

September 13, 2016

CENTRAL MAINE POWER COMPANY
Revisions to Area Street Lighting Service
(Rate SL) and Request for Approval of
New Terms and Conditions, Section 53

ORDER

I. SUMMARY

For the reasons discussed in this Order, the Commission directs Central Maine Power Company (CMP) to file rate schedules and terms and conditions consistent with the methodology for determining Net Book Value (NBV) of street lighting equipment as outlined in this Order, and as agreed to by CMP and the Municipal Street Lighting Group (MSLG). CMP shall also file an updated Standard Form Customer Service Agreement, describing the method for calculating NBV when a municipality wishes to remove street lights, consistent with this Order.

II. BACKGROUND

On June 26, 2013, the Maine Legislature enacted An Act to Reduce Energy Costs, Increase Energy Efficiency, Promote Electric System Reliability and Protect the Environment (the "Act"). Part E of the Act governs streetlights and provides that on or after October 1, 2014, transmission and distribution (T&D) utilities shall provide options to municipalities for street and area lighting provided by light fixtures attached to poles owned by the T&D utility or on shared-use poles in the electrical space under the contractual management of the T&D utility located in the public way.

The legislation also required that the Commission: establish approval and denial criteria to be used by utilities when municipalities seek to locate streetlights and that these criteria be based on standard utility industry practice; that the Commission determine appropriate charges for work performed by the utility including any one-time fees to the utility for making the approval and denial determinations; and that the Commission establish basic criteria, consistent with standard utility industry practice, regarding equipment safety and compatibility issues, including a basis for determining when no additional assessment work and associated charges are necessary because the new lighting equipment places equal or less demand on the pole than the existing streetlight. 35-A M.R.S. § 2523(2).

On September 26, 2013, the Commission opened an inquiry in Docket No. 2013-00448 to establish standards and guidelines for implementing the Act. Various parties participated and submitted comments, including CMP, Emera Maine (Emera Maine), and the MSLG. Following comments, on September 22, 2014, the Commission issued

its Inquiry Findings in Docket No. 2013-00448 that provided guidance on the disputed issues that arose among the utilities and MSLG, and directed CMP and Emera Maine to file terms and conditions that would implement the requirements of the Act. On September 29, 2014, CMP filed its proposed terms and conditions, which was assigned Docket No. 2014-00313, and on September 30, 2014, Emera filed its proposed terms and conditions which was assigned Docket No. 2014-00317. On October 1, 2014, the Commission issued a Notice of Filing and Opportunity to Comment on these proposed terms and conditions. Comments and responsive comments were filed by CMP and MSLG and a technical conference was held.

On October 7, 2015, the Commission issued an Order outlining various areas of agreement among the parties in the proceeding, as well as areas of disagreement. Regarding some areas of disagreement, such as a municipality's obligation to purchase liability insurance, CMP's energy-only price, and utility worker qualifications, the Commission made specific findings and directed the utilities to file rate schedules and terms and conditions accordingly. The Order also directed the utilities to work with the MSLG to develop an initial draft of the Standard Form Customer Service Agreement and to form a working group of the utilities and MSLG to provide guidance and recommendations regarding future issues related to municipal ownership of streetlights.

While the Act provided that municipalities can either purchase street lighting equipment from the utilities or have the street lighting equipment removed, the Commission noted in its Order that it was unclear how the utilities would calculate the NBV for municipalities to pay when purchasing or removing the street lighting equipment from the utilities. The Order noted that CMP depreciates street lights using a group depreciation method. Under group depreciation, assets are not tracked and depreciated separately but rather as a group, based on an average depreciation rate for the whole asset group. Depreciation expense is calculated based on the average depreciation rate for the group applied to the plant balance of the group and the depreciation expense is added to the group's accumulated depreciation balance. When equipment in the group is retired, the original cost of the equipment is removed from both the plant balance and the accumulated depreciation balance.¹ Unlike assets that are depreciated individually over an expected life and become "fully depreciated" at the end of that life, under group depreciation as long as an asset is still in service, regardless of its age, it remains in the plant balance and contributes to the accumulated depreciation at the average depreciation rate applied to the group. To the extent this approach results in excess depreciation being collected for an asset (as compared to what would have been collected if the asset had been depreciated individually), the difference gets picked up when depreciation rates are next set because there is a lower remaining balance associated with the assets that needs to be collected.

¹ The accumulated depreciation balance is also adjusted for removal and or salvage costs.

In the October 7, 2015 Order, the Commission directed that the utilities to make filings showing the calculation of NBV for equipment to be purchased by a municipality in a manner consistent with group methodology and show separately for each year, the additions, retirements, removal cost, salvage value, applicable depreciation rate, depreciation, plant balance and accumulated depreciation balance for all street lighting equipment (both retired and still in service) from the year that street lighting equipment was initially installed in the municipality.² To the extent a utility does not have sufficient records to make the NBV calculation, the Commission noted that an alternative method for determining the NBV of the equipment to be purchased by the municipality may be developed by the utilities and MSLG as part of the drafting of the Standard Form Customer Service Agreement.

On December 21, 2015, CMP filed a draft Agreement setting forth CMP's proposed methodology for calculating NBV. CMP noted that it had not been able to verify whether its proposed language and methodology was acceptable to the MSLG. Also on December 21, 2015, the MSLG filed a letter with the Commission, stating that while it was in agreement with most of the Standard Form Customer Service Agreement, it was unable to agree with CMP regarding its method for calculating NBV for purposes of conveying street lighting equipment from the utilities to municipalities.

On December 23, 2015, the Presiding Officer issued a procedural order allowing MSLG the opportunity to file comments regarding CMP's methodology. CMP and Emera Maine were given until January 6, 2016 to file responsive comments.³ Following the receipt of comments, multiple technical conferences were held to discuss the unresolved issue of calculating NBV.⁴ During these discussions, the MSLG expressed concern regarding CMP's calculation of the Net Book Value of the street lights, including the amount associated with lights that were prematurely retired. However, after multiple technical and informal conferences, the MSLG agreed to accept CMP's NBV calculation methodology.

On June 29, 2016, Staff issued its Recommended Decision, recommending that the Commission approve CMP's proposed methodology for determining NBV. Staff

² The October 7, 2015 Order also included a statement that the NBV should include a credit back for removal costs for plant still in service. During the technical conferences, it was determined that this was based on an inaccurate understanding of CMP's calculation of the accumulated depreciation balance. Therefore, no such adjustment should occur as the removal costs have already been included in the accumulated depreciation balance.

³ While Emera Maine has participated in some aspects of this proceeding, this Order specifically addresses CMP's calculation of NBV and not Emera Maine's methodology for NBV. Emera's calculation of NBV is being addressed in Docket No. 2014-00317.

⁴ Technical conferences were held on February 26, March 18, and March 31, 2016. Settlement conferences were held on April 21, May 4, May 12, and June 9, 2016.

also recommended that the Commission use a methodology that would calculate NBV on a weighted average age-basis, in the event that a municipality wishes to have CMP remove its streetlights, rather than purchase existing street lights. CMP filed comments on the Recommended Decision on July 13, 2016.

III. DISCUSSION AND DECISION

Under Section 4 of the Act, the municipalities have the option to take over ownership of the existing street lighting equipment from the utility. The October 7, 2015 Order noted that the entities involved in this proceeding agreed that, generally, a municipality must take over ownership of all of the streetlights in the municipality, but that the purchase may be phased in over a three-year period. The entities also agreed that a municipality may request to take over ownership of only a portion of the streetlights and that these requests will be considered by the utility on a case-by-case basis with disputes resolved by the Commission. Additionally, all entities agreed that for a municipality that wishes to purchase its street lights from the utility, the cost to be paid shall be the NBV of the street lighting equipment

The Company's NBV methodology is based on (1) the net amount of street lighting plant additions and retirements associated with the municipality; (2) the net accumulated depreciation amount, including depreciation expense incorporating both the depreciable life and the removal cost component for plant still in service, retirements, and actual removal and salvage costs associated with those retirements; and (3) associated income tax impacts.

The October 7, 2015 Order noted that the entities agreed that, consistent with the standard street lighting agreement, if a municipality wishes to have the utility remove all of the streetlights, rather than purchasing the existing street lights, there will be no charge to a municipality to remove any street lighting equipment on a pole if it has been 15 or more years from the time the streetlight was originally installed. However, the Order did not address the methodology for determining the price to be paid by municipalities if the street lights are less than 15 years old.

CMP's current street lighting rate schedule provides that if a municipality seeks to have a streetlight removed, and if that light had been installed for more than 15 years, then there would be no charge to the municipality, and if the light had been installed for less than 15 years, the municipality would pay the undepreciated balance of the investment and the removal costs. Under the group depreciation methodology used to depreciate streetlights (as well as many other types of utility equipment), for every year that a piece of equipment is in service, it contributes to the accumulated depreciation balance which is used to offset the plant balance when determining the NBV. Accordingly, if looked at on an individual basis, streetlights still in service beyond their expected life would have a negative NBV, while streetlights in service for less than their expected life would have a positive NBV. On an aggregate basis, the NBV includes both the positive and negative contributions of individual streetlights and reflects the average undepreciated balance for all streetlights.

CMP's current method charges a municipality for the positive NBV of streetlights less than 15 years old but does not provide any credit for the negative NBV of streetlights more than 15 years old. The Commission finds that the appropriate methodology to address this issue is by calculating a weighted average age of the street lighting equipment, based on the age and level of the investment. Under this method the average age of the street lights would be determined by summing, for all years, the product of the original cost of the streetlights installed in a year by the number of years that streetlight has been in service and then dividing by the sum of the total original cost. If, under this method, the average age of the street lights is more than 15 years, there would be no charge to the municipality for the lights to be removed. If, however, the average age was less than 15 years, the NBV that the municipality would pay to have the streetlights removed would be determined by calculating the difference between 15 years and the calculated weighted average age, dividing this difference by 15, and multiplying the result by the NBV of all of the streetlights. An example of how this would work (one in which the average age of the street lights is more than 15, and one in which it less), is shown in Appendix A.

Accordingly, the Commission

O R D E R S

1. That Central Maine Power Company shall file a Standard Form Customer Service Agreement consistent with this Order within 60 days of the date of this Order;
2. That Central Maine Power Company shall file updated rate schedules and terms and conditions consistent with this Order within 30 days of the date of this Order; and
3. That the working group established in the October 7, 2015 Order shall continue to provide guidance and recommendations regarding future issues related to municipal ownership of street lights.

Dated at Hallowell, Maine, this 13th day of September, 2016.

BY ORDER OF THE COMMISSION

/s/ Harry Lanphear

Harry Lanphear
Administrative Director

COMMISSIONERS VOTING FOR: Vannoy
McLean
Williamson

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 11(D) of the Commission's Rules of Practice and Procedure (65-407 C.M.R. 110) within **20** days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought. Any petition not granted within **20** days from the date of filing is denied.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within **21** days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.

Cost to remove if Net Book Value is \$8,000

NBV = \$8,000

	Total original cost	Yrs in service	Age weighted original cost
1980	\$ 5,000	36	\$ 180,000
1992	\$ 9,000	24	\$ 216,000
1995	\$ 2,800	21	\$ 58,800
2003	\$ 12,000	13	\$ 156,000
2007	\$ 10,000	9	\$ 90,000
2011	\$ 1,600	5	\$ 8,000
2013	\$ <u>500</u>	3	\$ <u>1,500</u>
	\$ 40,900		\$ 710,300
			17.36674817 avg age
			No charge to remove

	Total original cost	Yrs in service	Age weighted original cost
1980	\$ 5,000	36	\$ 180,000
1992	\$ 9,000	24	\$ 216,000
1995	\$ 2,800	21	\$ 58,800
2003	\$ 12,000	13	\$ 156,000
2007	\$ 50,000	9	\$ 450,000
2011	\$ 1,600	5	\$ 8,000
2013	\$ <u>500</u>	3	\$ <u>1,500</u>
	\$ 80,900		\$ 1,070,300
			13.22991347 avg age

$(15-13.23)/15 * \$8000 = \$ 944.05$ **NBV to remove**