides qualifying, low income customers with a 28% discount on their delivery charges (excluding the cost of

³¹ 35-A M.R.S. § 4706

gas). Finally, Summit continued to offer higher levels of conversion incentives to low-income residential customers.

The Commission regulates the rates and terms of service for Maine's natural gas local distribution utility companies (LDCs) to ensure that they are just and reasonable. The Commission also regulates sales, acquisitions or mergers among corporations owning LDCs doing business in the State. The Commission reviews and analyzes gas purchasing strategies and pricing options that can stabilize retail prices. In addition, the Commission oversees the safety aspects of LDC operations and facilities, as well as of certain propane facilities. Finally, in areas of the natural gas industry where federal agencies have jurisdiction over issues that affect Maine consumers, the Commission actively monitors federal proceedings and participates as warranted.

7. EFFICIENCY MAINE TRUST

ONGOING OVERSIGHT

Pursuant to the Efficiency Maine Trust Act, the Commission oversees the efficiency programs administered by the Efficiency Maine Trust (Trust), and the Commission is charged with the review and approval of the Trust's triennial plans.³² As part of the Omnibus Energy Act, An Act to Reduce Energy Costs, Increase Energy Efficiency, Promote Electric System Reliability and Protect the Environment,³³ the Legislature directed the Commission to establish an oversight and evaluation fund to defray the Commission's costs for ongoing oversight of the Trust's programs and results. The Commission's oversight role may include, for example, reviewing the calculation of program costs and benefits, reviewing the measurement and verification procedures, and reviewing program evaluations. The Commission has hired an energy efficiency program, policy, and evaluation consulting firm (Energy Futures Group) to assist it in this regard, as well as a firm (Johnson Group) with expertise in the technical aspects of energy efficiency savings measurement and verification.

THIRD TRIENNIAL PLAN FILING

In December 2015, the Commission received the Trust's proposed Third Triennial Plan for review and approval in accordance with statute.³⁴ The Third Triennial Plan will govern the Trust's efficiency programs and budgets for fiscal years 2017, 2018, and 2019. The Trust proposed a total budget of \$216.5 million over the 3-year period, which broke down by program as follows. For its electric conservation program, the Trust proposed \$49.2 million in FY 2017, \$50.1 million in FY 2018, and \$56.1 million in FY 2019. For its natural gas conservation program, the Trust proposed \$3.59 million in FY 2017, \$3.88 million in FY 2018, and \$4.27 million in FY 2019. Finally, the Trust proposed a budget for its all-fuels conservation program of \$14.8 million for FY 2017, \$15.9 million in FY 2018, and \$18.5 million in FY 2019. As required by statute, the Commission initiated an adjudicatory proceeding to review the Trust's proposed plan.

On May 25, 2016, the Trust filed a Stipulation pertaining to: (1) the description of energy efficiency programs to be included in the Trust's Third Triennial Plan; (2) the approach to the Plan's Strategic Initiatives; (3) the methodology and assumptions for determining the measures and amounts of energy efficiency that are cost-effective, reliable and achievable through electricity conservation programs and natural gas conservation programs, and the performance metrics and budget impacts associated with these measure levels; (4) a process to periodically review and update the Plan; and (5) enumeration of issues that are not resolved by the Stipulation and are reserved to be litigated and resolved by the Commission through future proceedings. The reserved issues include matters arising out of the Trust's natural gas conservation program, an examination of incentive levels for LED lightbulbs, program evaluation methods, and low-income programs.

³² 35-A M.R.S. §§ 10101-10123

³³ P.L. 2013, ch. 369 (codified in relevant part at 35-A M.R.S. § 10120(3))

³⁴ 35-A M.R.S. § 10104(4)

The Stipulation was signed by Trust, the Office of Public Advocate, Central Maine Power Company, Emera Maine, Northern Utilities d/b/a Unitil, Summit Natural Gas of Maine and the Natural Resources Council of Maine. The Conservation Law Foundation and Industrial Energy Consumers Group opposed the Stipulation.

On July 6, 2016, the Commission issued an Order Approving Stipulation, finding that the agreement will enable the Trust to determine what energy efficiency measures the Commission approves as cost-effective, to identify the quantity of measures and associated savings that can be achieved during the 3-year period of the Plan, and to estimate the cost of procuring those savings with sufficient time to prepare for the first fiscal year of the Plan, which began on July 1, 2016. In the Order, the Commission noted that the Stipulation results in overall funding in FY 2017 is projected to be \$57.8 million, to increase in FY 2018 to \$59.8 million, and to increase again in FY 2019 to \$67.7 million.

The Conservation Law Foundation has appealed the Commission's approval of the Stipulation to Maine's Supreme Judicial Court. The appeal is currently pending.

FUNDING CAP RULEMAKING

Pursuant to legislative directive,³⁵ the Commission adopted Chapter 396 of its rules.³⁶ Chapter 396 governs the establishment of a Trust procurement cap with respect to electric energy efficiency resources. This statutory cap is 4% of the total retail electricity and transmission and distribution sales.

In the July 6, 2016 Order Approving Stipulation, which approved the Trust's Third Triennial Plan, the Commission found that the budget resulting from the Stipulation is in accordance with the regulatory cap contained in Chapter 396 on ratepayer funding for the Trust's electric efficiency energy spending.

³⁵ P.L. 2015, ch. 255, An Act to Provide Lower Energy Costs to Maine Businesses and Residences by Carrying Out the Maine Legislature's Intent Regarding Funding of the Efficiency Maine Trust (codified at 35-A M.R.S. § 10110(4-A))

³⁶ Order Adopting Rule and Statement of Factual and Policy Basis, Docket No. 2015-00298 (Dec. 16, 2015)

8. GAS SAFETY

GAS SAFETY REGULATION AND ENFORCEMENT IN MAINE

The Commission regulates natural gas service reliability and ensures compliance with safety standards for 1,171 miles of natural gas distribution mains, 84 miles of intra-state transmission pipelines (including the five mile private pipeline operated by Woodland Pulp, LLC), and 34,002 services. These facilities were in service throughout Maine as of December 31, 2015 as noted in the operators' annual reports to the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration (PHMSA) filed March 15, 2016. In addition, the Commission enforces safety standards for over 700 propane gas distribution facilities that deliver propane service to multi-unit housing complexes, commercial buildings and other facilities where propane system failures would likely impact large numbers of people.

The Commission derives its authority for safety oversight from both state and federal laws. Chapters 420 and 421 of the Commission's Rules adopt federal safety regulations for pipelines that transport hazardous gases to protect the public and govern the safe operation of distribution and intrastate transmission facilities within the State.

The Commission is also a certified agent for PHMSA. In this role, the Commission ensures that intrastate natural gas transmission and distribution systems are in compliance with federal pipeline safety standards and corresponding state regulations through operator inspections. Additionally, the Commission performs investigations of natural gas safety incidents and pursues enforcement actions for violations of the federal or state safety regulations.

PHMSA conducts annual evaluations of the pipeline safety programs for all states which have agency certification. PHMSA's 2016 evaluation, for calendar year 2015, resulted in a perfect score of 100% for the Commission's pipeline safety program. This is the second year in a row that Maine's program has received a perfect score. Even though the program received a perfect score, the staff continues to improve the program based on feedback provided by the PHMSA evaluations.

During 2016, the gas safety staff spent 237 inspection person days conducting 277 individual inspections and compliance audits of Liquid Propane Gas (LPG) and natural gas facilities (see explanation of "person days" in the footnote to Table 7 below). The purpose of the inspections and audits were to determine whether operators complied with the design, construction, operating, and maintenance requirements of the Commission's safety regulations. Approximately 71 inspections involved LPG facilities and 206 inspections involved natural gas facilities. Because there was less natural gas pipeline construction in 2016 than in the previous three years, the gas safety staff was afforded greater opportunity to focus on the inspection of the operators' procedures, programs, and construction documentation. Table 7 below depicts the various types of inspections completed by the gas safety staff over the past four years.

Table 7 – Inspection Data

Inspection Type – Natural Gas	Inspection Person Days ¹			
	2013	2014	2015	2016
Operating Procedures & Records	8	24	28.5	19.5
Construction & Related Records	113	121	78	85
Integrity Management Programs	3	1	5.5	8
Operator Qualification Programs	2	19	10.5	14.5
Accident or Incident Investigations	1	N/A	1	3
Damage Prevention	2	6	2	8
Public Awareness Programs	5	3	5	6.5
Drug & Alcohol Testing Programs	3	4	1	1.5
Compliance Follow-Up	4	6	61	15.5
Operator Training	2	3	3	10
Inspection Type - Propane				
Procedures & Records	N/A	39	25	47.5
Operator Training	3	N/A	3	5
Integrity Management Programs	1	19	N/A	N/A
Damage Prevention	N/A	N/A	1.5	N/A
Compliance Follow-Up	1	5	3	10.5
# of Facilities Inspected (not Inspection Person Days)	166	178	153	159
¹ An "inspection person day" is defined by PHMSA as all or part of a day spent by pipeline safety staff in on-site evaluation of an operator's system to determine compliance with Federal or State pipeline safety regulations; or in on-site investigation of a pipeline incident; or in training of an operator.				

The majority of the LPG inspections conducted in 2016 resulted in operators taking corrective actions to bring their facilities into compliance. These corrective actions were handled through informal proceedings, without notices of probable violations (NOPVs) or civil penalties.

Inspections of natural gas operators also resulted in a number of corrective actions. Like those with the LPG operators, most corrective actions were resolved through informal proceedings. However, the following is a summary of the NOPVs and civil penalties issued to natural gas operators in 2016:

- Summit Natural Gas of Maine (SNGME) for failure to locate other utilities when installing a pipeline by horizontal directional drilling. Penalty: \$250,000.
- SNGME for inadequate personnel qualification when tapping a gas main. Penalty: \$5,000.
- Maine Natural Gas for inadequate personnel qualification when conducting maintenance at a pressure regulation station. Penalty: \$3,000.
- SNGME for failure to properly inspect pipe joining. Penalty: \$5,000.
- SNGME for failure to follow procedures when pressure testing new pipelines. Penalty: \$25,000.

- SNGME for failure to follow procedures when installing an electrofusion fitting.
Penalty: None
- Unitil for failure to conduct leak surveys and atmospheric corrosion inspections.
Penalty: \$5,000

The total amount of civil penalties assessed in 2016 was \$293,000.

KEY EVENTS

2016 Construction

In total, the four natural gas utilities in Maine added approximately 28 miles of new mains and over 1,391 new services. SNGME constructed approximately 1.5 miles of main and added 186 services in their Kennebec Valley service territory. In SNGME's Cumberland, Falmouth, and Yarmouth service territory, SNGME constructed approximately 6.3 miles of main and added 237 services. The total miles constructed by SNGME in the past four years is 181.4, resulting in 3,245 services.

Table 8 - 2016 Natural Gas Expansion

Utility	Mains (miles)		Number of Services	
	Added in 2016	Total Installed	Added in 2016	Total Installed
Bangor Natural Gas	8.3	256.0	330	6,168
Maine Natural Gas	2.0	192.4	116	4,177
Summit Natural Gas of Maine				
Kennebec Valley	1.5		186	
Cumberland, Falmouth, Yarmouth	6.3	181.4	237	3,245
Unitil (Northern Utilities)	10.0	569.0	522	21,803
Totals	28.1	1,198.8	1,391	35,393

Bangor Natural Gas constructed approximately 8.3 miles of main in 2016 and added 330 services. Unitil (Northern Utilities) constructed approximately 10.0 miles of main and added 522 services. Unitil also relocated a pressure reducing station on West Commercial Street in Portland. The project was completed in conjunction with the Maine Department of Transportation's Intermodal Port Productivity Project and the new station provides service to portions of Portland and South Portland. Maine Natural Gas constructed approximately 2.0 miles of main and added 116 services. The expansion information in Table 8 for 2016 (mains and services) was provided to Commission staff by each utility in December 2016. Total mains and services were calculated by adding each utility's stated 2016 expansion to the length of main and services they reported in their Gas Distribution System Annual Report to the Pipeline and Hazardous Materials Safety Administration for Calendar Year 2015.

Cast Iron and Bare Steel Replacement Program

In 2010, the Commission approved a 14-year replacement program for Northern Utilities' cast iron and bare steel facilities. The program is intended to improve the safety of the system, as well as increase its capacity to serve customers in the Portland area. The Commission monitors Northern's program performance each year through compliance reports which are required to be filed by March 30. In 2016, Northern retired 2.49 miles of cast iron main, 2.00 miles of bare/unprotected steel or wrought iron main, and 0.27 miles of plastic pipe, on its low pressure system. The cumulative project totals are now: 27.12 miles (out of approximately 65 miles) of cast iron retired; 3.94 miles (out of approximately 10 miles) of bare/unprotected steel retired; and 5.53 miles of plastic pipe retired. In 2017, Northern expects to retire 4.10 additional miles of cast iron and bare/unprotected steel or wrought iron mains.

In 2013, the Commission approved a Targeted Infrastructure Recovery Mechanism (TIRA) that provided for annual increases to distribution base rates to recover the costs associated with the cast iron replacement program. Specifically, as long as the projects are tracking within the cost and schedule metrics established by the Earned Value Management (EVM) analysis, Northern is allowed an annual rate adjustment on May 1st to recover its investments. On May 1, 2016, Northern implemented a TIRA adjustment of 3.36% to distribution base rates.

PHMSA Inspection Assistant/Spotter

In 2016, the gas safety staff began using PHMSA's Inspection Assistant (IA) software. The use of IA has eliminated the need for filing records for different types of inspections in PHMSA databases associated with each inspection type. Also in 2016, the gas safety staff began using an inspection software program called "Spotter" for inspection types not included in PHMSA's IA system. Both IA and Spotter use iPads, which allows for the completion of the inspection forms in the field. This has dramatically reduced the time necessary to complete inspection reports and has allowed staff to spend more time in the field completing inspections.

9. DIG SAFE

UNDERGROUND FACILITY DAMAGE PREVENTION AND ENFORCEMENT

The Damage Prevention section of the Consumer Assistance and Safety Division (CASD) is charged with enforcing Maine's underground facilities damage prevention law, called "the Dig Safe Law" (23 M.R.S. § 3360-A). This law is intended to prevent damage to underground utility facilities such as gas lines, water lines, or underground telecommunications and electric cables resulting from excavation.

Under the Dig Safe Law and the Commission's rule implementing the law, Chapter 895, any person or company planning to excavate near underground facilities must follow certain safety procedures, and must notify facility owners of the planned excavation. Most facility operators, such as large utilities, can be notified using the Dig Safe System. Excavators can access the Dig Safe System online at www.digsafe.com, or by calling 1-800-DIGSAFE or 811. Excavators must also notify facility operators who are not members of the Dig Safe System, such as municipalities and smaller utilities. To help excavators identify the non-member operators that own underground facilities near their intended excavation site, the Commission maintains the OKTODIG program, a database of non-member operators. Excavators can access this program by calling 1-800 OKTODIG or online at www.oktodig.com. Once informed of a pending excavation, utilities have an obligation to locate and mark their underground facilities in accordance with the Dig Safe Law so that excavators will be sufficiently aware of their location when they dig.

Violations of the Dig Safe Law and Chapter 895 must be reported to the Commission, which then investigates the incident and determines the appropriate enforcement action, if any. To increase awareness of the provisions of the Dig Safe law and Chapter 895, the Commission performs regular training programs at its offices and also performs on-site training at the request of excavators or facility operators. The Commission also provides public education materials to improve awareness among private property owners of the importance of preventing damage to underground facilities. These materials are available on the Commission's website. A summary of Dig Safe activities is provided in Table 9 below.

In 2016, the U.S. Department of Transportation's Pipeline and Hazardous Material Safety Administration (PHMSA) began evaluating States' damage prevention programs to determine whether or not each State adequately enforces its damage prevention laws and regulations. A finding of "inadequate" enforcement by PHMSA could result in PHMSA choosing to enforce Federal Damage Prevention standards in that state and the state losing a portion of its Gas Safety Program funding. PHMSA completed its review of Maine's Damage Prevention Program in September of 2016 and found that Maine's program was one of the "strongest programs in the country," receiving 248 points out of a total of 258 points.

INDUSTRY TRENDS

Overall damage incidents were up 12% in 2016. This increase is partly attributable to increased construction activities and an associated 4% increase in the number of Dig Safe tickets requested by excavators in 2016. It may also be attributable to an increased awareness on the part of excavators of the requirement to report an incident.

Telecommunications facilities continue to experience the most damage related to excavating, though the incident rate for telecommunications has been decreasing over the past three years. Incident rates for natural gas facilities, however, increased 40% in 2016. This is part of a trend of increasing incident rates for gas incidents experienced since 2013 and depicted in Table 9 below. The increase in the natural gas incident rate is partly attributable to the extensive amount of new natural gas infrastructure installed in the past three years, as discussed in the Gas Safety Section of this report. The Commission's Gas Safety Staff plan on reviewing natural gas incidents during the winter of 2017 in conjunction with the gas utilities to determine likely causes of the increase and to identify measures to address those causes.

The Commission conducts an on-site investigation for each incident as soon as possible, in many cases on the same day, to determine the cause of the incident and to assess the risk posed to people and underground facilities. Based on this investigation, the Commission will determine any appropriate response to the incident, such as training or the assessment of a financial penalty for the violator.

Table 9 – Summary of Dig Safe Activities

Metric	2013	2014	2015	2016
Reported Total Incidents	452	419	387	435
Reported Electric Incidents	76	98	78	92
Reported Gas Incidents	30	53	59	83
Reported Telecom Incidents	116	109	106	101
Reported Water Incidents	42	50	30	41
Reported Sewer Incidents	25	32	14	27
Reported CATV Incidents	55	48	82	65
Excavator Violations	168	109	103	105
Operator Violations	123	95	96	92
Penalties Assessed	\$185,750	\$170,350	\$167,500	\$199,000
Penalties Waived with Training	\$34,000	\$51,500	\$48,000	\$49,500
Penalties Not Waived	\$151,750	\$118,850	\$119,500	\$149,500

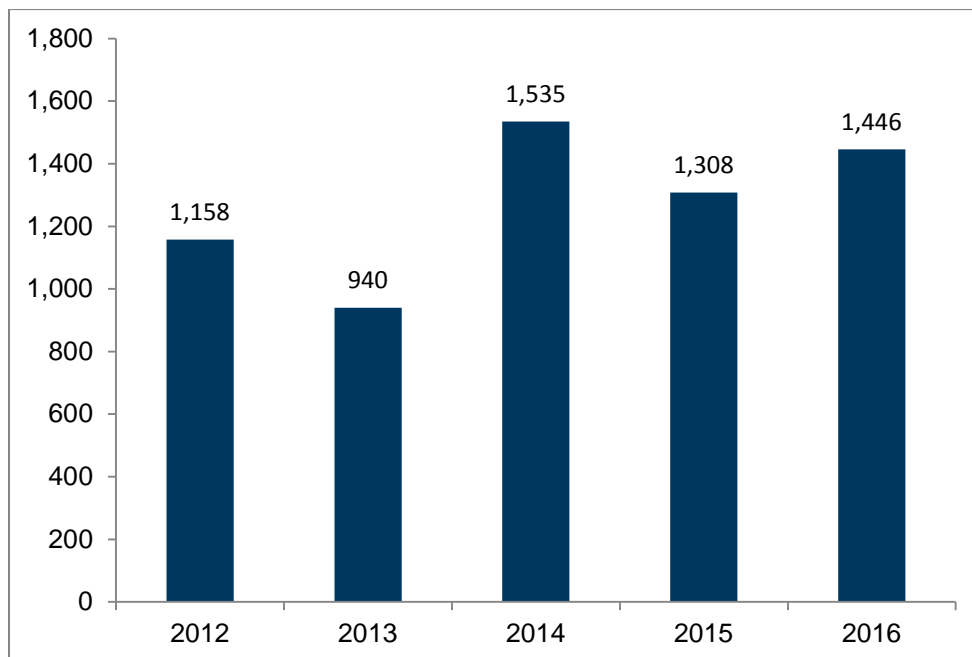
Public Awareness, Training and Education The Commission continues to strongly support and promote education and training about how to reduce and prevent damage incidents involving underground facilities and ensure the safety of residents and property located near those facilities. Maine's Underground Damage Prevention Rule (chapter 895) allows the

Commission to require an excavator or member operator who has violated the rule to attend an educational training program. Often, this training is offered in lieu of a financial penalty. In addition, the Commission encourages excavators and operators to periodically attend training sessions to ensure that they are up to date on the most recent technological and regulatory developments relating to underground facilities damage prevention. This emphasis on training is demonstrated by the trend of decreasing violations cited against both excavators and operators. As depicted in Table 9 above, violations cited against excavators have decreased by 37% from 168 violations cited in 2013 to 105 violations cited in 2016. The same trend is evident with violations cited against operators, with 123 violations cited in 2013 and 92 cited in 2016, a 25% reduction.

In addition to coordinating and conducting its own education and training initiatives, the Commission also works with utilities, excavators, the regional Dig Safe organization, and private property owners to promote education and training of Maine’s Dig Safe law. In 2016, the Commission supported training offered by the New England Committee of Managing Underground Safety Training (MUST), which includes Maine Dig Safe members, excavating contractors and underground facility location workers. Training seminars were held in Presque Isle, Bangor, Augusta, Saco, and Bethel. Discussions focused on safe work practices around underground facilities, compliant excavation site and underground facility markings, the design of various underground facilities and the risks involved when proper damage prevention steps are not taken.

The Commission also sponsored 35 certification and/or informational training sessions at various businesses, organizations, trade shows and at the Commission. In the past five years, the Commission and MUST have trained over 8,400 people on how to reduce and prevent damage incidents involving underground facilities as detailed in Figure 15 below.

Figure 15 - People trained by the Commission and MUST



MAJOR ACTIVITY

No rulemakings or statutory changes involving the Damage Prevention Program took place in 2016.

10. WATER

THE WATER INDUSTRY IN MAINE

There are 153 water utilities in Maine. Water utilities are divided into two basic groups, investor owned water utilities and consumer owned water utilities, depending on the nature of utility ownership. Investor owned water utilities are privately held entities that provide water service for profit. They are organized in a manner similar to other privately held business entities. Consumer owned water utilities are not operated for profit and are organized as Water Districts or Water Departments. Water Districts are quasi-municipal entities, generally governed by elected or appointed boards of trustees. Water Districts are created by Private and Special Laws enacted by the Legislature that grants the Water District authority to provide water service in a specific area, called a service territory. The service territory of a Water District may include multiple municipalities. Similarly, Water Departments are divisions of municipalities and are governed by municipal governments. A Water Department will, generally provide service only to their particular municipality.

The Commission is charged with oversight of the rates and services of water utilities. The Department of Health and Human Service Drinking Water Program regulates water quality through the enforcement of the Federal Safe Drinking Water Act. Finally, the Department of Environmental Protection is also involved in water utility issues, for example, with regulations on water sources.

KEY EVENTS

Infrastructure Surcharge

Chapter 657, which the Commission adopted in 2013, reduces the lag for rate recovery by permitting the incremental recovery of capital costs between rate cases through adoption of infrastructure surcharges. In each instance, the surcharge is calculated to recover the cost of completed projects, either replacement of water mains or water treatment facilities. In 2016, the Commission approved 10 water infrastructure surcharges for separate divisions of the Maine Water Company and one infrastructure surcharge for the Boothbay Region Water District³⁷. The major cause for these infrastructure surcharges is due to the aging infrastructure that is reaching the end of its useful life as discussed below.

Capital Reserve Accounts

Similarly, Chapter 675 authorizes the adoption by consumer owned water utilities of capital reserve accounts through which a water district may designate a portion of revenues, through current rates, to fund future infrastructure projects. In 2016 one capital reserve account was filed by the Deer Isle Consumer Owned Utility District during their normal rate case in August 2016³⁸. The overall rate increase for the Deer Isle Consumer Owned Utility District was 39.25% and the capital reserve account was in the amount of \$1,600, which is 15% of that

³⁷ Docket No. 2016-00239

³⁸ Docket No. 2016-00182

utility's revenue requirement. Bangor Water District, in its 2016 rate revision³⁹, continued to fund a capital reserve account which it initially included in rates in 2015.

INDUSTRY TRENDS

Increased Burden of Capital Expenditures

Water utilities both in Maine and nationwide, have confronted the pending need to replace water infrastructure that is currently at, or in the near future is expected to reach, the end of its useful life.

Much of the infrastructure used to currently deliver water service flows through pipes that were installed in response to growth and economic development in the late 1800s, World War I, 1920s, and in the immediate post-World War II period. The useful life of these pipes varies considerably, depending on soil conditions, pipe material, and components of the water flowing through it. However, a significant portion of system components are becoming antiquated at approximately the same time. The Maine Drinking Water Program estimates that over the next 20 years, an investment of approximately \$1.2 billion is needed to fund infrastructure replacement in Maine. The cost associated with replacing this infrastructure for all water utilities nationally is estimated to exceed \$384 billion.

All water utilities can recover the cost for new infrastructure through rates over the life of the plant, and consumer-owned water utilities are also able to include in rates the full debt repayment for such projects. However, water infrastructure is expensive and the pumping and treatment facilities necessary to serve a hundred customers are roughly the same as those needed to serve a thousand customers. Due to the cost and scope of water systems, replacement of water infrastructure at the end of its useful life can present significant financial challenges to water utilities. As a result, new infrastructure needs can drive substantial rate increases to water utility customers.

Water Conservation and Resulting Decreased Water Revenues

Water utilities generally encourage water conservation through internal conservation measures such as leak detection on water mains and the monitoring of system water usage and by educating customers on conservation techniques. Conservation education typically includes posters, newsletters, and bill inserts explaining how customers can reduce their consumption of water. Some water utilities offer, at cost, low-flow shower heads and other kits that can help customers reduce their usage.

Successful water conservation measures tend to decrease the revenues earned by water utilities which, at a time when operational costs are either static or increasing, can diminish a utility's ability to finance its operations without a rate increase.

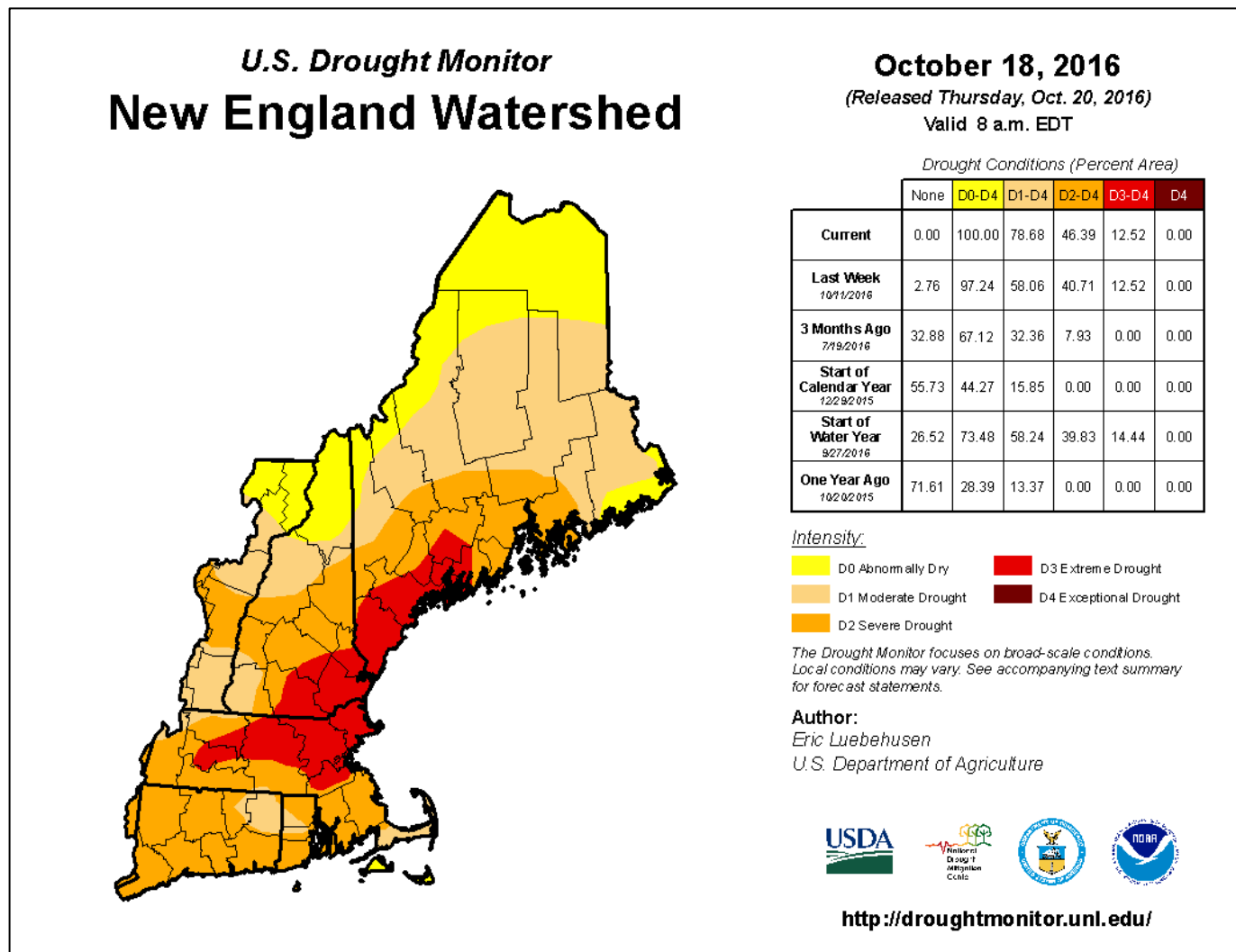
Drought

Most areas of Maine experienced the impacts of drought in 2016. Some of Maine's water systems, which are located in areas where sources of supply are limited, were particularly

³⁹ Docket No. 2016-00065

challenged during dry conditions. In addition to limited source of supply, some of these systems can also be disproportionately affected by seasonal demands, antiquated infrastructure, and/or high levels of non-revenue water. By late summer 2016 it became evident that portions of Maine were experiencing the effects of several months of below average precipitation. By October almost all of Maine was in some stage of hydrological drought and record low levels were being recorded in Maine’s groundwater monitoring network. Figure 16 below depicts the drought at its height with over 46% of the state experiencing severe to exceptional drought conditions as of October 18, 2016. The Commission is collaborating with other agencies and water systems in order to plan for 2017, should the drought continue and intensify.

Figure 16 – Drought Conditions October 2016



MAJOR CASES

Commission Notice of Inquiry

In October 2016, and in response to the drought, the Commission initiated an ongoing inquiry into water supply issues affecting Maine's water utilities.⁴⁰ The Commission sought input that would identify current and potential water supply problems and specific solutions to those problems and consider alternative procedural steps for addressing water supply issues. Working with the Maine Center for Disease Control's Drinking Water Program, the Commission conducted a water supply status survey with all Maine water utilities. The response rate to this survey was approximately 50% and these results caused the Commission to open the inquiry.

The Commission is gathering information that will allow it to identify problems which may exist, is soliciting input on ways to address any problems that are identified, and is working collaboratively and proactively with Maine's water utilities and their customers (as well as other State agencies and interested parties) to develop a plan for addressing the problems that are identified. The scope of this Inquiry is not limited to challenges created by drought conditions, but also includes any set of circumstances or emergency that may significantly constrain a utility's source of supply and impact its ability to supply its customers.

⁴⁰ Docket No. 2016-00233

11. EMERGENCY SERVICES COMMUNICATION BUREAU

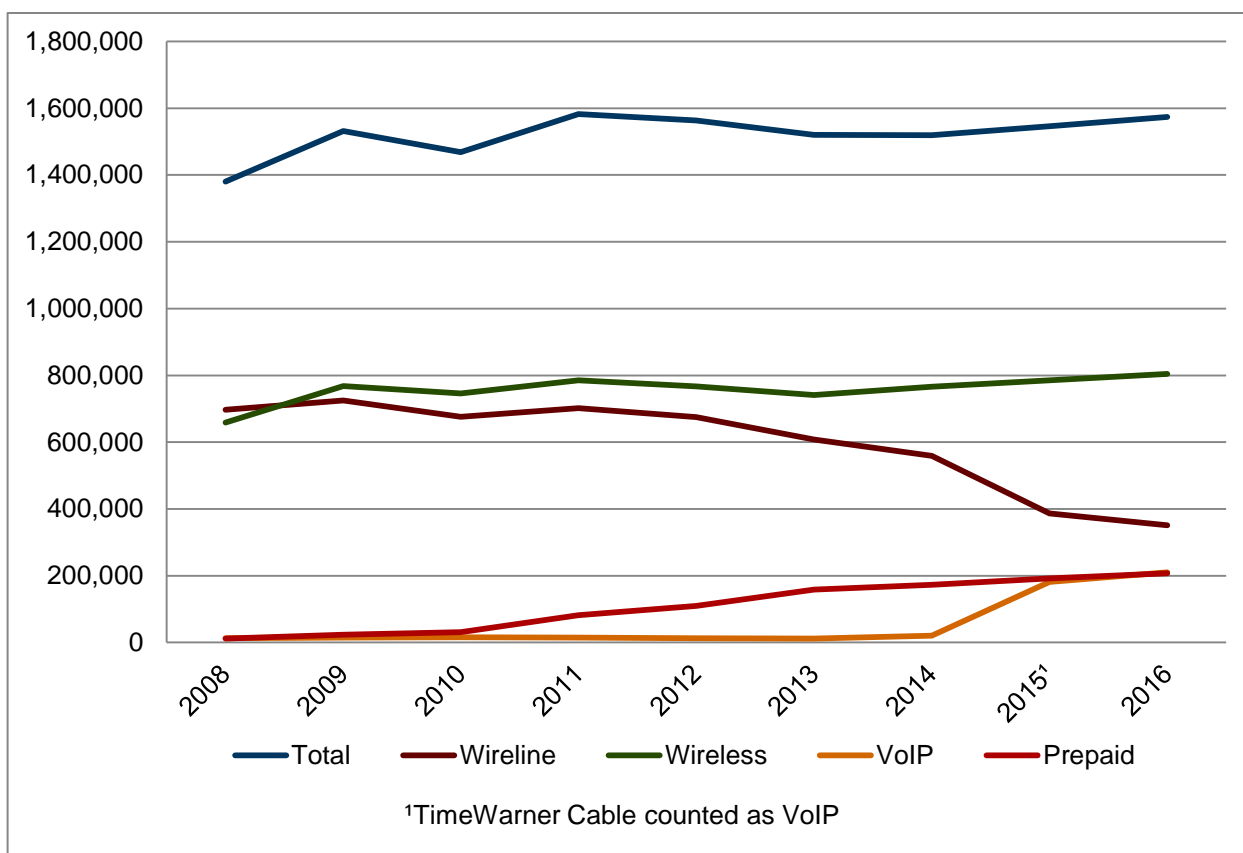
911 SERVICES IN MAINE

The Emergency Services Communication Bureau (ESCB) manages the state-wide 911 system, which is the component of the emergency response system that delivers 911 calls and displays the telephone number and physical location of the caller at one of Maine’s 26 predetermined Public Safety Answering Points (PSAPs). Figure 20 on page 67 shows the geographical coverage area of each of the PSAPs. The ESCB is funded by the E911 surcharge which is assessed on all wireline, wireless (prepaid and postpaid) and VoIP service.

INDUSTRY TRENDS

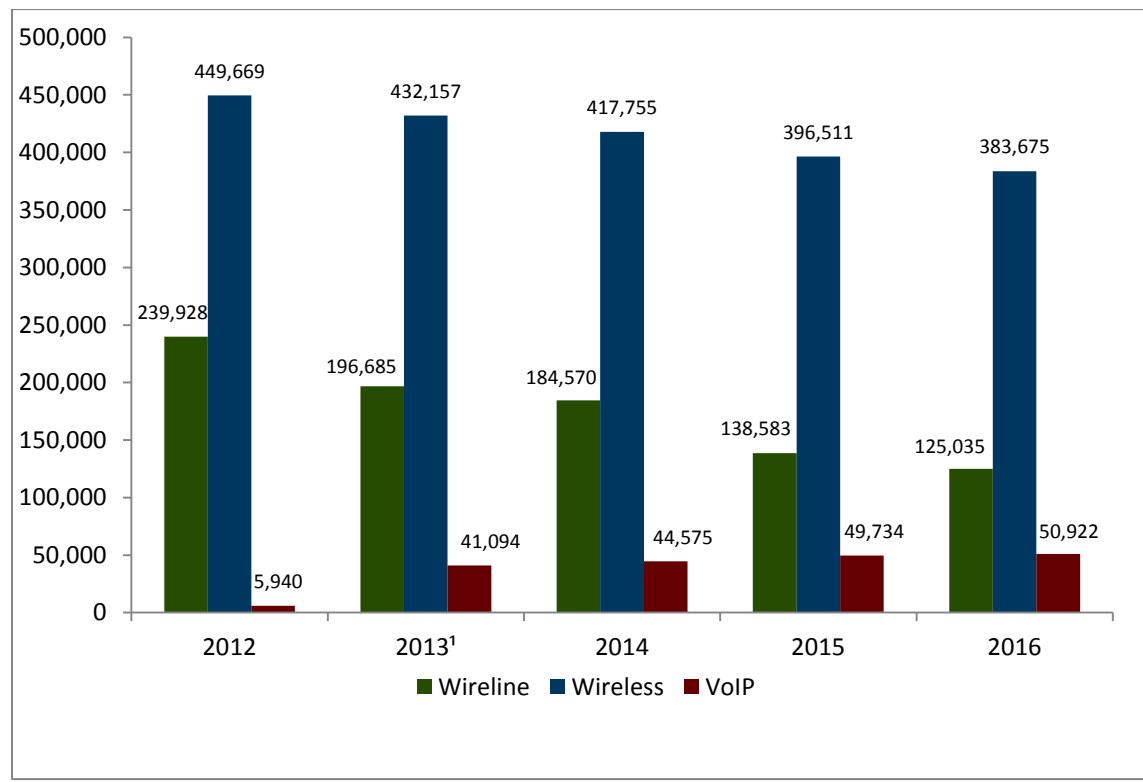
Nationally and in Maine, wireless phones have accounted for the largest portion of payments of the E911 surcharge. See Figure 17.

Figure 17 – Phone Lines Contributing to E911 Surcharge



In 2016, as in previous years, there were more 911 calls made from wireless phones (68.5%) than wireline and VoIP phones combined (31.5%) in Maine. See Figure 18.

Figure 18 - 911 Calls



¹In 2013, Time Warner Cable transitioned away from traditional wireline call routing to dynamic VoIP routing which accounts for the apparent sudden increase in VoIP calls.

KEY EVENTS

Next Generation 911 Implementation

A contract was executed with FairPoint Communications in March 2013 for Next Generation 911 (NG911) services to transition Maine’s aging E911 system to a modern standards-based system capable of handling new communication technologies. The first PSAP was transitioned in March 2014. An aggressive implementation schedule resulted in all 26 PSAPs being successfully cutover to the new system by July 23, 2014. This completed one of the nation’s first statewide end-to-end NG911 system deployment based on the Detailed Functional and Interface Standards for the National Emergency Number Associations i3 Solution, positioning Maine well for accepting new technology applications.

The ESCB has since focused on ensuring the system is operating as designed and that it is meeting the PSAPs’ needs. Monthly conference calls involving FairPoint, ESCB staff and PSAPs help identify and track any issues. The ESCB has also instituted a PSAP site visit schedule to help them with the new equipment and identify system issues in need of improvement.

Efforts in 2016 focused on migrating text to TTY service to a more robust Internet Protocol based solution that will take advantage of the capabilities of Maine's NG911 system. This deployment will also distribute text calls to PSAPs based on location. This should be complete by midyear 2017.

Call Taker and Dispatch Training

The ESCB offers a variety of courses to ensure that 911 call takers and dispatchers have all the necessary skills to handle emergency calls as detailed below. See Table 10 for a summary of students trained.

- **Mandatory Basic Emergency Telecommunicator Course (ETC)** The ESCB offers a basic emergency telecommunicator 40-hour curriculum that covers topics including roles and responsibilities, technology, interpersonal communications, call management, police/fire/emergency medical call classifications, radio dispatch procedures, quality improvement, catastrophic events, legal aspects and stress management. This training provides for a uniform base of knowledge for all newly hired emergency dispatchers statewide. All full-time dispatchers are required to take this class within one year of hire.
- **NG911 Equipment & Bureau Policy Training** Initial training for newly-hired PSAP call takers consists of a 2-day equipment and certification course, which must be completed within 90 days of assignment.
- **Emergency Medical Dispatch** Maine law requires that all 911 call-takers be trained and licensed in Emergency Medical Dispatch (EMD), an advanced training requirement that prepares the 911 call taker to assist callers/victims by providing life-saving instructions to follow while waiting for ambulance personnel to arrive on-scene. The ESCB sponsors a 3-day EMD certification training for all call takers plus an additional 2-day training for supervisors on quality assurance review of the EMD calls.
- **Emergency Fire Protocols** Maine law requires that all 911 call takers be trained in Emergency Fire Dispatch (EFD) by December 2018. This is an advanced training class that prepares the 911 call taker to assist callers/victims by providing instruction prior to the arrival of fire responders to arrive on-scene. The ESCB sponsors a 3-day EFD certification training for all call takers plus an additional 2-training for supervisors on quality assurance review of EFD calls.
- **Continuing Education Courses** The ESCB recognizes the need for continual skills development as well as refresher opportunities for all communications personnel, and sponsors a variety of opportunities throughout the year.

Table 10 - Students Trained

Course Name	Students Trained in 2015	Students Trained in 2016	Percent Change
NG911/Vesta New Hire Training	56	84	50%
Emergency Telecommunicator Course	42	77	83%
Emergency Medical Dispatch Certification	79	94	19%
Emergency Medical Dispatch Quality Assurance (ED-Q)	17	20	18%
Emergency Medical Dispatch AQUA Training	13	19	46%
Emergency Medical Dispatch ProQA	20	38	90%
Emergency Fire Dispatch Certification	0	97	
Emergency Fire Dispatch Quality Assurance	0	28	
Emergency Fire Dispatch AQUA Training	0	28	
Emergency Fire Dispatch ProQA	0	94	

Quality Assurance Program Development

Expansion of Call Handling Protocols

On June 22, 2015, L.D. 1256, An Act to Improve the Safety and Survival of 911 Callers and First Responders, was enacted into law (Act). The Act states that in order to assist public safety answering points (PSAPs) in the adoption and implementation of standardized dispatch protocols for answering fire 911 calls, the ESCB shall use up to 5¢ of each surcharge collected under 25 M.R.S. § 2927 subsections 1-E and 1-F to provide PSAPs dispatcher training consistent with the protocols, necessary software and printed support materials. It further provides that the ESCB shall provide quality assurance training and software to assist PSAPs in ensuring compliance with the protocols and directs the ESCB to adopt routine technical rules related to the adoption, implementation and administration of standardized dispatch protocols for answering fire 911 calls.

The Act directs the Commission to phase in, over a 3-year period, the required protocols for fire 911 calls by PSAPs and seek input from the management of all PSAPs in developing the program. It also directs the Commission to submit a report to the Committee by January 15, 2019, that includes the cost to adopt and implement standardized dispatch protocols for answering police 911 calls, the time it would take to phase in the adoption and implementation of police protocols based on available funding from the 911 surcharge, whether there should be a certification and licensing requirement for all standardized dispatch protocols and any recommendations to ensure the efficient and effective oversight of the standardized dispatch protocols.

In late 2015, the Commission initiated a Notice of Inquiry (NOI)⁴¹ in order to gather information from interested persons concerning various issues in advance of the rulemaking proceeding. The Commission solicited written comments and held a meeting with interested persons to discuss issues raised in the comments.

On April 14, 2016, the Commission initiated a Notice of Rulemaking⁴² and issued a proposed rule for comment. The Commission held a public hearing on May 17 and written comments were due June 3, 2016. By Commission Order dated August 8, 2016, the Commission adopted the rule.

The implementation of fire protocols will be phased in by PSAP. In September, the first three PSAPs began the fire protocol implementation process and began actively using the protocol the end of November. About 20 percent of all PSAP dispatchers in the State are now using the new fire protocols. Six more PSAPs will begin implementation in January 2017.

PSAP Audits

During 2016 an audit was performed at 25 of 26 PSAPs to ensure laws, rules and required policies and procedures are being followed and that any deficiencies identified previously were resolved. Observations made during 2016 PSAP Audits:

- Personnel complaint processes have been seen in various forms, some holding close ties to law enforcement procedures while others offer a personal one-on-one approach with the complainant.
- Quality Assurance/Quality Improvement (QA/QI) has grown tremendously and is gaining even more attention as Maine pushes forward with a second protocol discipline, Emergency Fire Dispatch. There is positive energy in some of the PSAPs to develop and expand QA/QI teams that give much needed feedback to personnel.
- Technology has advanced, and continues to advance, at a rapid pace. Records retention has become longer lasting and more reliable. As a result, PSAPs are retaining data for many years, well exceeding the required 30 day minimum set two decades ago.
- While most PSAPs have documented and conducted their TTY testing, proper testing procedures utilizing TTYs from outside the NG911 network, was emphasized. It is the recommendation of the ESCB that PSAPs have a physical Baudot teletype machine connected to a Plain Old Telephone Service (POTS) line to insure ADA regulations are met and the deaf community is given equal access to the 911 system.
- Security is critical as communication centers are a vital portal for the public and first responders. The importance of simple measures such as securing all entrances and verifying credentials of visitors was reviewed or emphasized.

ESCB staff regularly visited PSAPs to insure that the NG911 system was working optimally, to assist call takers and supervisors with understanding equipment functionality, and to

⁴¹ Docket No. 2015-00333

⁴² Docket No. 2016-00063

gather feedback on how the program could be improved. Many suggestions have been adopted. The visits will continue in 2017.

ESCB rules require PSAPs to answer all calls in ten seconds or less 90% of the time. This data is measured on an annual basis. PSAP's falling below this requirement are notified and asked for a corrective action plan. See Table 11 below.

Table 11 – 2016 PSAP Call Center Efficiency

PSAP	Incoming 911 Calls - 2016	% Calls Answered ≤ 10 seconds	Avg Ring Duration
Piscataquis County SO	5,869	98.5	5.0
Franklin County RCC	9,485	96.9	6.0
Waldo County RCC	10,275	94.8	7.0
York PD	10,629	98.0	6.0
DPS Houlton	10,858	97.7	5.0
Lincoln County RCC	11,744	99.4	5.0
Washington County RCC	12,031	98.1	6.0
Scarborough PD	12,554	97.3	6.0
Androscoggin County SO	12,622	96.4	6.0
Knox County RCC	12,644	98.5	5.0
Brunswick PD	13,970	98.7	5.0
DPS Bangor	14,380	96.0	7.0
Hancock County RCC	15,375	97.0	6.0
Westbrook PD	15,456	98.0	5.0
Sagadahoc County RCC	16,991	99.1	4.0
Biddeford PD	18,257	98.4	6.0
Sanford PD	20,808	98.4	6.0
Bangor PD	22,551	93.5	6.0
Oxford County RCC	23,362	98.9	6.0
Cumberland County RCC	29,625	91.6	7.0
DPS CMRCC	31,609	86.0	8.0
Somerset County RCC	40,343	98.9	6.0
Lewiston Auburn 911	41,896	90.5	7.0
Penobscot County RCC	42,402	74.6	9.0
DPS Gray	42,971	89.5	8.0
Portland PD	60,925	74.4	9.0
Total Calls	559,632		

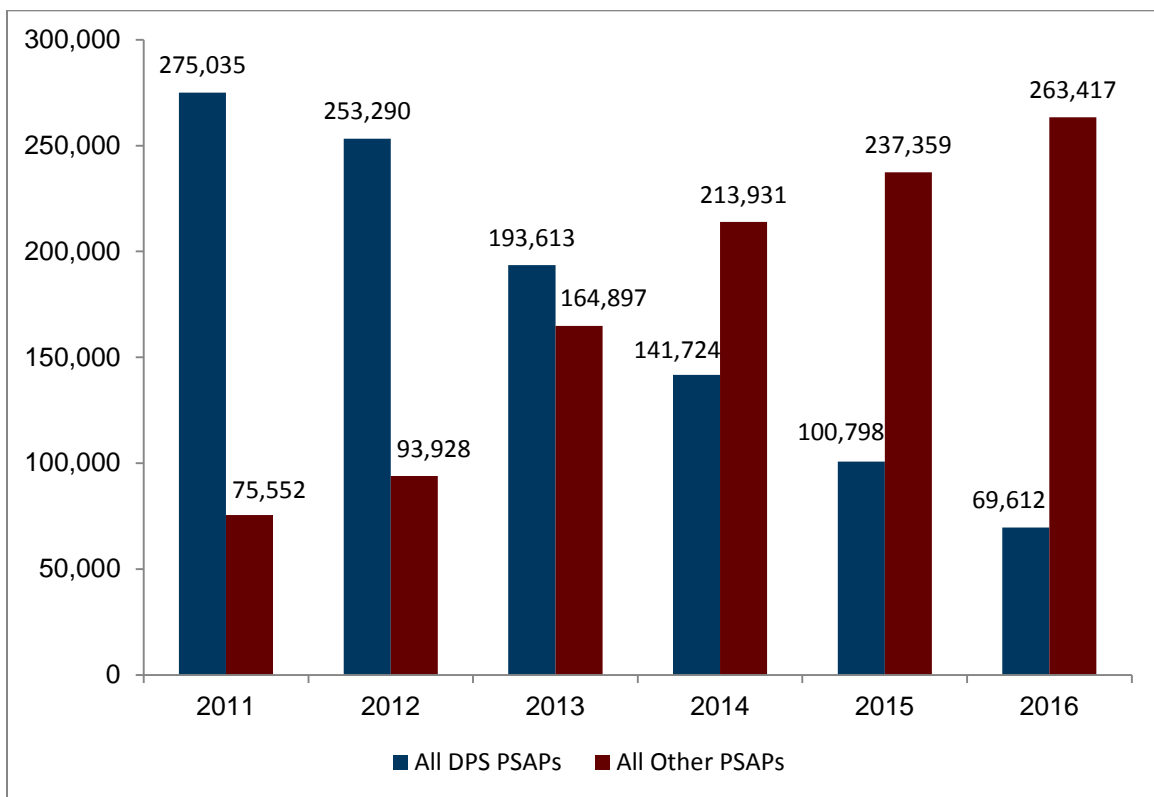
911 Cell Call Re-routing Legislative Directive

In March 2012, the Joint Standing Committee on Energy, Utilities and Technology sent a letter encouraging the Commission to move as quickly as possible in redirecting wireless calls from Department of Public Safety (DPS) PSAPs to the PSAP most likely to dispatch the needed emergency service. The ESCB had substantially completed its initial effort in 2014.

In 2015, numerous cell sites were further reviewed to determine which locations could be redirected to minimize transfers and provide service more efficiently to emergency callers. This resulted in approximately 40,000 additional calls redirected from DPS PSAPs to county or municipal PSAPs. In 2016, the ESCB continued to review towers at the request of PSAPs and redirected towers with respective carriers as appropriate.

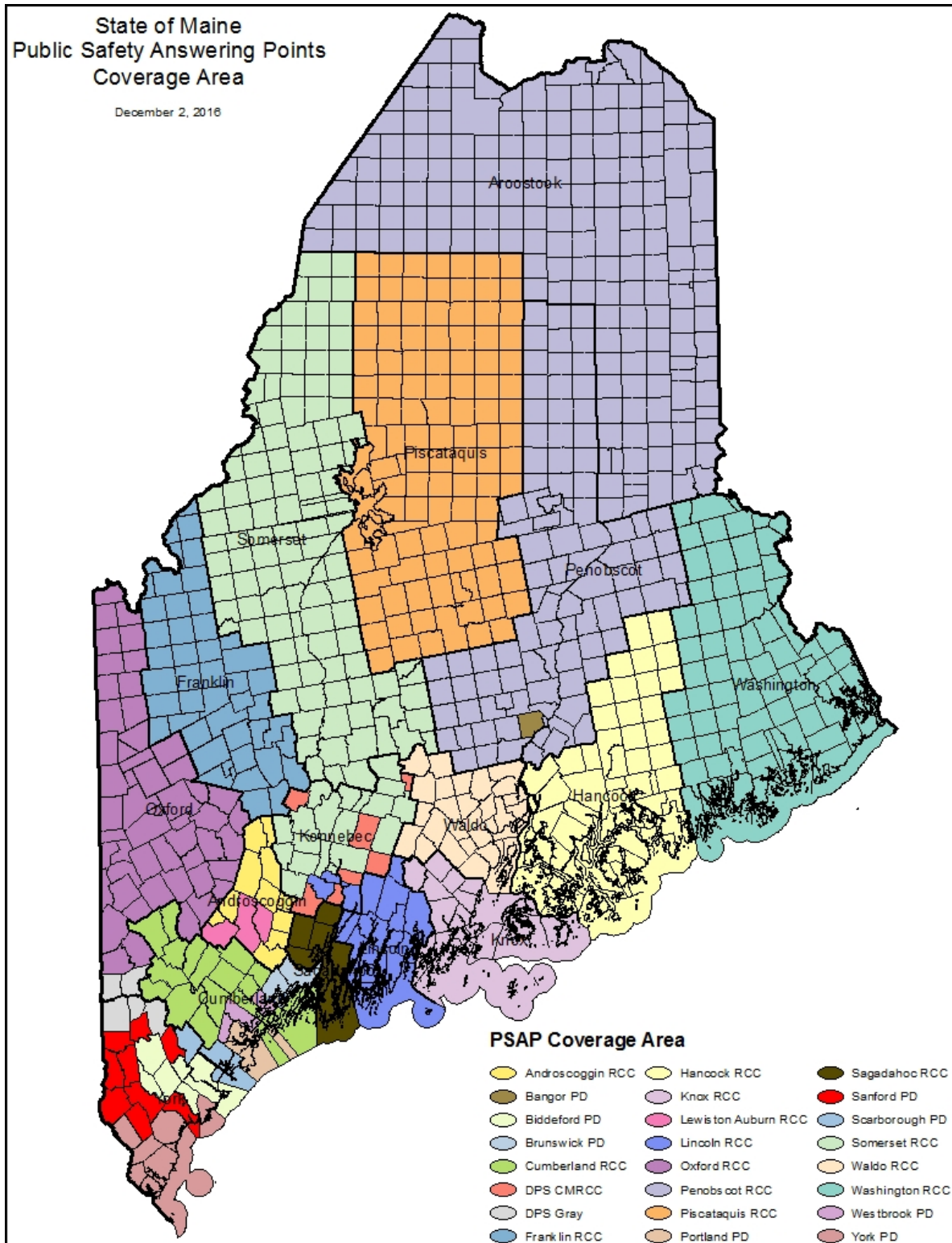
Figure 19 illustrates the number of wireless calls answered by DPS PSAPs compared to all other PSAPs for the last eight years. Figure 20 shows the geographical coverage area of each of the PSAPs.

Figure 19 - PSAP Wireless Calls



Program Funding/Surcharge Surcharge revenue is held in a dedicated, interest-bearing account and is tracked through the State’s accounting system. The current surcharge level is \$.45 a month. The Commission believes a surcharge level of \$.45 a month should produce sufficient revenues, when combined with an existing E911 fund balance, to finance the existing program through FY18.

Figure 20 - PSAP Coverage



12. CONSUMER ASSISTANCE

The Consumer Assistance section of the Consumer Assistance and Safety Division (CASD) is the Commission's primary link with utility customers. The CASD is charged with ensuring that consumers, utilities, and the public receive fair and equitable treatment through education, complaint resolution, and evaluation of utility compliance with consumer protection rules. As part of its mission, the CASD is responsible for educating the public and utilities about consumer rights and responsibilities and other utility-related consumer issues, for investigating and resolving disputes between consumers and utilities, and for evaluating utility compliance with State statutes, Commission rules and the utility's Terms & Conditions for service. The Commission also uses information about consumer contacts with the CASD and other CASD data as a basis for enforcement actions, Commission investigations and in other Commission proceedings.

KEY EVENTS

In 1997, the Legislature enacted P.L. 1997, Ch. 316 “An Act to Restructure the State’s Electric Industry” (the Act). Section 3214 of the Act directed the Commission to create a statewide financial assistance program for low income electricity customers. In response to the Act, the Commission adopted Chapter 314 which created a statewide, needs-based Low Income Assistance Plan (Statewide Plan). The Statewide Plan required each electric utility in Maine to create a Low Income Assistance Program (LIAP) for its customers.

On April 30, 2015, the Commission initiated an Inquiry to obtain information on its overall approach to the Statewide Plan. In its comments, the OPA recommended that the methodology used by utilities to determine lump sum benefit amounts be recalibrated so that funds currently directed to customers who receive more assistance than they need to afford electricity be redirected to those that do not receive enough assistance. On December 7, 2016, the Commission issued a Notice of Rulemaking⁴³ that proposes to create a model for electric utilities to use to establish their annual lump sum benefit amounts. The proposed model uses the four low income customer groups established by the Federal Poverty Guidelines and the electricity prices charged by each of the utilities to establish a needs-based benefit amount for each income group. Comments on the proposed rule are due by January 27, 2017 and the Commission plans to have the rule finalized in time for implementation in the 2017 – 2018 LIAP year.

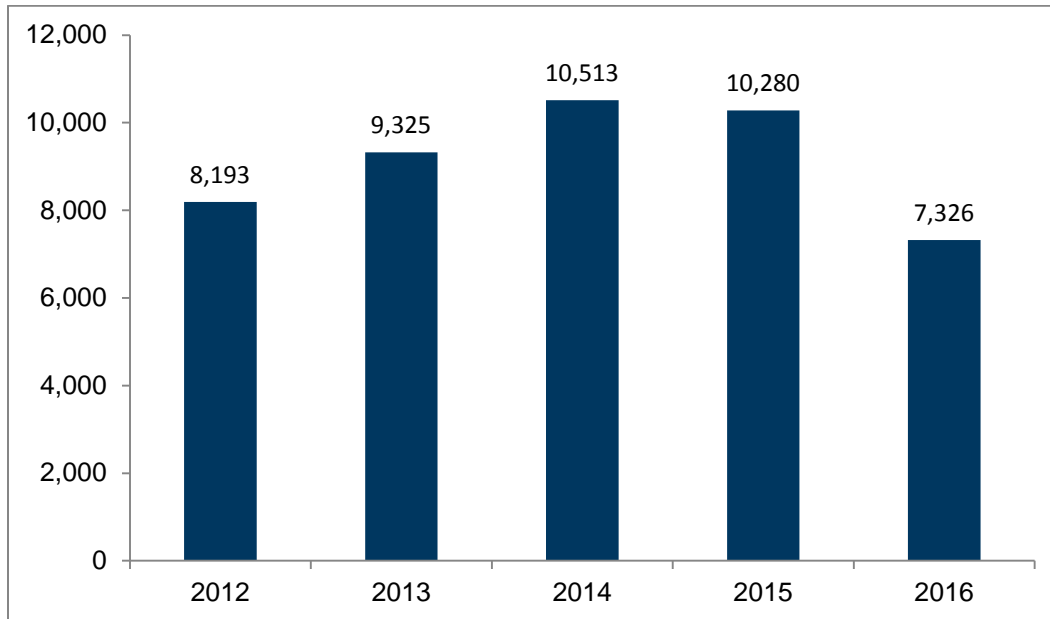
CASD Contacts

The CASD tracks its contacts with both consumers and utilities as detailed in Figure 21. Contacts take several forms, such as the general provision of information and assistance, investigation of a complaint involving a customer dispute with a utility that the parties have been unable to resolve, or processing utility requests for waivers of Commission rules. The CASD recorded 7,326 consumer contacts in 2016. This was a 29% decrease from the 10,280 consumer contacts in 2015 and a 30% decrease from the 10,513 consumer contacts in 2014. No single cause exists for this decrease. Rather, the decrease seems to be caused

⁴³ Docket No. 2016-00256

by several factors, including a reduction in customer calls relating to the electricity (both competitive electricity providers and electric utilities) and telephone sectors discussed below in the Consumer Complaint section.

Figure 21 – CASD Contacts 2012 – 2016

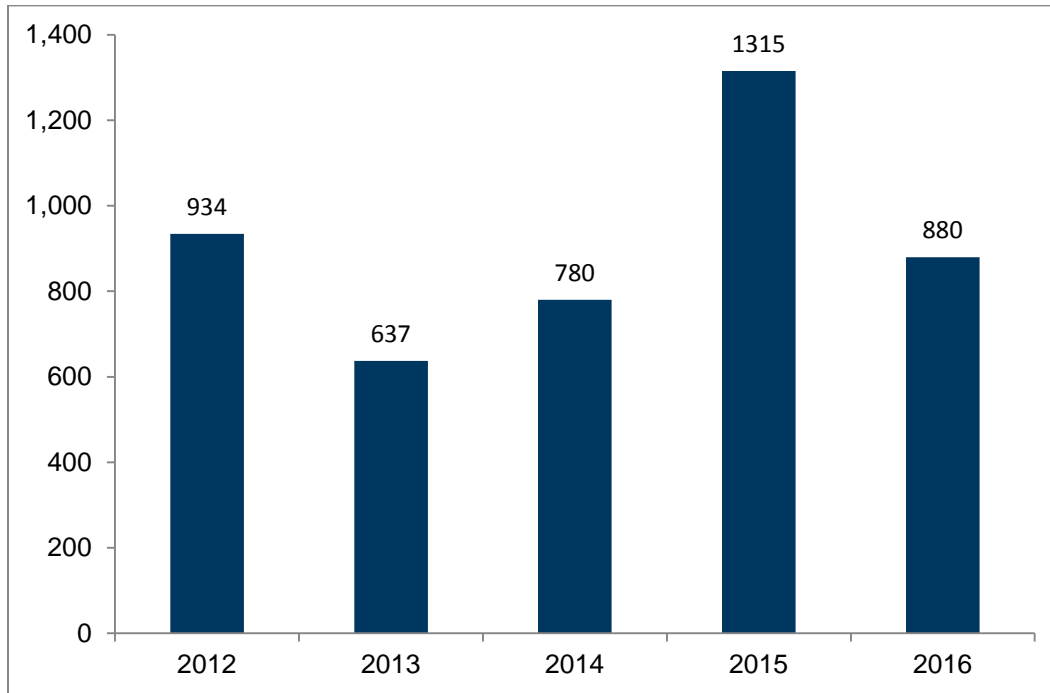


The CASD also tracks the speed in which it answers calls to its consumer hotline. In 2016, the CASD answered 92% of calls within one minute, with a call abandonment rate of 3%. This is an improvement over 2015 when the CASD answered 87% of calls within one minute with a call abandonment rate of 4%. The improvement is partly attributable to the CASD receiving fewer calls in 2016. In 2014, the CASD answered 93% of calls within one minute with a call abandonment rate of 2%.

Consumer Complaints

As shown in Figure 22 below, the CASD received 880 complaints in 2016. This is a 33% decrease from the 1,315 complaints received in 2015 and a 10% increase from the 800 complaints received in 2014. This decrease follows a two year trend of increasing complaints from 2013 to 2015 and a trend of decreasing complaints that existed from 2010 through 2013.

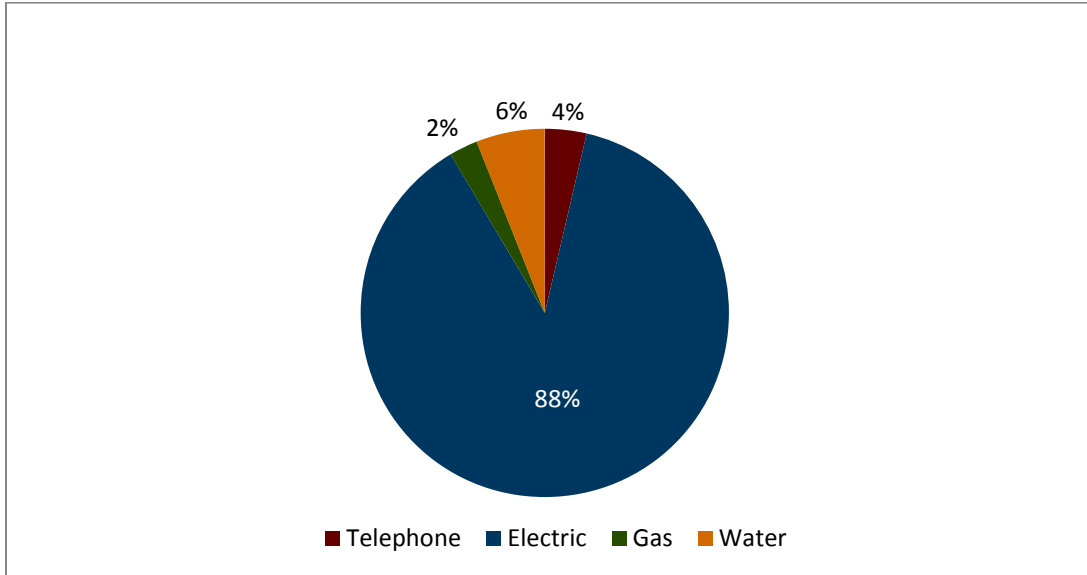
Figure 22 - Consumer Complaints 2012-2016



The decrease in complaints is attributable to a 30% decrease in electric complaints and a 75% decrease in telephone complaints, though the decrease in electric complaints is more significant quantitatively. The number of electric complaints received by the CASD decreased from 1,113 in 2015 to 772 in 2016. This decrease is related to a 70% decrease in complaints filed against CEPs, and a 17% decrease in complaints filed against electric utilities; again the decrease in complaints against electric utilities is more significant quantitatively. The number of telephone complaints received by the CASD decreased from 128 in 2015 to 32 in 2016. The decrease in telephone complaints is discussed below.

Figure 23 below breaks down complaints received by utility industry. Figure 23 shows that electric complaints represented 88% of the total number of complaints received by the CASD in 2016. This is a three percentage point increase from the 85% of complaints filed against electric utilities in 2015. Figure 23 also shows that telephone complaints represented 4% of the total number of complaints received by the CASD in 2016. This is a six percentage point decrease from the 10% of complaints filed against telephone utilities in 2015. In general, telephone complaints have been decreasing since 2008. There was a spike, however, in telephone complaints in 2015 that was primarily attributable to the FairPoint strike, which began during the last quarter of 2014 and ended in the first quarter of 2015.

Figure 23 - Complaint Type in 2016

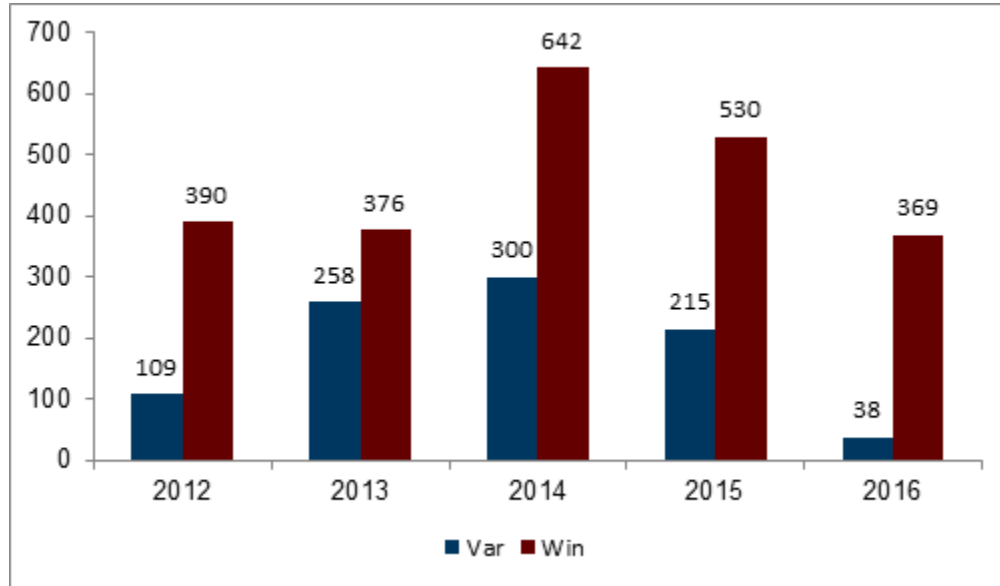


Utility Variances and Winter Requests to Disconnect

Utilities have the right to request a variance (or waiver) from Commission rules for individual applicants or customers whose conduct and known financial condition pose a clear danger of substantial losses to the utility. Decisions issued by the CASD in response to a variance request can be appealed to the Commission by either the utility or the customer. The CASD received 38 variance requests from utilities in 2016, an 82% decrease from the 215 variance requests received in 2015 and an 88% decrease from the 318 variance requests received from utilities in 2014. The significant decrease in variance requests is due to fewer requests being submitted by CMP and Emera. Both CMP and Emera were implementing Customer Information System projects in 2016 and this may have contributed to the reduction in variance requests. The CASD granted 21 variance requests or 55% of the total submitted in 2016. This compares to 70% of the variance requests being granted in 2015.

Between November 15 and April 15, electric and gas utilities are prohibited from disconnecting customers without first receiving permission from the CASD. During this time period, utilities must make significant attempts to personally contact customers who are behind on their bills to negotiate a payment arrangement prior to seeking permission to disconnect. In situations where the utility cannot make contact or is not able to negotiate a reasonable payment arrangement with a customer after making contact, the utility may submit a request to disconnect the customer's service to the CASD. In these situations, the CASD also attempts contact with the customer for the purpose of establishing a reasonable payment arrangement. In 2016, the CASD received 369 requests to disconnect from electric and gas utilities. This was a 30% decrease from the 530 requests received in 2015 and a 43% decrease from the 642 requests received in 2014 (see Figure 24). The CASD granted 43% of the requests submitted in 2016. This compares to 52% of the requests being granted in 2015 and 47% of the requests being granted in 2014.

Figure 24 - Winter Requests to Disconnect and Variances Received



Refunds to Consumers

The CASD frequently obtains credits or refunds for customers as part of its resolution of customer complaints filed against utilities. In 2016, \$91,851 was abated to 167 customers. This is a 45% decrease from the \$167,903 abated in 2015 and an 80% decrease from the \$455,600 abated in 2014.

LOW INCOME PROGRAMS

Electric Low-Income Assistance and Oxygen Pump/Ventilator Programs Pursuant to 35-A M.R.S.A. § 3214(6)

The Commission is required by 35-A MRSA § 3214(6) to report annually the results of the Low Income Assistance Program (LIAP) and Oxygen Pump/Ventilator benefits to the Utilities and Energy Committee. The report must, at a minimum, include:

- A. For each month of the program year, the number of participants enrolled in low-income assistance programs, the number receiving oxygen pump benefits and the number receiving ventilator benefits;
- B. For each month of the program year, the dollar amount of low income assistance program benefits, the dollar amount of oxygen pump benefits and the number receiving ventilator benefits; and
- C. An assessment of the effectiveness of the oxygen pump benefit and ventilator benefit with regard to covering only those electric charges directly related to use of an oxygen pump or ventilator by the program participant.

Table 12 summarizes items A and B above: the information relating to the LIAP and Oxygen Pump/Ventilator benefits on a state-wide basis. The statistics are derived from the quarterly reports submitted by T&D utilities.

TABLE 12 – Program Statistics

Month	LIAP Program		Oxygen Program		Ventilator Program	
	Number of Participants	Amount of Benefit	Number of Participants	Amount of Benefit	Number of Participants	Amount of Benefit
Oct. 2015	1,537	\$192,532	7	\$1,700	0	\$0
Nov. 2015	2,601	\$323,007	121	\$9,280	0	\$0
Dec. 2015	6,274	\$783,624	223	\$10,006	0	\$0
Jan. 2016	8,162	\$677,528	413	\$19,234	0	\$0
Feb. 2016	10,618	\$945,928	477	\$18,597	0	\$0
Mar. 2016	12,071	\$820,952	542	\$19,748	1	\$14
April 2016	9,362	\$496,830	540	\$17,326	1	\$15
May 2016	9,359	\$338,682	523	\$14,622	2	\$26
June 2016	9,175	\$294,002	482	\$15,609	3	\$106
July 2016	9,779	\$152,257	469	\$13,318	2	\$24
Aug. 2016	9,407	\$296,903	449	\$12,116	2	\$22
Sept. 2016	8,989	\$2,583,789	449	\$11,416	2	\$19
Total		\$7,906,034		\$162,972		\$226

Item C above, the assessment of the oxygen pump benefit and ventilator benefit, was added to the LIAP reporting requirements in 2008 due to a problem associated with oxygen pump benefits. The problem resulted in some eligible customers receiving an oxygen pump benefit that exceeded the amount of the customer’s entire electric bill. To address this issue, the Legislature adopted section 3 of Chapter 97 (codified at MSRA § 3214 (6)(C)), which requires the Commission to provide an assessment of whether the oxygen pump benefit and the ventilator benefit cover only those electric charges directly related to use of an oxygen pump or ventilator by the program participants. In response to this directive, the Commission revised Chapter 314 by reducing the estimated daily and monthly kWh consumption amounts used to calculate the oxygen pump/ventilator benefit and by prohibiting a benefit from exceeding the customer’s total electricity usage. These changes have resolved the problem.

Arrears Management Program

Public Law 2013, Chapter 556, “An Act to Assist Electric Utility Ratepayers” (Act) requires all electric transmission and distribution (T&D) utilities to create and administer an Arrearage Management Program (AMP) to assist eligible low-income residential customers who are in

arrears on their electricity bills. On April 9, 2015, the Commission completed its rule making process, adopting Chapter 317, which set forth requirements and procedures for the AMP.⁴⁴ Among other things, the new rule required each utility to submit terms and conditions to create and implement its AMP by October 1, 2015. The rule also established that residential customers who are eligible for LIHEAP in Maine and have an arrearage of \$500 or more that is at least 90 days old are eligible to participate in the program. Further, the rule established that for every month participating customers pay their current bills on time, 1/12th of the customers' arrearages, up to a maximum of \$300, will be forgiven.

The Commission convened a stakeholder group in 2016 to discuss the progress of the AMP. The stakeholder group was comprised of representatives from the electric utilities, CAP Agencies, low income advocacy groups, MSHA, OPA, and Commission staff. The stakeholder group met three times and discussed participation rates, enrollment issues, electricity assessments by Efficiency Maine, and re-enrollment of participants for the 2016 – 2017 AMP year.

The Act requires the Commission to prepare a report assessing the effectiveness of the AMP no later than January 28, 2018, and, absent any legislative action for the Act to be extended, it is repealed on September 30, 2018.

⁴⁴ Docket No. 2015-00015

13. SUMMARY OF COMMISSION RULEMAKINGS

The following provides a summary of the Commission Rulemakings in 2016.

Chapter 201: Provider of Last Resort Service Quality

This rule was adopted to amend the service quality requirements for provider of last resort telephone service.

Chapter 220: Removal of Provider of Last Resort Service Obligation

This rule was provisionally adopted to establish procedures for the removal of the obligation to provide provider of last resort telephone service in municipalities within the State.

Chapter 313: Customer Net Energy Billing

This rulemaking was initiated to consider amendments to the Chapter in light of technological developments.

Chapter 314: Statewide Low-Income Assistance Program

This rulemaking was initiated to consider changes to the statewide electricity low-income assistance plan.

Chapter 324: Small Generator Interconnection Procedures

This rulemaking was initiated to update and clarify various provisions of the Chapter.

Chapter 895: Underground Facilities Damage Prevention

This rulemaking was initiated to amend the Chapter to be consistent with recent statutory changes.

Emergency Services Communication Bureau

Chapter 5: 911 Fire Dispatch Protocols

This rule was adopted to implement standardized protocols for 911 fire dispatch.

14. SUMMARY OF LAW COURT APPEALS

Unlike most governmental agencies, the adjudicatory process employed by the Commission is most analogous to that of a court proceeding. Recognizing this unique aspect of the Commission's decision-making process, Title 35-A provides that appellate jurisdiction to review final Commission decisions resides exclusively with the Law Court. This differs from the process for judicial review that applies to most governmental agencies where appeals are taken, in the first instance, to Superior Court. The following provides a summary of the cases appealed to the Law Court that involve the Commission.

Fryeburg Water Company

Bruce Taylor, an owner of property located in Fryeburg, and Food & Water Watch, a national advocacy group, appealed to the Law Court from the Commission's November, 2014 decision⁴⁵ approving a long-term agreement between the Fryeburg Water Company (FWC) and Nestle Waters of North America Inc. (NWNA) for the lease of certain utility property and the sale of untreated spring water to NWNA for bottling under the Poland Spring brand. The Commission proceeding was decided by retired Justices Rudman and Atwood, who were temporarily appointed for that purpose as a result of the recusal of each of the three Commissioners. On appeal, Mr. Taylor and FWW contended that (1) the procedures before the Commission denied them due process of law; (2) the utility's charter does not permit the sale of untreated water to NWNA; (3) the terms of the lease and arrangement for the sale of water set forth in the Agreement are discriminatory; and (4) that the Commission abused its discretion in finding that the lease of the well from which the spring water is drawn will not cause harm to ratepayers or the utility in the form of degradation in the sustainability of the aquifer. On May 12, 2016, the Law Court affirmed the Commission's order, finding that agreement does not violate FWC's charter and that the Commission's interpretations of the applicable statutes were reasonable and did not constitute an abuse of discretion.

Central Maine Power Company Smart Meters

In 2012, at the direction of the Law Court, and pursuant to a complaint filed at the Commission by several customers of Central Maine Power Company (CMP), the Commission opened an investigation into the health and safety ramifications of wireless electric meters (so-called "smart meters") used by CMP. In an Order dated December 19, 2014,⁴⁶ the Commission concluded its investigation and determined that CMP's smart meters do not pose a threat to the health and safety of CMP's customers. On January 9, 2015, one of the customers who brought the original complaint against CMP appealed the Commission's Order to the Law Court, challenging the factual findings and legal conclusions made by the Commission. On January 26, 2016, the Law Court affirmed the Commission's decision and made the following findings: that the Commission appropriately applied the Court's "credible threat" standard, that the Commission did not improperly shift the burden of proof to the complainants, and that there was substantial evidence in the record to support that Commission's decision.

⁴⁵ Docket No. 2012-00487

⁴⁶ Docket No. 2011-00262

FairPoint Rapid Response Process

In 2012, Biddeford Internet Corp. d/b/a Great Works Internet ("GWI") brought a complaint against Northern New England Telephone Operations LLC d/b/a FairPoint Communications-NNE ("FairPoint") pursuant to the Commission's Rapid Response Process.⁴⁷ The dispute involved allegations by GWI that FairPoint was improperly invoicing GWI for service rendered, and improperly allocating payments and credits. On December 9, 2014, the Commission's Rapid Response Process Team issued its final decision on the merits of GWI's complaint, resolving the dispute largely in GWI's favor. The Commission affirmed the Rapid Response Process Team's decision in a March 16, 2015 Order.⁴⁸ FairPoint appealed the Commission's March 16, 2015 Order to the Law Court on April 6, 2015. On April 14, 2016, the Law Court issued a Memorandum of Decision affirming the Commission's decision.

Emera Maine Affiliate Transactions

On April 30, 2012, the Commission issued an Order approving petitions for reorganization from Emera Maine that allowed the utility to become affiliated with two electric generation companies - First Wind Holdings, LLC and Algonquin Power & Utilities Corporation. As part of its Order of Approval, which included numerous conditions applicable to the various parties, the Commission found that under 35-A M.R.S. § 3204(5) of the Restructuring Act, Emera Maine would not have a prohibited financial interest in generation assets as a result of the transactions. The Order was appealed to the Law Court. In March, 2014, the Court issued its ruling, which vacated the Commission's April 30th Order and remanded the matter back to the Commission for further proceedings regarding interpretation of the requirements of the State's electric utility restructuring statutes.

After further process, on October 9, 2014, the Commission issued its decision on remand, finding that under the Court's standard, the corporate relationships at issue are permitted by Maine law. The Commission's October 9, 2014 Order was appealed to the Law Court. Shortly thereafter, Emera Maine notified the Commission that First Wind Transaction would be dissolved so that First Wind would no longer be a corporate affiliate of Emera Maine. After receiving comments from the parties, the Commission concluded, through an Order issued on August 6, 2015, that the conditions included as part of the Commission's April 30, 2012 and October 9, 2014 Orders that related to the First Wind Transaction were mooted and no longer applicable. The Commission's August 6, 2015 Order was also appealed to the Law Court on the grounds that the Commission did not have jurisdiction to issue its August 6th Order while the appeal of the Commission's October 9, 2014 Order⁴⁹ was pending before the Law Court.

On November 17, 2016, the Law Court issued its decision in this matter. Regarding the Commission's authority to modify an order while on appeal, the Law Court concluded that the pendency of the appeal did not affect the Commission's authority to modify the October 2014

⁴⁷ The Rapid Response Process is a forum wherein a competitive telephone carrier can bring a complaint against its underlying incumbent carrier regarding competitive issues. The Rapid Response Process is a less formal forum than a full formal Commission investigation.

⁴⁸ Docket No. 2012-00165

⁴⁹ Docket No. 2011-00170

Order in recognition that Emera Maine and First Wind were no longer affiliates. On the merits of the appeal, the Law court found that the Commission acted outside its authority when, in an effort to control the statutorily harmful effects of the transaction, it imposed conditions that would regulate an electric generator beyond what the Restructuring Act allows. Accordingly, the Law Court vacated the Commission's Order and remanded the matter with instructions that the Commission deny the petition. By Order issued on December 19, 2016, the Commission denied the Emera Maine petition.

Efficiency Maine Trust Third Triennial Plan

In December 2015, the Commission received the Trust's proposed Third Triennial Plan for review and approval in accordance with statute. The Third Triennial Plan governs the Trust's efficiency programs and budgets for fiscal years 2017, 2018, and 2019. As required by statute, the Commission initiated an adjudicatory proceeding to review the Trust's proposed plan. On May 25, 2016, the Trust filed a Stipulation pertaining to the issues raised in the proceeding. On July 6, 2016, the Commission issued an Order Approving Stipulation.⁵⁰ The Conservation Law Foundation has appealed the Commission's approval of the Stipulation to the Law Court. The appeal is pending.

Enhanced Communications

By Order issued on June 20, 2016,⁵¹ the Commission authorized Enhanced Communications of New England, Inc. d/b/a FairPoint Internet and FairPoint Long Distance – NNE (Enhanced) to operate as a Competitive Local Exchange Carrier (CLEC) in all exchanges within Maine, with the exception of those exchanges in which any subsidiary or affiliate of FairPoint Communications, Inc. (FairPoint) provides service as an incumbent local exchange carrier (ILEC). The Commission denied CLEC status in the FairPoint exchanges for two reasons. First, the Commission found that Enhanced's entry into the service territory of its affiliated ILECs raises significant anti-competitive concerns, primarily through opportunities for favoritism by the FairPoint ILECs toward their affiliate. Second, the Commission, noting its longstanding policy goal of using numbering resources efficiently to preserve for as long as possible a single area code in Maine, found that the public welfare could be harmed by the authorization of Enhanced as a CLEC in the service territory of any of its affiliated ILECs in Maine through the resulting ability of Enhanced to obtain numbering resources separate and apart from the FairPoint ILECs. Enhanced has appealed this Commission decision to the Law Court. The appeal is pending.

⁵⁰ Docket No. 2015-00175

⁵¹ Docket No. 2015-00185

15. REPORTS TO THE LEGISLATURE

The Commission submitted the following reports to the Legislature in 2016. All of these reports may be found on the Commission's website at the following:

<http://www.maine.gov/mpuc/legislative/reports.shtml>

- Report Regarding Market-based Solar Policy Design Stakeholder Process Pursuant to Resolves 2015, Chapter 37, January 30, 2016.
- 2015 Annual Report, February 1, 2016.
- DEP/EMT/PUC Regional Greenhouse Gas Initiative Annual Report, March 15, 2016.
- Annual Renewable Portfolio Standard (RPS) Report, March 31, 2016.
- Provider of Last Resort Report Pursuant to Public Law 2015, Chapter 462, December 15, 2016.

16. FISCAL INFORMATION

The Commission is required by 35-A M.R.S. §120 to report annually to the Joint Standing Committee on Energy, Utilities and Technology on its planned expenditures for the fiscal year and on its use of funds in the previous year. This section of the report fulfills this statutory requirement and provides additional information regarding the Commission's budget. All references in this section are to fiscal years, July 1 to June 30.

In FY2016, the Commission regulated electric, gas, telephone, water and water common carrier utilities, enforced Maine's underground facilities damage prevention law, and managed the state-wide E911 system.

The Commission operates with two main programs and funds: The Emergency Services Communications Fund and the Regulatory Related Funds as detailed below.

The Emergency Services Communications Fund (E911)

This fund had an unencumbered balance of \$2,917,719 and an encumbered balance of \$1,530,750 brought forward from FY2015. \$6,308,233 was expended in FY2016. An unencumbered balance of \$4,162,544 and an encumbered balance of \$2,275,316 were brought forward to FY2017. The surcharge collected in FY2016 was \$7,322,923.

PUC Regulatory Related Accounts

Regulatory Fund

The authorized Regulatory Fund assessment for FY2016 was \$7,772,124. An unencumbered balance of \$1,964,542 and an encumbered balance of \$261,678 were brought forward from FY2015. The Commission spent \$7,599,979 in FY2016.

An unencumbered balance of \$2,598,787 and an encumbered balance of \$346,351 were brought forward to FY2017. The encumbered balances generally represent ongoing contracts.

Reimbursement Fund

In FY2016, the Commission collected \$1,300 in filing fees, \$748 in copying fees and \$141,000 in fines. An unencumbered balance of \$399,433 and an encumbered balance of \$8,068 were brought forward from FY2015. During FY2016, \$44,205 was expended. An unencumbered balance of \$485,481 and an encumbered balance of \$20,862 were brought forward to FY2017. The Commission transferred a total of \$550,000 from the reimbursement fund to the General Fund in October and November 2016. This transfer is the result of gas safety and dig safe fines paid to the Commission.

Damage Prevention Grant 2016

During FY2016, the Commission was awarded a Damage Prevention Grant from PHMSA in the amount of \$58,995.

The Budget in Perspective

In June 2015, the Legislature approved the Commission's biennial budget. Table 13 details the Commission's FY17 expenditure plan including position count.

Table 13 - FY2017 Work Program

Regulatory Fund	
Position Count	56.25
Personal Services	\$6,284,645
All Other	\$2,498,500
Capital	\$0
Total	\$8,783,145
Commission Reimbursement Fund	
All Other	\$50,000
Commission Damage Prevention	
Personal Services	\$49,474
All Other	\$526
Capital	\$0
Total	\$50,000
Oversight and Evaluation Fund	
All Other	\$252,660
Prepaid Wireless Fee Fund	
All Other	\$1,135,714
Regional Greenhouse Gas Initiative	
All Other	\$3,000,000
Cost Recovery Fund	
All Other	\$13,400,000
Emergency Services Comm. Bureau (E-911)	
Position Count	9
Personal Services	\$861,883
All Other	\$6,869,714
Capital	\$0
Total	\$7,731,597

The Regulatory Fund Assessment in Perspective

Table 14 below details the most recent ten years of Regulatory Fund assessments from Annual Reports filed by the utilities with the Commission. They include revenues for the previous year ending December 31. Calculations are made to determine what percentage of the revenues reported by regulated utilities will produce the amount authorized by statute. The derived factors that will raise the authorized amount are applied against the reported revenues of each utility.

Under 35-A M.R.S. § 116, on May 1 of each year the Commission sends an assessment notice to each utility with a July 1 due date. Funds derived from this assessment are used during the fiscal year beginning July 1. The total assessment for FY2016 was \$7,772,124. The assessment breakdown by utility sector is described below in Table 14.

Table 14 – Total Assessment by Utility Sector

Sector	Assessment
Electric	\$5,081,945
Telecommunications	\$1,021,468
Natural Gas	\$1,118,683
Water	\$550,028
Water Common Carrier	\$ -0-
Total	\$7,772,124

Table 15 - Regulatory Fund Assessments for the Past Ten Years

Year	Electric Revenues	Telecom Revenues	Water Revenues	Gas Revenues	Water Carriers Revenues	Total Utilities Revenues	Amount Billed
2006	531,365,202	492,780,390	110,130,702	71,921,808	2,949,997	1,209,148,099	5,505,000
2007	493,598,549	436,922,435	111,089,598	66,028,479	3,655,720	1,111,294,781	7,647,403
2008	475,656,450	425,737,517	115,900,129	73,573,876	-0 ¹	1,090,867,872	7,172,489
2009	411,688,463	385,333,830	119,538,309	75,026,949	-0 ¹	991,587,551	7,419,695
2010	374,604,109	317,191,824	121,107,181	76,880,341	3,591,115	893,374,570	8,069,573
2011	378,489,543	289,239,378	127,294,136	75,151,597	3,566,079	873,740,733	4,549,291
2012	391,325,882	297,835,978	129,690,285	82,984,999	3,622,645	905,459,789	4,939,248
2013	390,977,395	145,630,198	131,245,317	96,112,747	3,759,034	767,724,691	6,412,326
2014	415,949,262	57,786,471	130,866,502	109,386,508	3,802,125	717,790,868	7,126,144
2015	440,444,156	235,341,640	135,159,589	147,685,467	4,093,936	962,724,788	7,772,124

¹Revenues not included in assessment calculation

17. COMMISSIONERS' BIOGRAPHIES

Mark A. Vannoy was appointed Chairman of the Maine Public Utilities Commission in December 2014 by Governor Paul R. LePage. He had previously served as Commissioner being appointed in June 2012 and reappointed in May 2013. Prior to coming to the Commission he worked as an Associate Vice President in the infrastructure and civil practice group at Wright Pierce in Topsham, Maine. Before moving to Maine in 2000, he served as an Officer in the United States Navy, completing tours as a NROTC instructor at Cornell University, and a nuclear tour, as the Damage Control Assistant aboard CGN36 USS California. Commissioner Vannoy graduated from the United States Naval Academy in 1993 with a Bachelor of Science in Ocean Engineering. He completed his Masters of Engineering at Cornell University in 2000. His term expires in March 2019.

Carlisle J. T. Mclean was appointed to the Maine Public Utilities Commission in January 2015. Prior to this appointment she served as Chief Legal Counsel and Senior Natural Resources Policy Advisor for Governor Paul LePage. Prior to that, she practiced environmental, land use and climate strategy law with the Preti Flaherty law firm from 2005 to 2011. Commissioner McLean has also worked at the Yale Center for Environmental Policy and the New York State Office of the Attorney General. She has been an active member of the Maine and American Bar Associations since 2005 and has held leadership positions with both organizations. Commissioner McLean received her Juris Doctor from Pace University School of Law and her Master of Environmental Management from Yale University School of Forestry. She completed her undergraduate degree at Bates College. Her term expires in March 2017.

R. Bruce Williamson, PhD, was appointed to the Maine Public Utilities Commission in June 2015. Prior to his appointment, Commissioner Williamson served as a senior economist at the University of Tennessee's Howard Baker Center for Public Policy. He has also served as a research professor at the University's College of Business Administration lecturing in advanced data analytics. He has worked as a senior economist at the National Defense Business Institute, and at Southwestern Bell Telephone Company. Commissioner Williamson holds a doctorate in economics, with an emphasis in utility economics, from the University of New Mexico. He completed his undergraduate work at Cornell and earned a Masters in International Relations from the Korbel School. His term expires in March 2021.

18. PAST COMMISSIONERS

1915 – 2016

* Benjamin F. Cleaves	1915-1919	Cheryl Harrington	1982-1991
William B. Skelton	1915-1919	* David Moskowitz	1984-1989
Charles W. Mullen	1915-1916	* Kenneth Gordon	1988-1993
John E. Bunker	1917-1917	Elizabeth Paine	1989-1995
Herbert W. Trafton	1918-1936	Heather F. Hunt	1995-1998
* Charles E. Gurney	1921-1927	William M. Nugent	1991-2003
Albert Greenlaw	1924-1933	* Thomas L. Welch	1993-2005
* Albert J. Stearns	1928-1934		2011-2014
Edward Chase	1934-1940	Stephen L. Diamond	1998-2006
* Frank E. Southard	1935-1953	* Sharon M. Reishus	2003-2010
C. Carroll Blaisdell	1937-1941	* Kurt Adams	2005-2008
James L. Boyle	1941-1947	Vendean Vafiades	2007-2012
George E. Hill	1942-1953	* Jack Cashman	2008-2011
Edgar F. Corliss	1948-1954	David P. Littell	2010-2015
* Sumner T. Pike	1954-1955		
Frederick N. Allen	1954-1967		
Richard J. McMahon	1955-1961		
* Thomas E. Delahanty	1955-1958		
* David M. Marshall	1958-1969		
* Earle M. Hillman	1962-1968		
* John G. Feehan	1968-1977		
Leslie H. Stanley	1970-1976		
* Peter Bradford	1971-1977		
	1982-1987		
Lincoln Smith	1975-1982		
* Ralph H. Gelder	1977-1983		
Diantha A. Carrigan	1977-1982		

* Denotes Chairman

