# Request for Proposals to Provide Standard Offer Service To

# Bangor Hydro-Electric Company's

# Residential and Small Commercial Customers

## Term Beginning March 1, 2007

**Issued by the**
**Maine Public Utilities Commission**

**October 20, 2006**

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# 1. OVERVIEW

## 1.1. Request for Proposals

### General

The Maine Public Utilities Commission (Commission) is seeking proposals for retail standard offer service for residential and small non-residential customers of Bangor Hydro-Electric Company (BHE) for the term beginning March 1, 2007. The Commission requests proposals that include demand-side as well as supply side resources, but will also consider supply-only bids. Proposals must be for requirements service. The Commission requests bids for term lengths of one, three, six or nine years, and will select the winning bid and set the term based on evaluation of the proposals.

Initial proposals with indicative bid prices are due on November 16, 2006.

### Contact Information

Inquiries regarding this RFP should be directed to Faith Huntington (at 207-287-1373 or faith.huntington@maine.gov), Jim Buckley (at 207-287-1387 or james.buckley@maine.gov) and Mitch Tannenbaum (at 207-287-1391 or mitchell.tannenbaum@maine.gov)

The RFP, related information and load data are available from the Commission's web site at www.maine.gov/mpuc. Any modifications, corrections or clarifications to the RFP will be posted at this same location.

### Description

The winning bidder(s) will provide requirements supply service for a one-third segment of BHE's residential and small non-residential standard offer customer class (also referred to as the "small standard offer class" or "small class").[1] The small class includes all residential, small general service and lighting accounts that receive standard offer service, with small general service customers defined as those with a peak demand that generally has not exceeded 25kW.

[1] In the case of Bundled demand/supply proposals, all demand reductions are attributed to the Bundled Proposal. By way of example, given a total class load of 880 MWh that includes 20 MWhs of demand reductions from the Bundled Proposal, the Bundled Proposal standard offer supplier would be attributed 280 MWh of load, and each of the other suppliers would be obligated for and paid on the basis of the remaining two segments of 300 MWH each..

The remaining two-third segments are supplied by existing standard offer arrangements. For further information please see:

http://www.maine.gov/mpuc/industries/electricity/sosmall0306/results.htm

and

http://www.maine.gov/mpuc/industries/electricity/sosmall0305/results.htm

## Bundled Demand/Supply Proposals

Proposals to provide standard offer service with a combination of demand and supply resources should conform to the structure and include the items described in Section 3 of this RFP, including the items specific to Bundled Proposals described in Section 3.8. Bundled Proposals should be made on the basis of providing retail requirements service, and not for a fixed amount of MWs and/or MWhs. In accordance with Legislative direction to encourage participation of Maine-based Energy Service Companies (ESCOs), we have assembled a list of Maine-based companies for the convenience of bidders.[2]

## Linked Standard Offer/Entitlement Proposals

Bidders may link standard offer proposals with proposals for the capacity and energy from the purchased power contracts that BHE is selling in a concurrent solicitation process. BHE's RFP is available by contacting Richard Rusnica at:

Tel: (207) 973-2809
E-mail: rrusnica@bhe.com

## Principal Evaluation Criteria

Proposals will be evaluated on the basis of overall value to BHE customers. In the context of Linked Standard Offer/Entitlement Proposals, this includes both the cost of standard offer service and the value from the entitlement sale. In the context of Bundled Demand/Supply Proposals, evaluation will be based primarily on the costs to standard offer customers, which will take into account the value of the demand-side savings.

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[2] Please note that this list includes companies of which we are aware and may not include all Maine-based ESCOs. List can be found at www.maine.gov/mpuc

### 1.2 Description of Service Area and Customer Class

BHE's service territory covers 5,275 square miles in eastern and east-coastal Maine and is within the New England Independent System Operator (ISO-NE) control area.

BHE currently serves about 114,000 residential, small non-residential and lighting accounts. Retail sales to these customers in calendar year 2005 were about 782,000 megawatt-hours of which more than 99% currently receives standard offer service. BHE customers in this class are equipped with automatic meter reading (AMR) technology that is compatible with proprietary load control devices. Additional information about BHE's AMR capabilities is available at www.maine.gov/mpuc.

Appendix E includes detailed electricity usage data for calendar year 2005 for the small standard offer class. Additional load data, including load profiles and settlement loads, is available at www.maine.gov/mpuc.

### 1.3 General Standard Offer Service Provisions

Chapter 301 of the Maine PUC rules governs standard offer service and is provided as Appendix A. A list and short description of other rules related to retail electricity supply is provided as Appendix B. The complete text of these rules is available on the Commission's web site at www.maine.gov/mpuc

The standard offer provider's legal rights and obligations with respect to providing standard offer service are set forth in the Statement of Commitment (Appendix H) and further described in Appendix J. Bidders must submit a signed Statement of Commitment with their proposals acknowledging and accepting these rights and obligations. Alternative language to that contained in Appendix H will be considered.

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 supply requirements service for their load share and are not assigned particular customers.

Retail standard offer prices are set equal to the bid prices of winning bidders. If there are multiple providers, retail prices are the weighted average of the providers' prices.

The standard offer provider is paid its accepted bid price less the applicable fixed percentage amount for uncollectible revenue as specified in Exhibit A to Standard Offer Provider Agreement (Appendix C).

BHE will bill and collect from customers on behalf of the standard offer provider. The Standard Service Agreement that governs these billing arrangements and other matters between the provider and BHE is provided as Appendix C. BHE charges for the services it provides in accordance with Commission-approved Terms & Conditions. (See Appendix D.) Bidders may propose changes to the Standard Agreement and submit them for consideration.

## 2. PROCESS AND SCHEDULE

### 2.1 Key Events and Timing

| | |
|---|---|
| Initial proposals with indicative prices submitted | November 16,2006 (by 4:00 p.m. EPT) |
| Negotiation of non-price terms *(May be with a "short-list" of bidders as determined by indicative prices.)* | November 17, 2006 To Completion |
| Final Bid Prices Due/ Commission Decision | To be determined |
| Public Release of Standard Offer Prices | Date of Commission Decision |
| Execution of Standard Offer Service Agreement | Within 24 hours of Commission Decision |
| Submission of Financial Security | Within 3 business days of Commission Decision |
| Public Release of Standard Offer Provider Identity | May be kept confidential for up to 2 weeks after Commission Decision (at provider's request) |
| Standard Offer Service Term Begins | March 1, 2007 |

Changes or updates to this schedule will be posted on the Commission's web site at www.maine.gov/mpuc or otherwise communicated to bidders.

### 2.1 Submission of Proposals

Proposals must be received at the Maine PUC by the times and dates indicated. Proposals may be submitted by electronic mail to faith.huntington@maine.gov, by fax to (207)287-1039 or by mail to the Maine Public Utilities Commission, 242 State Street, 18 State House Station, Augusta, Maine 04333-0018. Proposals should be clearly marked "Standard Offer Service Proposal" and should be sent to the attention of Faith Huntington.

## 3. PROPOSAL REQUIREMENTS

The following items should be included in the Initial proposals.

### 3.1 License

Bidder should provide evidence that it has a valid license or an application pending to provide standard offer service in Maine. (Chapter 305 of the Commission's rules governs licensing requirements.) A license application is included in Appendix F or can be obtained from the Commission's web site.

### 3.2 Financial Security

1) Bidder should provide certified statement(s) regarding its proposed financial security, including certified statement(s) by guarantors and/or financial institutions that would provide any security. The statements must: (1) describe the amount and form of security to provided; and (2) represent that the security and the entity providing it meet the applicable requirements and specifications of Chapter 301 and this RFP.

The initial proposal should include audited financial statements of any guarantor, e.g., annual report to stockholders, SEC Form 10K, and the guarantor's most recent credit rating from each rating agency that has issued a rating for the guarantor.

### 3.3 Statement of Commitment

Bidder should provide a Statement of Commitment signed by an officer of the Company who is duly authorized to commit the Company as described in the Statement. The Commission's preferred Statement of Commitment is provided in Appendix H. Alternative language will be considered.

### 3.4 EBT

Bidder should demonstrate that it has completed or is enrolled in Maine's electronic business transaction (EBT) training and testing programs. Maine's EBT standards and training schedules are available from the Commission's web site or from BHE.

### 3.5 Contingencies

Bidder should note all conditions and contingencies. Please note that any condition or contingency must be: (1) within the control of the Commission; or (2) known at the time final bid prices are evaluated.

### 3.6 Alternative Terms, Language

Bidder should provide any proposed alternative language to the Standard Agreement, (in the form of a red-line to the Standard Agreement), the Statement of Commitment, or the standard form corporate guaranty.

### 3.7 Pricing

Proposals must specify prices for the entire bid period; prices may not be defined by a formula or reference to market or economic indices. Standard offer prices must be an amount per kWh that does not vary by a customer's usage level, nor by month or time of day. For multi-year terms, standard offer prices may change on March 1 of each year. Prices may not include any amounts charged on a per-kW, per-customer or fixed-charge basis.

### 3.8 Bundled Demand/Supply Bids

In addition the above items, bids submitted on a Bundled Demand/Supply basis should conform to the following:

1. Standard offer service should be provided on a retail all requirements basis by the standard offer provider;
2. Proposal should include a detailed description of proposed savings, including quantities per month (kW and kWh) and specific measure(s) and program(s);
3. Proposal should include information about entities other than the standard offer provider involved with the proposal, e.g., ESCO(s), including documentation that demonstrates the technical and financial suitability of the entities;
4. Detailed savings measurement and verification protocols and processes should be provided;

5. Proposal should include a description of how the demand side savings would be guaranteed and financially secured.

## 4. STANDARD OFFER PROVIDER REQUIREMENTS

### 4.1 Standard Offer Obligation

Standard offer provider must provide standard offer service in a manner that complies with Maine law, Commission rules and this RFP at the prices and terms it proposed and which were accepted by the Commission. Standard offer provider is responsible for all costs necessary to fulfill this obligation.

Standard offer provider is responsible for all requirements and costs (and will receive any benefits) pursuant to wholesale market rules that apply to its standard offer load obligation.

### 4.2 Form of Service

Standard offer service is retail all requirements service. Standard offer service includes all obligations and charges that would be assessed to the load serving entity for the applicable load, including all Locational Marginal Pricing (energy, loss and congestion components), all costs and obligations that arise from nodal settlements for load, all capacity, ancillary services and other products and charges for the load, including any new or redefined products or charges, required to supply the electrical requirements of customers receiving standard offer service at all times during the term of service in a manner that complies with all applicable rules and requirements.

### 4.3 Losses

Standard offer service includes all transmission and distribution line and transformer losses associated with providing standard offer service from the point of supply to the customers' meters. Standard offer provider must provide sufficient quantities of electric capacity, energy, ancillary and all other required products and services to cover all such losses. The factors that are currently used to determine line and transformer losses on BHE's system are contained in Appendix G.

### 4.4 Load Zone

BHE's service territory is in the Maine Load Zone as defined by ISO-NE Standard Market Design (SMD) and standard offer provider is responsible for all obligations for the applicable standard offer load related to this locational definition and any subsequent redefinition, including nodal settlement for load.

**4.5 Transmission Charges**

BHE local transmission and distribution charges and Regional Network Service charges for standard offer service are paid by customers through their BHE retail rates and are not the responsibility of the standard offer provider.

**4.6 Financial Security**

Standard offer provider must provide financial security in accordance with this section and the related provisions in the Standard Agreement.

***1) Amount:***

- **Base Security**

  - 1 Year Term $ 2.7million
  - 3 Year Term $ 8.3 million
  - 6 Year Term $ 17.1 million
  - 9 Year Term $ 26.4 million

These amounts may decline, pro rata, during the term of service.

- **Excess Market Exposure Security**

  - The incremental replacement cost of the standard offer supply during the remaining term of service in excess of the Base Security for the class, as determined from time to time using commercially reasonable practices.

The Base Security must be furnished to BHE with a copy to the Commission no later than three business days after the date the Commission designates the provider such that BHE can access the full amount of the financial security on that date. Any Excess Market Exposure Security required during the term of the obligation must be furnished to BHE no later than three business days after BHE provides notification. The Base Security and, if applicable, Excess Market Exposure Security cannot expire or be cancelled prior to the date 30 days after the end of the applicable term of service unless replacement financial security that meets the requirements of Chapter 301 and this RFP and is accepted by the Commission is provided. The expiration or termination of the financial security shall not affect obligations incurred while the financial security was in effect. The Commission retains the right to obtain further information about any financial security furnished by standard offer provider, and final acceptance shall be at the sole discretion of the Commission.

**2) *Instrument:***

A ***corporate guarantee*** must (i) unconditionally obligate the guarantor to pay all obligations of the standard offer provider for the costs of replacement standard offer service, up to the applicable cap; (ii) be executed by a corporation meeting the applicable credit rating and net worth criteria set forth in the table below; and (iii) conform with the Standard Form Guaranty provided in Appendix K or an accepted alternative.

The amount of any corporate guarantee may not exceed the applicable Guarantee Cap set forth below: [3] [4] [5]

**Guarantee Caps (millions $)**
***Cap is the lesser of the amount in Table (1) or Table (2)***

| Rating | | Table 1 | Table 2 | | | |
|---|---|---|---|---|---|---|
| | | % of Tangible Net Worth | BHE Small Class, 1/3 Segment | | | |
| S&P/Fitch | Moody's | | 1 Year | 3 Year | 6 Year | 9 Year |
| AAA | Aaa | **5.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| AA+ | Aa1 | **5.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| AA | Aa2 | **4.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| AA- | Aa3 | **4.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| A+ | A1 | **3.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| A | A2 | **2.5%** | **5.4** | **9.0** | **9.0** | **9.0** |
| A- | A3 | **2.0%** | **5.4** | **9.0** | **9.0** | **9.0** |
| BBB+ | Baa1 | **1.8%** | **5.4** | **9.0** | **9.0** | **9.0** |
| BBB | Baa2 | **1.5%** | **4.1** | **6.8** | **6.8** | **6.8** |
| BBB- | Baa3 | **1.0%** | **2.7** | **4.5** | **4.5** | **4.5** |
| Below | Below | **0.0%** | **0.0** | **0.0** | **0.0** | **0.0** |

Security requirements in excess of the Guarantee Cap must be provided by: (1) an ***irrevocable letter of credit*** from a federal or state licensed financial institution satisfying the requirements of section 3 of Chapter 301 and subparagraph (3) below; or (2) ***cash*** accompanied by proper documentation so as to perfect a security interest.

Any irrevocable letter of credit provided must (i) unconditionally obligate the issuing commercial bank(s) to honor drafts drawn on such letter(s) for the purpose of paying the costs of replacement standard offer service; (ii) be issued by commercial bank(s) with a minimum corporate debt rating

[3] Rating is the corporate credit rating of Guarantor. If Guarantor does not have a corporate credit rating, then Rating is the rating of Guarantor's senior unsecured debt. If Guarantor has neither a corporate credit rating nor rated senior unsecured debt, then Rating is the rating of Guarantor's senior secured debt.

[4] If Guarantor is rated by all three of the agencies, two of the three must equal or exceed amounts shown. If Guarantor is rated by two of the agencies, the lower rating will apply.

[5] If there are multiple suppliers for a class, the amounts in Table 2 will be adjusted, pro-rata, consistent with the supplier's share of the class.

of “BBB+” by Standard & Poor’s or Fitch or “Baa1” by Moody’s, or an equivalent short term debt rating by one of these agencies; and
(iii) include the following language: “This letter of credit binds the insurer to pay one or more drafts drawn by Bangor Hydro-Electric Company as long as the drafts do not exceed the total amount of the letter of credit; and that any draft presented by Bangor-Hydro Electric Company will be honored by the issuer upon presentation.”

If the corporate debt ratings of an issuing bank drop below the above specified levels, the standard offer provider shall promptly: (1) notify the Commission’s Director of Technical Analysis and BHE in writing; and (2) provide replacement security that satisfies the requirements of Chapter 301 and this RFP.

***3) Bundled demand/supply proposals:***

In addition to the above security requirements, financial security will be required to secure proposed demand-side savings.

**4.7 License**

Standard offer provider must at all times during the term of service possess a valid license, pursuant to Chapter 305 of the Commission’s rules, to provide standard offer service. Standard offer provider’s license must be effective as of the date it is designated a standard offer provider.

**4.8 Standard Offer Service Agreement**

Standard offer provider must have an executed Service Agreement with BHE within 24 hours of being designated. (See Appendix C for a Standard Form Service Agreement.)

**4.9 Resource Portfolio Requirement**

Standard offer provider must comply with the resource portfolio requirements of Chapter 311 of the Commission’s Rules.

**4.10 Disclosure Requirement**

BHE will produce and distribute standard offer service disclosure labels pursuant to Chapter 306 of the Commission’s rules on behalf of standard offer provider. The provider must pay BHE for this service in accordance with Section 43.7 of BHE’s Terms and Conditions (See Appendix D). Provider must supply BHE with the information needed to prepare accurate and timely labels.

### 4.11 ISO-NE/NEPOOL Requirements

Standard offer provider or an affiliate must comply with all applicable ISO-NE requirements, (and those of any successor entity or entities), and shall be the designated load serving entity with a settlement account for the applicable standard offer load. The necessary ISO-NE designations and accounts must be effective at least 30 business days prior to March 1, 2007.

### 4.12 EBT

Standard offer provider must exchange data with BHE using the electronic business transactions (EBT) protocols and procedures contained in Maine's EBT standards. The EBT standards are available from the Commission's web site.

### 4.13 Net Billing, Small Generator Aggregation

Standard offer provider must comply with the net billing requirements of Chapter 313 and Chapter 360 of the Commission's Rules. Specific information on net billing can be obtained from BHE.

Standard offer provider must comply with the requirements of Chapter 315 of the Commission's Rules. This rule requires standard offer providers to purchase the aggregated output of generators in BHE's service territory with a capacity of 5 MW or less at applicable clearing prices such that the standard offer provider is financially neutral to the transaction. If there are multiple standard offer providers for this class, the output and corresponding purchase obligation will be allocated in proportion to each provider's load obligation.

## 5. BILLING AND PAYMENT

### 5.1 Allocation of Uncollectible Accounts

Standard offer providers are allocated a fixed percentage amount for expected uncollectible standard offer revenue in accordance with the Service Agreement. The uncollectible percentage is specified in Exhibit A to the Standard Offer Provider Agreement (Appendix C) and will remain fixed for the provider's term of service.

### 5.2 Payments for Standard Offer Service

BHE will issue bills and receive payments from customers for standard offer service and will transfer funds to the standard offer provider in accordance with the Service Agreement.

Standard offer provider will receive gross revenues less uncollectible revenues for the applicable standard offer sales. Gross revenues are the product of the provider's accepted bid price times the applicable kilowatt and/or kilowatt-hour sales. Uncollectible revenues are the product of the applicable uncollectible percent times gross revenues.

# 6. STANDARD OFFER PROVIDER LEGAL OBLIGATIONS

## 6.1 Legal Obligations and Responsibilities

Designation by Commission Order of a bidder as a standard offer provider legally obligates the bidder to provide standard offer service at the offered and accepted prices and terms in accordance with Maine law and regulations and the provisions of this RFP.

## 6.2 Standard Offer Provider Default

Upon a determination that a standard offer provider has failed to provide service as required or has otherwise failed to fulfill its standard offer obligations, the Commission may declare such provider to be in default. If the Commission declares a standard offer provider to be in default, the Commission will take one or more actions specified in section 9 of Chapter 301.

The defaulting standard offer provider shall be responsible for and obligated to pay the additional costs of replacement standard offer service including, if applicable, the lost value of demand-side savings. As described in section 3 of Chapter 301, additional costs of replacement standard offer service are all costs that are incurred or will be incurred to acquire replacement standard offer service, including supply, administrative and enforcement costs, through the remaining standard offer term that exceed the amounts paid or to be paid by standard offer customers at the standard offer rates in effect at the time of the Commission's declaration of a standard offer provider's default. In the case of a Bundled Demand/Supply Proposal, this amount includes the retail cost to standard offer customers of additional standard offer service quantities that are required as a result of demand-side savings not provided. The Commission shall determine the amount of the additional costs of replacement standard offer service including, if applicable, the lost value of demand-side savings and order the defaulting standard offer provider to pay that amount.

If the Commission declares a standard offer provider to be in default and there are additional costs of replacement standard offer service, including if applicable, lost value of demand-side savings, it may direct BHE to (1) withhold any payments due to the defaulting standard offer provider and use those amounts to cover additional costs of replacement standard offer service; and (2) use amounts from the financial security provided by or on behalf of the defaulting standard offer provider to cover the additional costs of replacement standard offer service.

In the event that the defaulting standard offer provider fails to pay the additional costs of replacement standard offer service, including if applicable, lost value of demand-side savings, as ordered by the Commission and the amounts obtained by BHE from the financial security are not sufficient to cover the additional costs of replacement standard offer service, the Commission or Maine's Attorney General may bring legal action in Maine courts to fully recover these amounts.

### 6.3 Standard Offer Provider Demand-side Deficiency

Upon a determination that a standard offer provider has not provided the amount of demand-side savings required by the terms of its Bundled Proposal, the Commission may require the standard offer provider to pay the lost value resulting from the deficiency. In the event the standard offer provider is not otherwise in default and is continuing to provide standard offer service, the lost value is the amount of the deficiency multiplied by the applicable standard offer price. In the event the standard offer provider is declared to be in default as described in Section 6.2, the lost value is the amount of the deficiency multiplied by the applicable price of replacement standard offer service.

## 7. OTHER RFP PROVISIONS

### 7.1 Proprietary Information

A bidder may designate information included in its proposal as proprietary or confidential information. The Commission will take every reasonable step, consistent with law, to protect information that is clearly identified as proprietary or confidential on the page on which it appears. The identity of bidders selected to provide standard offer service, winning bid prices and standard offer prices will be public information.

### 7.2 Proposal Costs

All costs associated with developing or submitting a proposal in response to this RFP and providing oral or written clarification of its contents are borne by bidder.

### 7.3 Rights of the Commission

The Commission reserves the right to reject all proposals received in response to this RFP if in its sole determination the bid prices are unreasonably high and acceptance would not be in the public interest. In this situation, the Commission may at its sole discretion terminate the RFP and initiate a new selection process.

The Commission reserves the right to reject any proposal that in its sole determination does not meet the requirements and specifications of this RFP, the Commission's rules, Maine law, or generally accepted business practices. The Commission may ask bidders to clarify or supplement their proposals and may at its sole discretion allow bidders to conform proposals to the required specifications.

### 7.4 State Held Harmless

The State of Maine, its officers, agents, and employees, including the Maine Public Utilities Commission, Commissioners and the employees or agents of the Maine Public Utilities Commission shall be held harmless from any and all claims, costs, expenses, injuries, liabilities, losses and damages of every kind and description resulting from or arising out of this RFP, the designation of standard offer providers or the provision of standard offer service.

### 7.5. Warranty

The information contained in the RFP and provided subsequently is prepared to assist bidders and does not purport to contain all of the information that may be relevant to bidders. The Commission makes no representation or warranty, expressed or implied, as to the accuracy or completeness of the information. The Commission, its staff and its agents shall not have any liability for any representations expressed or implied in, or any omissions from, the RFP or information obtained by bidders from the Commission, its staff, its agents or any other source.