

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2024-00231

August 28, 2024

PUBLIC UTILITIES COMMISSION  
Inquiry of Time of Use Rates for Delivery and  
Standard Offer

NOTICE OF INQUIRY

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BARTLETT, Chair; SCULLY, and GILBERT, Commissioners

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## I. SUMMARY

The Commission initiates this Inquiry pursuant to 35-A M.R.S. § 1303(1) to further consider issues raised by the possible development and implementation of time of use (TOU) standard offer and delivery rates for residential and small business customers of investor-owned transmission and distribution (T&D) utilities and to consider the possible use of demand charges for residential customers. Both types of rates offer the potential, through peak shaving, to lower future supply and delivery rates because they put downward pressure on expensive generation and grid infrastructure investments.

## II. BACKGROUND

### A. Electric Restructuring and Standard Offer Service

In the year 2000, the Legislature deregulated electricity supply service in Maine and provided customers with the opportunity to choose the provider of their electric supply. 35-A M.R.S. §§ 3201-3217. Customers not choosing a competitive electricity provider (CEP) receive, by default, their electric supply from standard offer service providers. Standard offer service is the only type of default service in Maine and is provided directly by standard offer providers to customers at retail. Standard offer providers procure full-requirements supply service for a certain proportion of a T&D utility's customer load and are not assigned particular customers. Billing for standard offer service is performed by the T&D utility; this allows customers to avoid paying an additional charge to the standard offer providers to do their own billing.

Generally, each fall, as part of a competitive bidding process, the Commission issues an order approving requests for standard offer proposals for service to customers in the service territories of Central Maine Power (CMP) and Versant Power's Bangor Hydro and Maine Public Districts (Versant). The standard offer service provider for each service territory is then selected by the Commission following the competitive bidding process, resulting in a standard offer rate for each utility service territory for the calendar year, running from January 1 to December 31.

Chapter 301 of the Commission's rules govern standard offer service. Currently under this rule, standard offer prices for the residential and small non-residential classes must be a single amount per kWh that does not vary by a customer's usage level, or by month or time of day. Prices may not include any amounts charged on a per-kW, per-customer, or fixed charge basis. MPUC Rules, ch. 301, § 2(A)(3). Thus, before a TOU

rate can be offered to customers in these classes, the Commission would need to amend Chapter 301. This would be accomplished in a rulemaking proceeding separate from this investigation.

B. Legislative Resolve and a Prior Commission Inquiry

During the First Special Session of the 131st Legislature, Resolves, 2023, chapter 79 (Resolve) was enacted directing the Commission to investigate the feasibility of implementing TOU rates. Specifically, the Resolve required investigation of the feasibility of requiring:

1. Standard offer service to include a TOU option, including whether the Commission would recommend the use of a pilot program to assess this option; and
2. All investor-owned transmission and distribution utilities (IOUs) to offer a TOU rate for delivery of electricity that would complement a TOU supply rate.

The Resolve further required the Commission to submit a report by January 15, 2024, to the Joint Standing Committee on Energy, Utilities and Technology (Committee), that includes a summary of the Commission's investigation along with any findings and recommendations related to the report.

Prior to the enactment of this Resolve, the Commission opened an inquiry, *Maine Public Utilities Commission, Inquiry Regarding Rate Structure for Standard Offer Service*, Docket No. 2023-00019 (2023-00019 Inquiry). Following this 2023-00019 Inquiry, the Commission submitted to the Legislature its *Report Regarding the Implementation of Time-of-Use Rates Pursuant to Resolves 2023, chapter 79* (Report).<sup>1</sup>

The Report provides a summary of the 2023-00019 Inquiry and the comments made by the parties that participated. These comments highlighted potential benefits and risks of implementing a TOU rate for supply and distribution, as well as providing various perspectives on the questions posed. These included the following:

- The potential benefits include “accurately reflecting supplier pricing and marginal costs, motivating shifts in demand, reducing need for capital investment, saving certain customers money, reducing need for peak period generation (which generally includes the most polluting sources), reducing greenhouse gas (GHG) emissions, and advancing the State’s policy goals.”
- The potential risks include “not achieving the intended load or cost savings due to poorly designed rates with misaligned peak hours and price differentials that would result in incorrect price signals being sent to customers.” Further, if the rate is mandatory (with no ability to opt-out),

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<sup>1</sup> The Report can be found here:

<https://www.maine.gov/mpuc/sites/maine.gov/mpuc/files/inline-files/TOU%20Report%20-%20Resolves%202023%20ch.%2079.pdf>

some customers may be unable to shift load and thus unable to obtain benefits, leading to higher bills for them.

- CMP and Versant each indicated that they would need to reconfigure their billing systems, at a substantial cost, to accommodate TOU supply rates. CMP would need at least 15 months to accomplish this, and Versant would need at least 22 months.
- No suppliers commented during the 2023-00019 Inquiry, but suppliers that have participated in past Commission standard offer procurements have indicated that a standard offer TOU product is possible and that, if offered, it would be preferable for standard offer TOU periods to match delivery TOU periods.
- If both flat rate and TOU rate structures are procured, suppliers have indicated they would bid only for the combined service, rather than the standard offer TOU rate or fixed standard offer rate alone.
- Chapter 301 of the Commission's rules, governing standard offer service, would have to be amended to allow for variable usage standard offer rates.

The Commission's Report made the following findings and recommendations that inform this Investigation:

- Carefully designed TOU supply and delivery rates are likely to shift load, reduce peaks, and thus meaningfully reduce overall costs for ratepayers.
- To be effective, any TOU supply option must be complemented by a TOU delivery option.
- A pilot would be expensive, would not provide information that would allow full assessment of the benefits of TOU supply rates, and would delay the ability to obtain benefits.
- The success of a TOU standard offer/delivery rate likely requires an opt-out rate, as opposed to an opt-in or mandatory rate.

### III. INQUIRY

#### A. Rising Costs and Peak Shaving

The Commission has seen increasing utility delivery costs.<sup>2</sup> There are various reasons for this, including increases in labor costs, vegetation management costs and storm restoration costs. Another factor is increases in utility investment costs for poles, wires, transformers and other equipment necessary to meet customer demand. A T&D system must be designed to meet peak demand, i.e. when customers are using the most electricity at the same time. One way to mitigate future T&D equipment investments is to reduce demand during times of maximum usage, a practice sometimes called peak shaving. TOU rates and demand charges offer the opportunity for peak shaving by creating a price incentive for customers to avoid using power during these peak times. For example, residential customers may be able to run electric

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<sup>2</sup> Delivery rates for T&D utilities include costs for transmission, distribution, stranded costs, efficiency program costs and various other costs.

clothes dryers or dishwashers during off-peak times such as early morning, late evenings or on weekends.

Standard offer supply rates have fluctuated over the years and have recently been at an all-time high. The bulk of wholesale supply prices that underly standard offer prices are governed by capacity and energy markets administered by ISO-New England.

Regional generation must collectively have the capacity to meet peak regional demand. Generators participating in the ISO-New England capacity market bid to take on Capacity Supply Obligations (CSOs). A generator with a CSO is required to be available during periods when ISO-New England declares a Capacity Scarcity Condition (CSC); i.e. a period when there is barely enough generation to meet load. The total amount of capacity procured in the capacity market is set to ensure compliance with mandatory North American Electric Reliability Corporation (NERC) reliability standards. As a general matter, generation-owners, through this market, receive price incentives to build new generation capacity or to retain (i.e. not retire) existing generators so as to meet expected future demands. The cost for this capacity is allocated to Load Serving Entities (LSEs) based on their relative share of peak system demand, meaning capacity costs are ultimately factored into the standard offer supply price. A TOU supply rate that effectively curtails demand on these peak days can therefore reduce the share of capacity costs paid by customers of that LSE.

The hourly price for energy (supply) is set through a combination of two markets: a “real time” and a “day-ahead” market, both administered by ISO-New England. Pricing in both markets generally reflects the price of generation units available to run during a given time. When there is more demand for power, the price will likely be higher as units with higher marginal costs are needed to meet demand. For example, during peak usage in the summer, the most expensive units in the region are likely to be dispatched. These supply costs factor into the bids the Commission receives each year for the following year’s standard offer. A reduction in customer demand during times of peak demand can thus put downward pressure on Maine’s standard offer rates. A standard offer TOU rate could help to shave supply peaks in this way.

The Commission notes that a successful effort at peak shaving in Maine can have two related results. First, lowering peak loads in Maine will lower our percentage of the regional cost of transmission. Second, peak shaving efforts in Maine would decrease the regional peak load, reducing required transmission investments, and therefore lowering the total cost of transmission. A recent study performed by ISO-NE that examined what the regional grid may look like in 2035, 2040 and 2050 found that there is a potential savings of roughly \$10 billion from reducing demand as electricity usage increases in response to state climate action legislation.<sup>3</sup>

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<sup>3</sup> 2050 Transmission Study, ISO-New England, Inc., February 12, 2024. [ISO-NE 2050 transmission study final.pdf](#)

B. Issues to be examined in this inquiry

The Commission opens this inquiry to consider the implementation of TOU rates for standard offer and delivery service to customers of Maine's investor-owned electric utilities. This investigation will build on the work done in the 2023-00019 Inquiry as summarized in the Report to the Legislature. The following issues will be the focus of this inquiry, though others may be considered as they may arise.

1. Rate Design

a. TOU time periods

The Commission will examine what peak and off-peak time periods would be optimal to achieve desirable benefits. This will involve consideration of the peak times of both generation demand and T&D system usage coupled with those times that would optimally align with usage patterns of residential and small business customers. The ratio between peak and off-peak rates is also an important consideration to ensure a meaningful incentive to customers. The Commission begins with the expectation that identical time periods would be used for standard offer/delivery TOU rates, as found in the 2023-00019 Inquiry.

b. Opt-in, opt-out or mandatory?

The Commission begins with the expectation that the standard offer/delivery TOU rate would be a default opt-out product, as found in the Report, but seeks to develop a deeper understanding of this issue. In the 2023-00019 Inquiry, some stakeholders pointed out that certain customers may be unable to shift usage to off-peak periods and will thus have higher bills. This would be most true in the event of a mandatory TOU rate (i.e. without an opt-out). Obviously, an opt-out rate would afford customers the opportunity to find an alternative rate that resulted in lower bills. Are there other ways to help these customers manage their bills without detracting from the aims of TOU rates?

c. Interaction with other rates offered by the T&D utilities

How would a standard offer/delivery TOU rate compare to other existing or possible rates offered by a T&D utility? Would conflicting outcomes be possible? If a customer could opt out of the standard offer/delivery TOU rate, a flat rate for supply and delivery option like those currently in place would likely be an option. What other options would or should be available, or would (or should) any be restricted? Would being on a standard offer TOU rate affect a customer's ability to switch from the standard offer to a CEP product? The Commission also expects to explore the extent to which a standard offer/delivery TOU rate may provide an incentive for customers to adopt additional efficiency measures to reduce usage at all times of the day but particularly during peak times.

d. What effect will expected changes in seasonal load variability have on demand response?

Maine customers have been and may continue to be offered rebates and tax credits as an incentive to purchase heat pumps for winter heating and summer cooling.

This is leading to higher winter peaks and the possibility that Maine will become a winter-peaking zone. What does this mean for possible adoption of a standard offer/delivery TOU rate? Should seasonal variability be reflected in rate design? Should standard offer/delivery TOU rates, if adopted, be seasonal?

- e. What can be learned from other jurisdictions that have implemented a similar rate?

The Commission is aware that other jurisdictions have implemented TOU rates covering both supply and delivery and will investigate successes, failures and lessons learned from these efforts. The Commission will invite input on this issue from interested parties.

- f. Demand Charges

The Commission will examine the potential for demand charges to reduce system costs and achieve State policy goals. The Commission will also look at the interaction between demand charges and TOU rates. Demand charges are in place and, in most cases, mandatory for medium and large customer classes. Demand charges for small customer classes, including residential customers, have been discussed in recent Commission dockets. For example, in CMP's most recent rate case, it proposed an optional electrification rate design for residential and small business customers that would have incorporated a time-variant demand charge. *Central Maine Power Company, Request for Approval of Distribution Rate Increase and Rate Design Changes Pursuant to 35-A M.R.S. § 307*, Docket No. 2022-00152, "Rate Design and Revenue Allocation" Testimony of Central Maine Power Company, p. RD-16, (Aug. 11, 2022).

2. Customer education

Implementation of a standard offer/delivery TOU rate must be preceded and accompanied by a robust education campaign capable of informing all customers about the new rate, how it would work, and its intended benefits. The Commission is aware of the challenges of educating customers about electricity matters and hopes to receive constructive input from parties about possible approaches to designing an effective education campaign.

3. Modeling and Monitoring

The Commission will consider possible ways to model the pricing of standard offer TOU rates. Developing an understanding of standard offer TOU pricing will be an important factor in determining whether and how to proceed with a standard offer TOU rate. Will standard offer bids be significantly higher or lower? If so, will the differences moderate over time? Is there an alternative to seeking standard offer bids that conform to time of use periods?

4. Utility billing system reconfiguration costs and timelines

In the 2023-00019 Inquiry both CMP and Versant reported that upgrades would need to be made to their respective billing systems to accommodate a standard

offer/delivery TOU rate. The Commission will seek updates and any new information from these utilities about the cost and timing of these upgrades.

5. Amending Chapter 301

The Commission may solicit or entertain comments on the question of amending Chapter 301 to allow for the use of a standard offer/delivery TOU rate or demand rates. The actual amendment of this rule would, of course, occur in a separate rulemaking proceeding pursuant to the Administrative Procedures Act.

**IV. PROCESS**

A. Stakeholder meeting

The Commission will hold a stakeholder meeting on **Tuesday, October 8, 2024, at 1:00 P.M.** Two experts have agreed to make presentations at this meeting on certain issues in this inquiry and will be available for questioning by the Commission and interested parties. The Presiding Officers will provide further information about this meeting in a procedural order to be issued closer to the date. This meeting will be held in the Commission's Simpson Hearing Room and via Microsoft Teams via a link to be provided to parties. Other stakeholder meetings are possible and will be scheduled as the inquiry proceeds.

B. Comments

The Presiding Officers will establish a schedule for written comments on the issues identified in section III of this Notice.

**V. SERVICE OF NOTICE**

A copy of this notice shall be served upon the notification list for Docket No 2023-00019 (this notification list includes Maine investor-owned T&D utilities, the Office of the Public Advocate, and Efficiency Maine Trust among others). A copy of this notice shall also be sent to the Governor's Energy Office, CEPs that receive RFPs from the Commission for bidding on providing standard offer service in Maine, all other CEPs, the Maine Renewable Energy Association, and the New England Power Generators Association (NEGPA).

Dated at Hallowell, Maine, this 28<sup>th</sup> day of August, 2024.

/s/ Amy Dumeny

Amy Dumeny  
Administrative Director

COMMISSIONERS VOTING FOR:     Bartlett  
                                                 Scully  
                                                 Gilbert