Referendum Question 3

Reality versus emotions

Question 3 - An alternative perspective

3 takeaways:

- Voting "No" does not mean keeping the status quo…it means give recent regulatory reforms and others time to take affect.

- Pursuit of Pine Tree represents an existential threat to climate and grid modernization goals.

- Pine Tree claims sound great to (rightfully) angry voters but either have no analytical foundation or their foundation is deeply flawed.

We all agree utility performance is poor

But it is a <u>Self-Inflicted Wound</u>

Performance-based ratemaking (PBR) is established in 13 states and about to be implemented in 5 more.

Maine has rejected performance-based ratemaking for the last 4 years because of Pine Tree Power proponents

The first step in PBR reform was passed early last year over Pine Tree objections- just taking effect now

This first step needs time to take effect and more reforms are necessary

Maine's climate and grid modernization initiatives would be indefinitely suspended

- There is a consensus that setting up Pine Tree will take at least 4 years (Pine Tree estimate), more likely 6 – 8 years if it completes
- History on takeovers:
  - Long Island Power Authority - 13 years
  - Boulder, CO – 10 years and failed to complete
  - 8 sq mile suburb of Orlando – 6 years
- During set up period all climate initiatives that touch the grid and grid modernization fails.

Pine Tree Power proponents' primary claims

Claim 1:

Since consumer-owned utilities, on average, have better reliability and lower costs than investor-owned utilities, changing the ownership of Maine's IOUs into a COU will result in improved performance.

Claim 2:

Pine Tree will save customers $367 annually for 30 years, starting immediately.

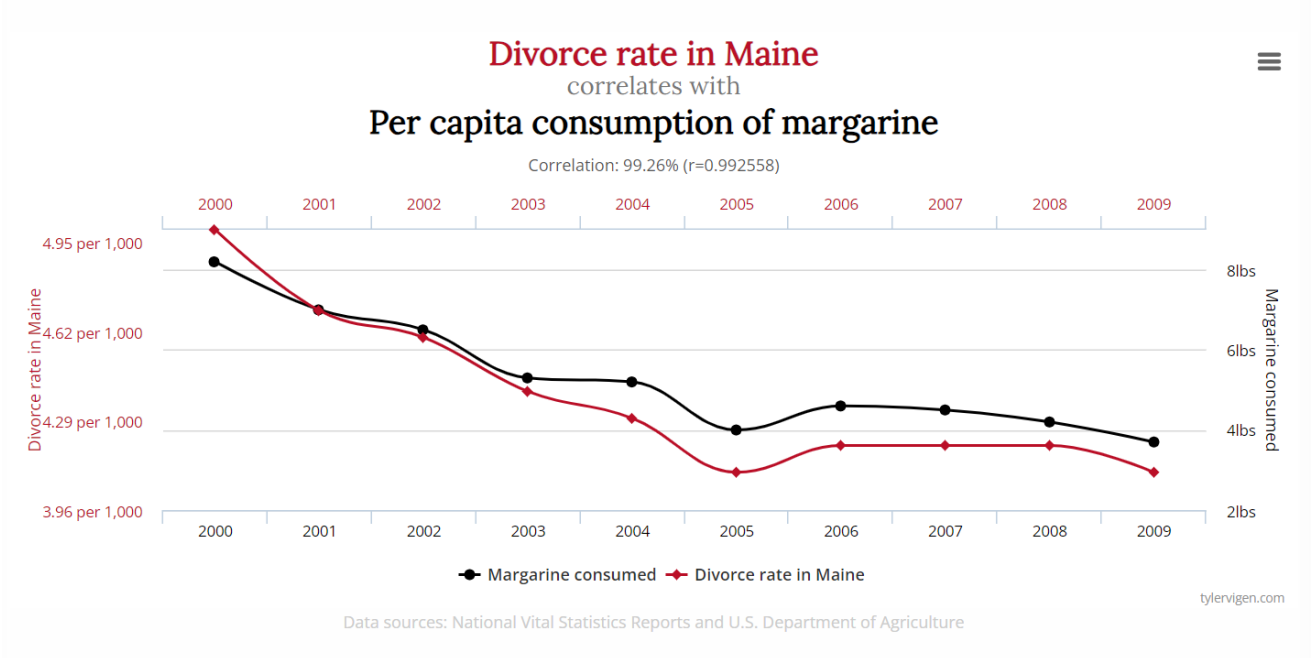
Most voters are not equipped to discern fact from fiction.

So let's take a look behind the curtain.

Claim 1:
Since consumer-owned utilities (COUs), on average, have better reliability and lower costs than investor-owned utilities (IOUs), changing Maine's IOUs into a COU will result in improved performance.

If we were creating a new utility, COU is the way to go. But we are not.

Comparing existing consumer owned utilities (that average 24,000 customers and mostly urban) is making a false equivalence to the Frankenstein that Pine Tree Power would be. Like this:

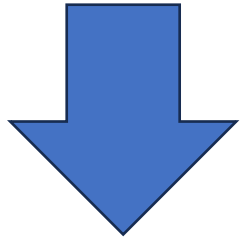


Why? Differences in infrastructure, management, service territories, number of customers, topography, added costs of takeover.

Reality:
There is only one consumer owned utility comparable to Pine Tree Power Company-

The Long Island Power Authority

- In1985, NY State began takeover of LILCO to form LIPA



- **Thirteen years** later, in 1998, LIPA came into existence

- LIPA has been run under contract (just like Pine Tree Power proposes to do) by three different investor-owned utilities:
  - KeySpan Energy until 2007
  - National Grid until 2014
  - Public Service Electric and Gas since 2014

Long Island Power Authority

After 24 years of operation

- Residential rates are significantly higher than NY and NJ peers
- Commercial rates are near the highest in the country
- JD Powers consistently rates them at the bottom in their customer satisfaction index (just above CMP)

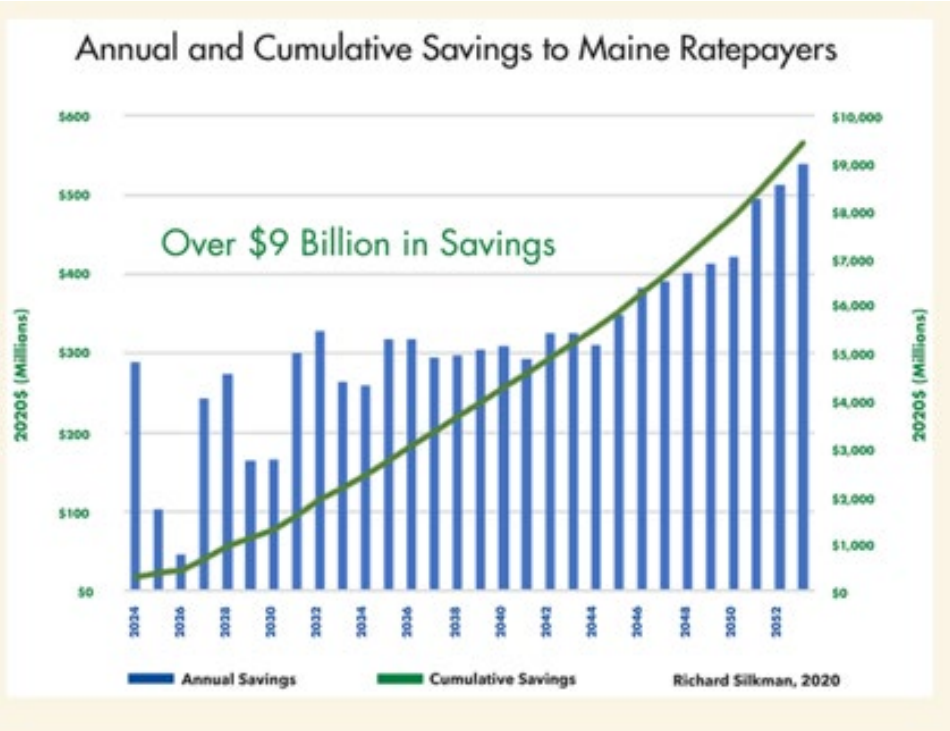
…and endless controversy and turmoil

- 2013 - LIPA Reform Act changes management and operator
- 2022 - study by Lazard for Long Island Association (Long Island's Chamber of Commerce) recommends returning LIPA to private, investor-owned utility
- 2022 - LIPA Legislative Commission recommends restructuring
- 2023- LIPA Legislative Commission recommendations on restructuring path rejected
- Public hearings continue
- Who knows what happens next?

Result: 37 years of ratepayer misery

Claim

Pine Tree will save customers $367 annually for 30 years, starting immediately.



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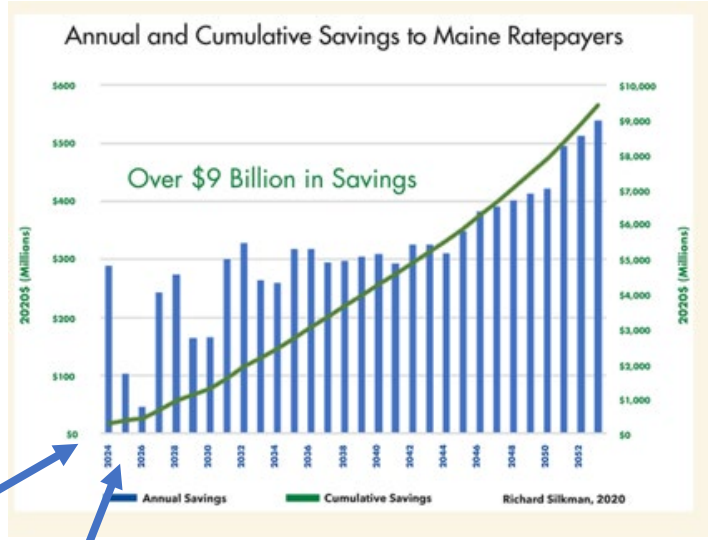
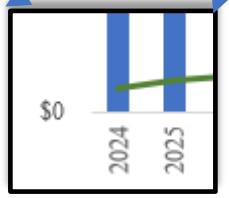




Reality

- Pine Tree Power has never done their own current, peer reviewed economic analysis of its costs or benefits that also incorporates uncertainty
- 4 years ago, Legislature hired London Economics International (LEI) to compare forecasted rates for Pine Tree (then the MPDA) with those of the IOUs out 30 years.
- Pine Tree manipulated LEI's model, put in unrealistic assumptions and calculated $9 billion savings over 30 years. $367 is the annual, per customer result.
- LEI's – and Pine Tree's - outdated model hypothesized a future scenario than bears no resemblance to the one we are currently navigating – graph shows savings in 2024

- Cost savings from cheaper borrowing is overwhelmed by the existing costs Pine Tree assumes, paying the for-profit company to run it, and the mortgage from the buyout

- **<u>Likely outcome:</u>**
  <u>added costs to ratepayers between $2 and $5 billion</u>

Ever single argument made by Our Power is similarly afflicted.

Are these arguments are just misinformed or are they misinformation?

The answer does not matter.

The relevant question is:

Would you trust your utility to a group that would make such arguments?

To Conclude

You can have a consumer owned utility, but it comes with **two conditions**:

- Suspend all grid related climate and modernization initiatives that touch the grid for as long as a decade until it is in place
- Pay a premium when it operates.

Passing the referendum might be **emotionally satisfying in the short term** but a **disaster for the State and our climate action plan for the long term**.

The regulatory path has its own set of uncertainties, will take time and will need further reforms, but it does not stall climate and grid modernization. It is the prudent path forward.

If regulation fails, we're no worse than today. If Pine Tree fails, welcome to Long Island.

Vote "no on Question 3, give regulation time to work, and let your legislators know you are counting on them to continue to modernize our grid and reform the ways utilities are regulated.

Backup slides

Climate Justice

- COUs are leading the way to **reduce carbon emissions**
- Cheaper to make **necessary grid updates**
- **CMP has intervened against climate legislation**
- **No more delays** for those with solar

Building a newer, larger grid is particularly crucial in Maine — a state with mostly clean electricity, but high transportation and heating emissions. We need to electrify everything!

- Because Pine Tree does not provide supply it has no control over the carbon content of supplied electricity.
- Solar delays are due to poor planning by the Legislature and would exist today if Pine Tree were in charge. Maine's local grids were built to be one-way delivery systems, not multidirectional with local power sources.
- Solar developers pay for grid upgrades to connect, not ratepayers.
- A new large grid needs to be built regardless of ownership type.
- **Grid modernization will be delayed for as long as the Pine Tree Power uncertainty period persists- as much as a decade – time we cannot afford.**

EMEC, Eastern Maine Electric Cooperative, is the largest COU in Maine and most comparable to Pine Tree Power

The latest US DOE data (2021):

Annual average number of outages per customer:
CMP 2.040, Versant 1.973 and EMEC 5.107

Average minutes of lost power per outage per customer:
CMP 138.051, Versant 149.87, and EMEC 171.140.

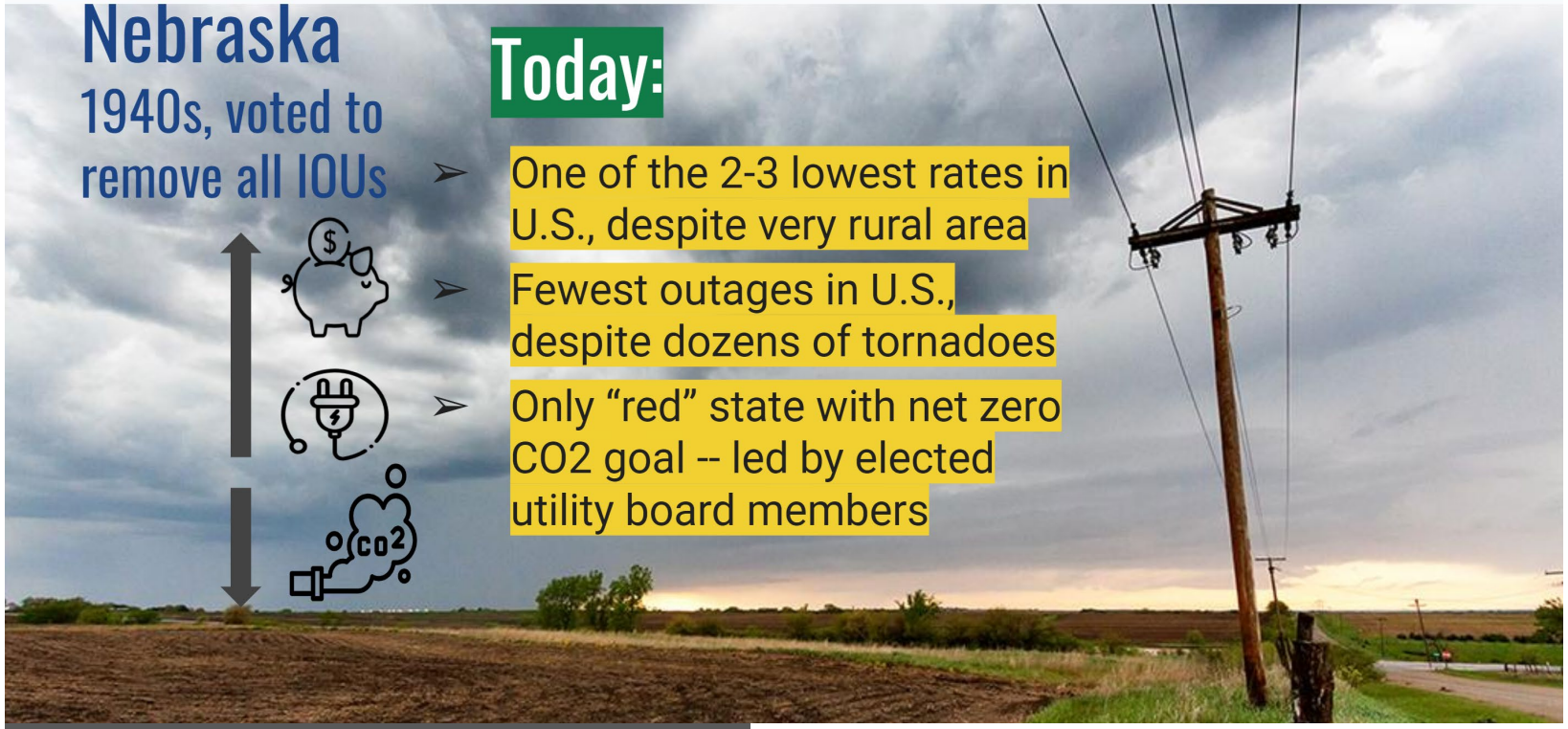
CMP is also better that the largest COUs in NH and VT.

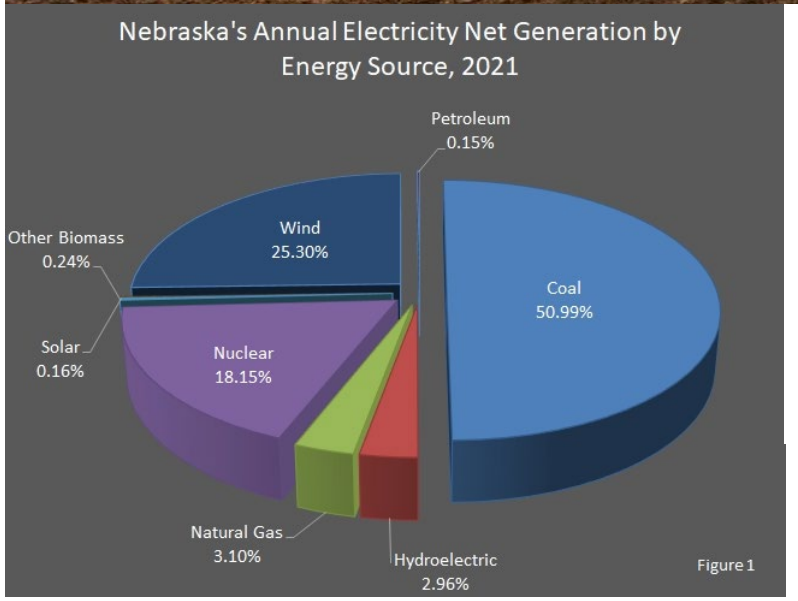
Reduced Outages

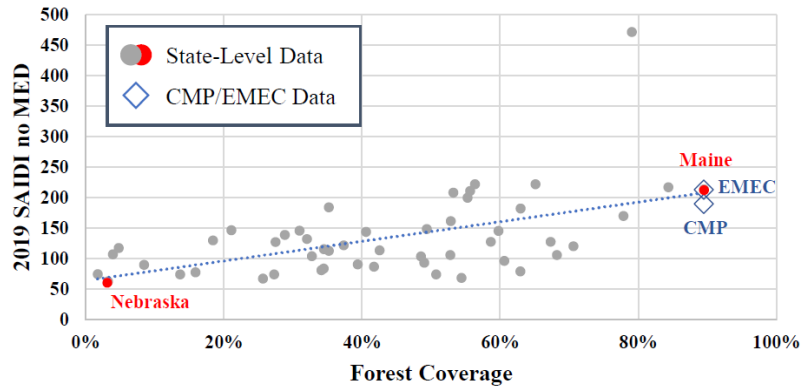
- Maine has the most frequent outages in the nation
- Consumer-owned utilities have a long history of providing more reliable power
- Right now, those in charge have no incentive to take action
- Outages are costly and dangerous

- Nebraska had hundreds of municipal utilities and 42 investor owned utilities in 1933. Consolidation happened.
- Most farmers and rural areas had no power- this was utility building from scratch
- There is not one state-wide utility today - there are 14 municipal and cooperative utilities.
- Not remotely comparable to situation in Maine
- Nebraska's electricity has the 9th highest carbon content of all states; Maine is #44
- Nebraska is the second least forested state in the country –
  Maine is the most forested – and that impacts reliability

- It's 2023, not 1933





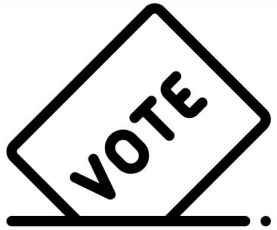


- Winter Park FL
  - 8 flat square miles
  - Suburb of Orlando
  - 15,000 customers
  - One of 7 towns that successfully seceded from their IOU, of the 62 that have tried since 2000
  - Paid 5.5 times book value to incumbent utility
  - Took 6 years

- Pine Tree Power
  - 21,000 square miles
  - 800,000 customers
  - Mostly rural
  - Likely to pay about 2 times book value from incumbent

- Is this really a serious comparison?

Outcomes:



69% of residents voted in favor of consumer ownership

Repaid acquisition cost in under 10 years

Dramatically increased reliability, even with bigger storms in FL

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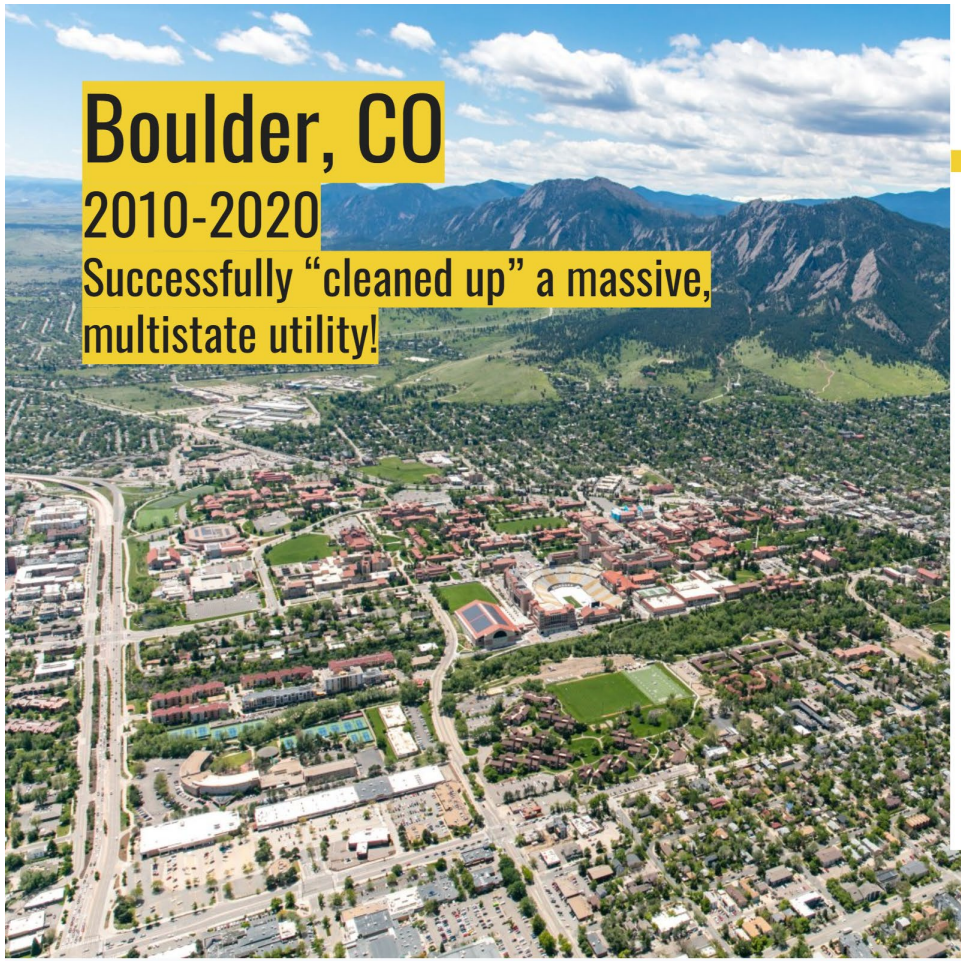
LOWER COST · LOCAL · RELIABLE

- Boulder spent 10 years and over $30 million and "paused" the effort to secede permanently.
- Boulder continues to be served by Xcel Energy, an IOU
- Xcel reduced their fossil generation to 20% by 2030 because of multiple legislative actions over the last 10 years in the Colorado legislature, and the other 7 states Xcel Energy serves, as well as Colorado's 2013 Climate Action Plan.

- **Boulder had virtually nothing to do with it.**



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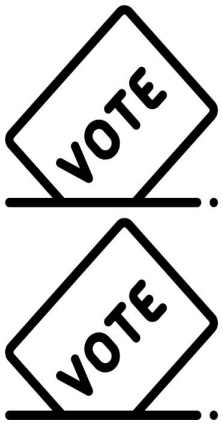

Voted twice to take over and get to 100% clean energy -- despite scary ads and greater costs and legal issues than Maine has.

Voted later (2020) for a deal to pause the takeover

IOU (Xcel) went from 97% fossils in 2010 to 20% by 2030 -- statewide!

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LEI Model, acquisition cost twice book value

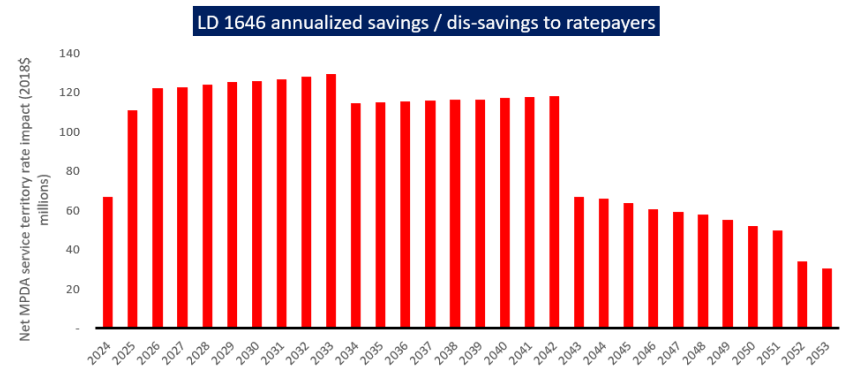
LD1646 Impact Assessment Model
London Economics International LLC

Shared assumptions		Sources / rationale
Capex as % of rate base per year	6.54%	<- CMP + Emera Maine forecast growth rate (rate base weighted)
Implied rate base growth rate	3.53%	
Opex growth rate as ratio of rate base	102%	
Assumed inflation (for deflation of CMP / Emera M	2.00%	<- Only used to deflate nominal numbers in inputs to real
Discount rate	3.5%	

MPDA assumptions		
Primary assumptions		
Acquisition multiple	2.0	x
MPDA setup cost (% of acquisition price)	0.7%	
Financial structuring cost of debt adjustment	1	(1 = yes, 0 = no)
COD impact of financial structuring	-0.14%	
Can we issue tax-free debt for all debt?	0	(1 = yes, 0 = no)
Is New Debt Tax Free?	1	(1 = yes, 0 = no)
Management fee as % of AUM	1.50%	
Muni allowed return for investment on transmiss	8%	<- 2002 NEPOOL Interpretive Guidance

down for sensitivity analyses

If users wish to change the key assumptions in the model to reflect different future scenarios, the changes should be entered on this tab



Pine Tree Power revision of LEI Model. acquisition cost twice book value

LD1646 Impact Assessment Model
London Economics International LLC

Shared assumptions		Sources / rationale
Capex as % of rate base per year	6.54%	<- CMP + Emera Maine forecast growth rate (rate base weighted)
Implied rate base growth rate	2.66%	
Opex growth rate as ratio of rate base	102%	<- Corrected Error in Formula
Labor Share of OPEX	65%	<- Used in OPEX calculations
Assumed inflation (for deflation of CMP / Emera M	2.00%	<- Only used to deflate nominal numbers in inputs to real
Interest on Cash Balances at Real Interest Rate	2.00%	<- Based on last year average 12 month CD rate
Discount rate	5.0%	

MPDA assumptions		
Primary assumptions		
Acquisition multiple	2.0	x
MPDA setup cost (% of acquisition price)	0.7%	
Financial structuring cost of debt adjustment	1	(1 = yes, 0 = no)
COD impact of financial structuring	-0.14%	
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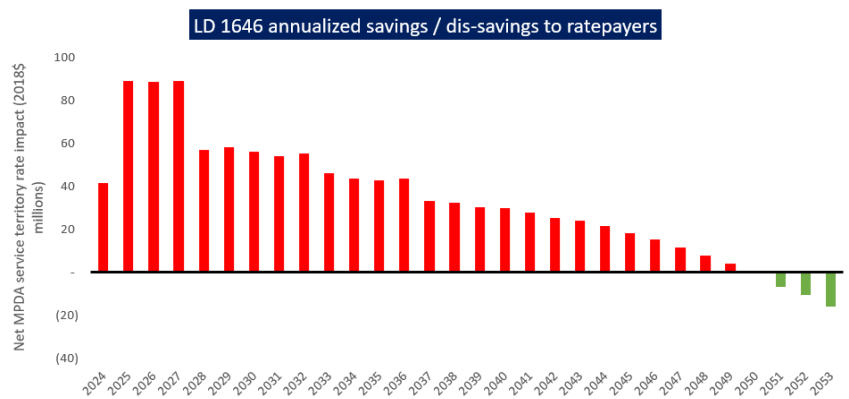

Uncertainty

Any analysis of costs MUST address the wide range of possibilities in every assumption.

Some examples of how small changes in variables can impact outcome.

(Red is cost to ratepayers)

Figure 18. Short-term (10-years) annualized MPDA net impact – acquisition cost vs rate base growth rate (2018 $ million per year)

Acquisition value as multiple of NBV

Rate base y-o-y growth rate	1	1.1	1.2	1.3	1.4	1.5	1.6	1.7	1.8	1.9	2
10%	(98)	(84)	(70)	(55)	(40)	(24)	(10)	17	37	52	73
9%	(90)	(76)	(62)	(49)	(34)	(19)	(4)	21	40	56	76
8%	(81)	(68)	(54)	(41)	(26)	(12)	11	25	44	58	82
7%	(73)	(60)	(47)	(35)	(20)	(7)	16	30	47	61	83
6%	(65)	(53)	(41)	(29)	(15)	(1)	20	34	49	62	82
5%	(59)	(47)	(36)	(24)	(9)	3	24	36	50	66	88
4%	(52)	(41)	(31)	(17)	(5)	6	25	37	57	77	95
3%	(47)	(37)	(26)	(14)	(2)	13	27	45	64	75	95
2%	(43)	(33)	(23)	(10)	0	15	28	51	62	80	92
1%	(39)	(30)	(20)	(8)	2	16	28	50	61	78	89
0%	(35)	(26)	(18)	(6)	4	17	37	49	59	76	86

Figure 19. Long-term (30-years) annualized MPDA net impact – acquisition cost vs rate base growth rate (2018 $ millions per year)

Figure 34. Short term (10 year) annualized MPDA net impact – rate base growth rate vs cost of debt (2018 $ million per year)

Initial cost of debt of MPDA

Rate base y-o-y growth rate	2.0%	3.0%	4.0%	5.0%	6.0%	7.0%	8.0%
10%	(176)	(129)	(81)	(30)	32	92	152
9%	(162)	(117)	(72)	(24)	35	92	152
8%	(146)	(105)	(62)	(17)	38	94	151
7%	(131)	(93)	(54)	(11)	41	95	149
6%	(118)	(82)	(46)	(5)	42	92	143
5%	(106)	(73)	(39)	(0)	43	95	138
4%	(94)	(64)	(33)	2	46	97	133
3%	(84)	(57)	(28)	5	56	94	125
2%	(75)	(50)	(23)	7	55	90	119
1%	(67)	(44)	(20)	10	53	85	112
0%	(59)	(38)	(16)	14	51	81	106

Note: Cells with an outlined black border reflect the range covering the Reference Case assumptions. Results above assume a 3.5% real discount rate.