Review, Assessment and Restatement of the Financial Model Used by London Economics International, LLC in its Report to the Maine Legislature on the Creation of a Consumer-Owned Public Utility

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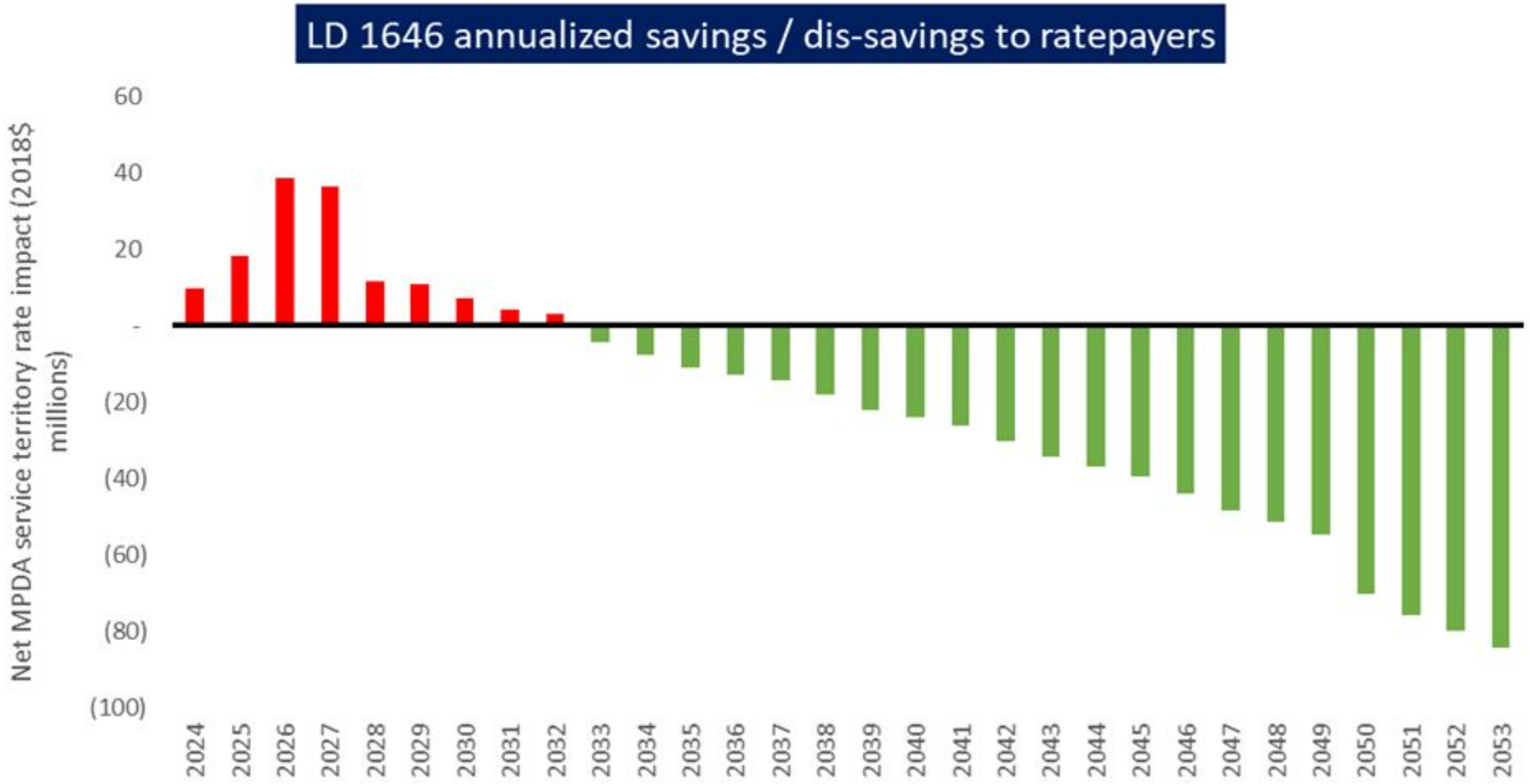
Abstract from Paper

LEI has seriously misstated the financial consequences to Maine ratepayers that would result from a municipalization of Maine's two investor-owned utilities (CMP and Emera Maine) through the creation of the Maine Power Delivery Authority. In its Reference Case, LEI calculates those financial benefits to have a net present value of $232 million over 30 years. When this estimate is corrected to include Balance Sheet assets held by the MPDA in 2053, additional revenues to the MPDA in the form of interest earned on cash balances and a higher weighted average cost of capital on its transmission rate base, and significantly lower management fee expenses, the net savings differential is 3.7 times larger at $858 million, and the total value of the MPDA to ratepayers is just over $5.6 billion in net present value terms. Further, in 2054 and for the years thereafter, the savings to Maine ratepayers will exceed $150 million annually, adjusted for inflation.

Reference Case Comparison from LEI Model

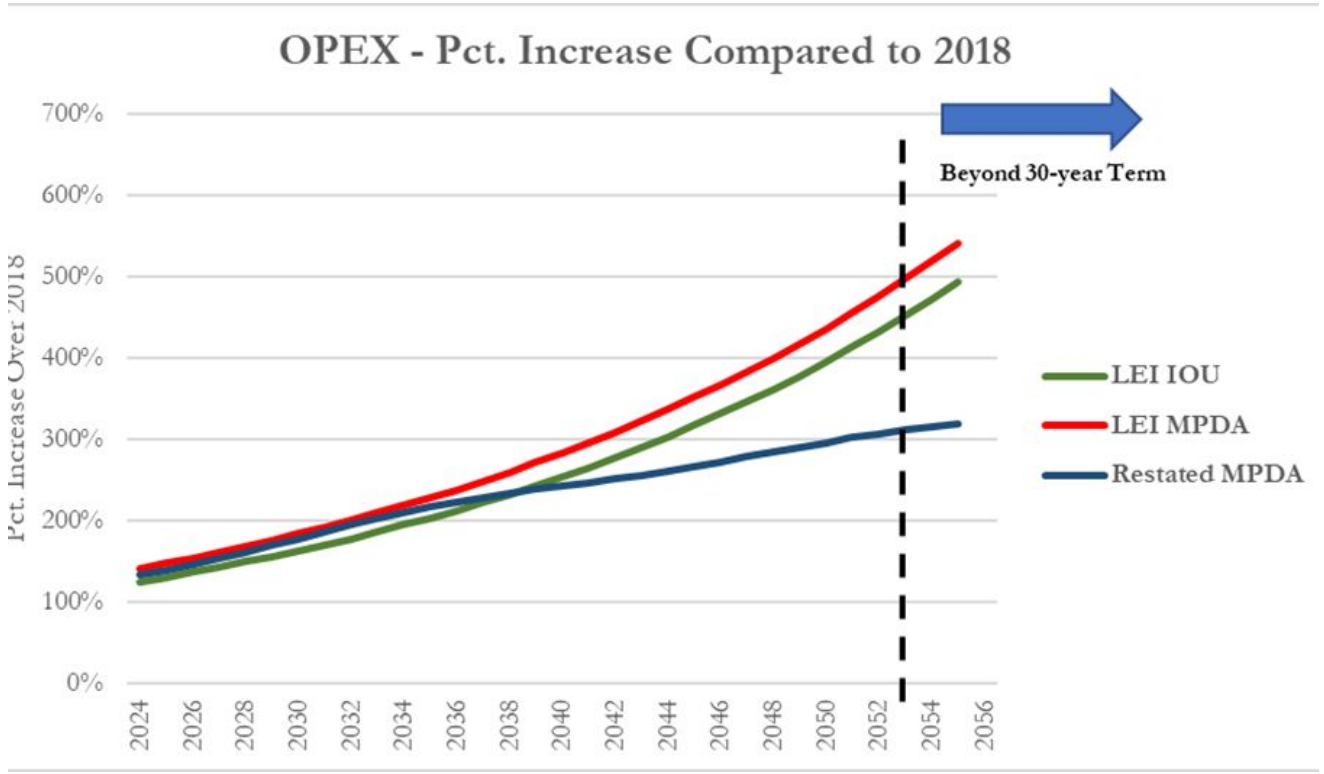


First Set of Adjustments - OPEX

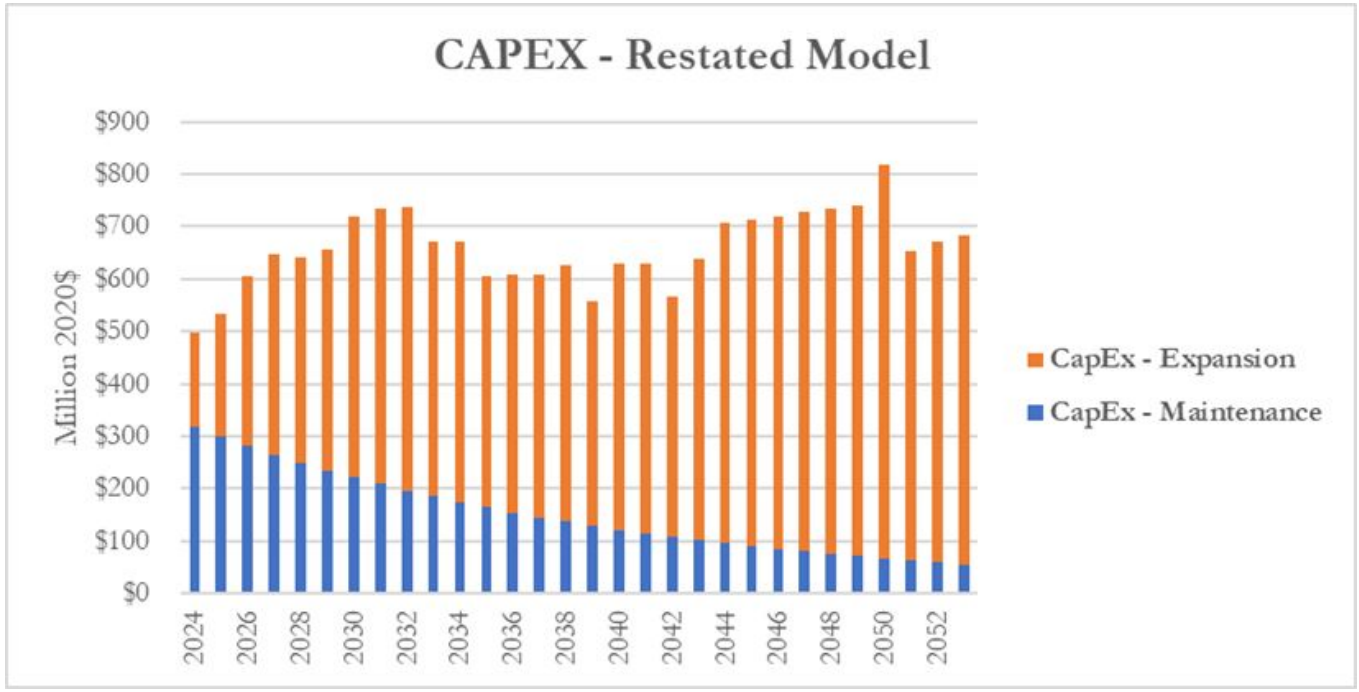
- LEI has overstated future operating costs (OPEX) and therefore the amount of revenues that will be need to raised in rates from Maine ratepayers under both the IOU and the MPDA scenarios

- LEI has grossly overstated Management Costs that will be incurred by the MPDA. This negatively impacts the savings LEI estimated from the establishment and operations of the MPDA

Comparison of OpEx
LEI Model v. Restated Model



- LEI ties O&M to the dollar value of utility plant and equipment. This is a reasonable approach – BUT only for new plant and equipment. LEI does not distinguish between new plant and replacement plant and therefore significantly overstates future O&M costs and revenue requirements.



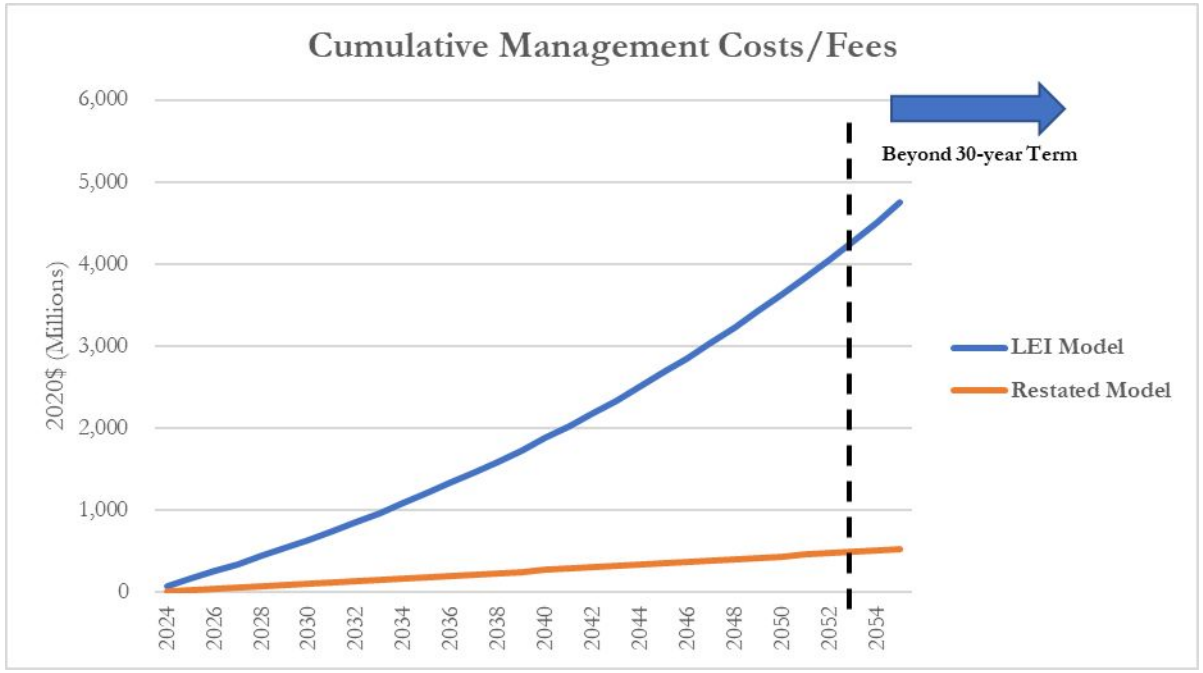
Breakdown of CapEx in Restated Model

- Maintenance CAPEX is the replacement of plant and equipment – e.g., old poles and outdated conductors, transformers, etc. This should not increase O&M – in fact, a good argument can be made that it should decrease it.

Comparison of Annual Management Fees LEI Model v. Restated Model

- LEI ties the Mgt. Fee to the Net Book Value of the MPDA – this creates a similar problem. In addition, the $$ value of this fee is exorbitant. The average Fee is roughly equivalent to the total CMP personnel costs PLUS the amount CMP pays to Avangrid for management services today.
- The Restated Model is based on CMP executive position count (11 executives) prior to its acquisition by Energy East. This is treated as incremental to CMP management and Avangrid Shared Services.

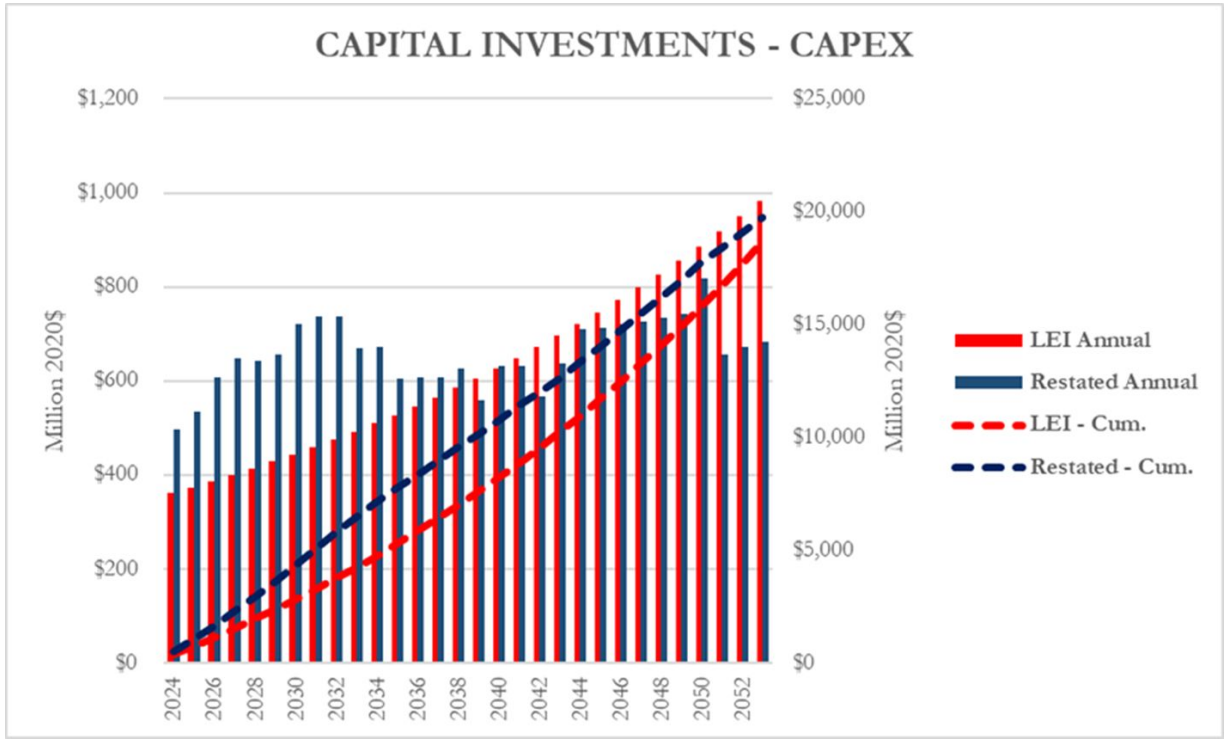
Comparison of Cumulative Management Fees
LEI Model v. Restated Model



- The total Management Fee LEI assigns to the MPDA over the 30 year period is just under $5 billion – after adjusting for inflation.
- This is IN ADDITION to CMP and Versant management costs PLUS all of the management related charges Avangrid and ENMAX charge today through Shared Services Agreements.

It is small wonder that LEI found "small" savings to ratepayers through the MPDA.

Comparison of Grid-Related Investments LEI Model v. Restated Model



- While there are some timing differences between the LEI Model and the Restated Model in future investments in Maine's T&D Grid, these are small and do not account for any of the differences in ratepayer savings between the two models.
- The CAPEX values are consistent with full beneficial electrification and deep decarbonization of Maine's economy by 2050.

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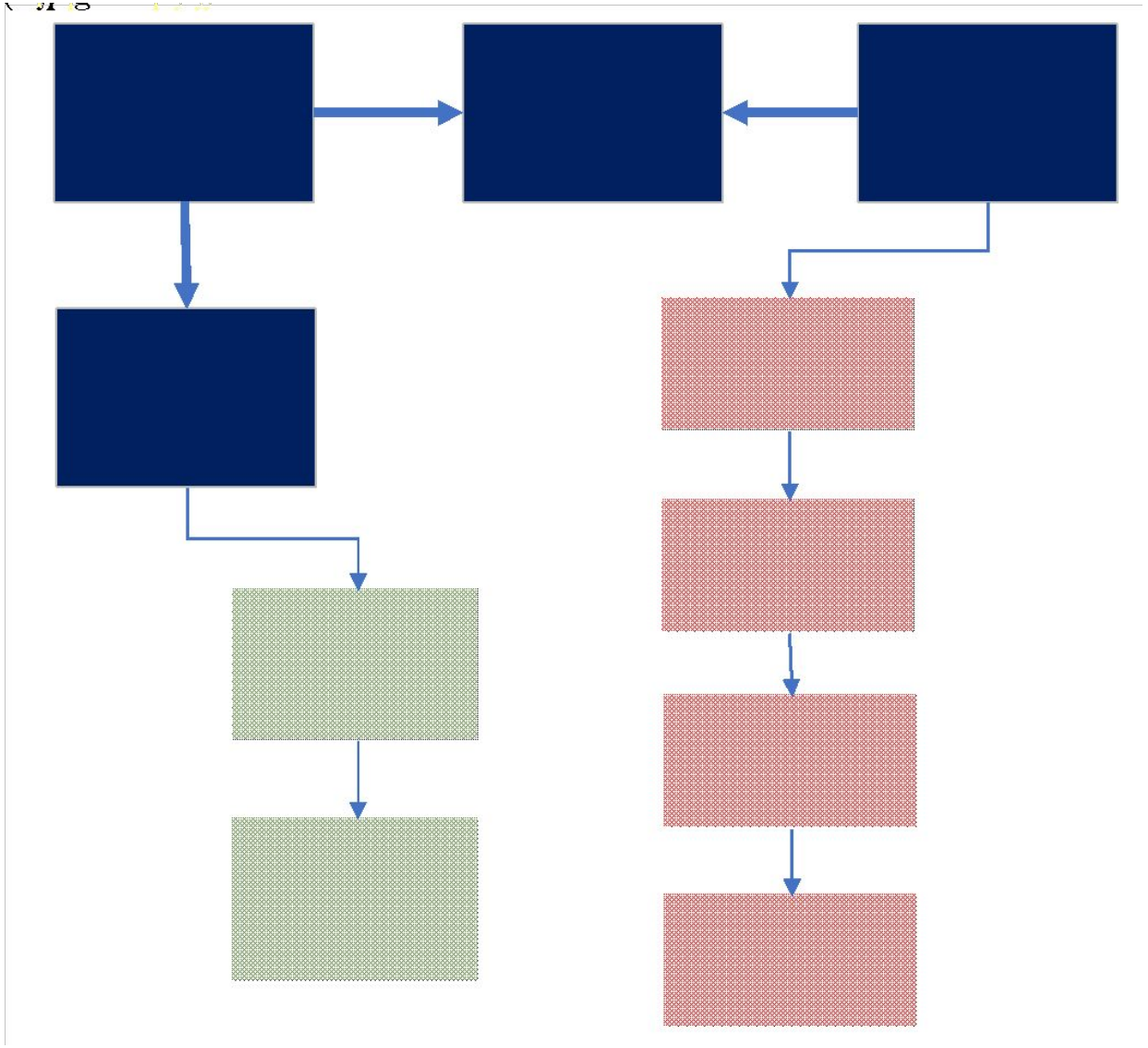
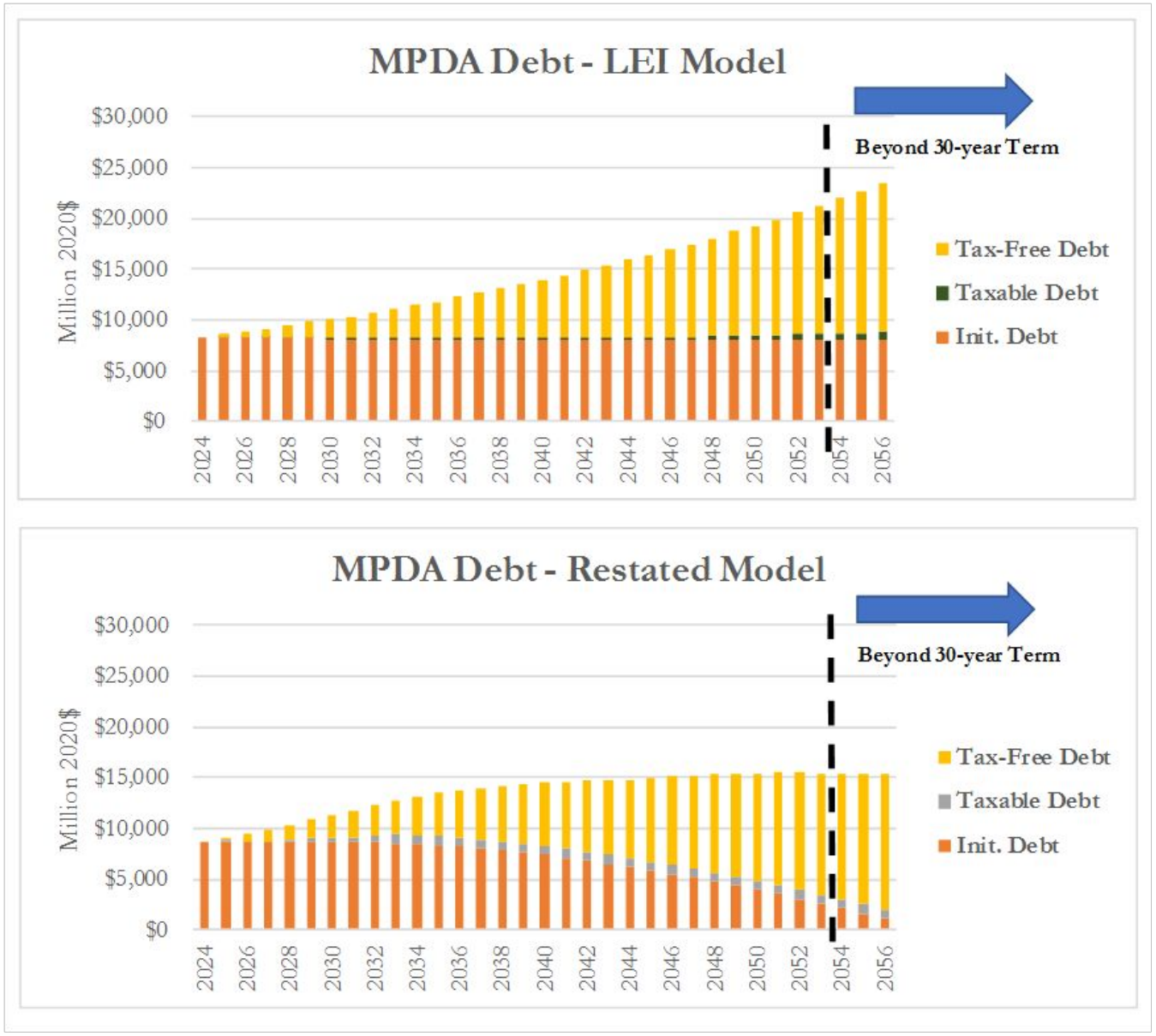
Second Set of Adjustments – Balance Sheet

- LEI restricted how the amount of MPDA's free cash flows that could be used to meet its CAPEX obligations.
- As a result, the amount of such free cash flows not reinvested in MPDA accumulate on MPDA's Balance Sheet as a form of "Equity" owned by Maine ratepayers. By the end of 30 years, this is around $5 billion.
- LEI ignored this in its IOU v. MPDA comparison and further compounded this error by not considering any interest that would be accumulating on this cash balance.

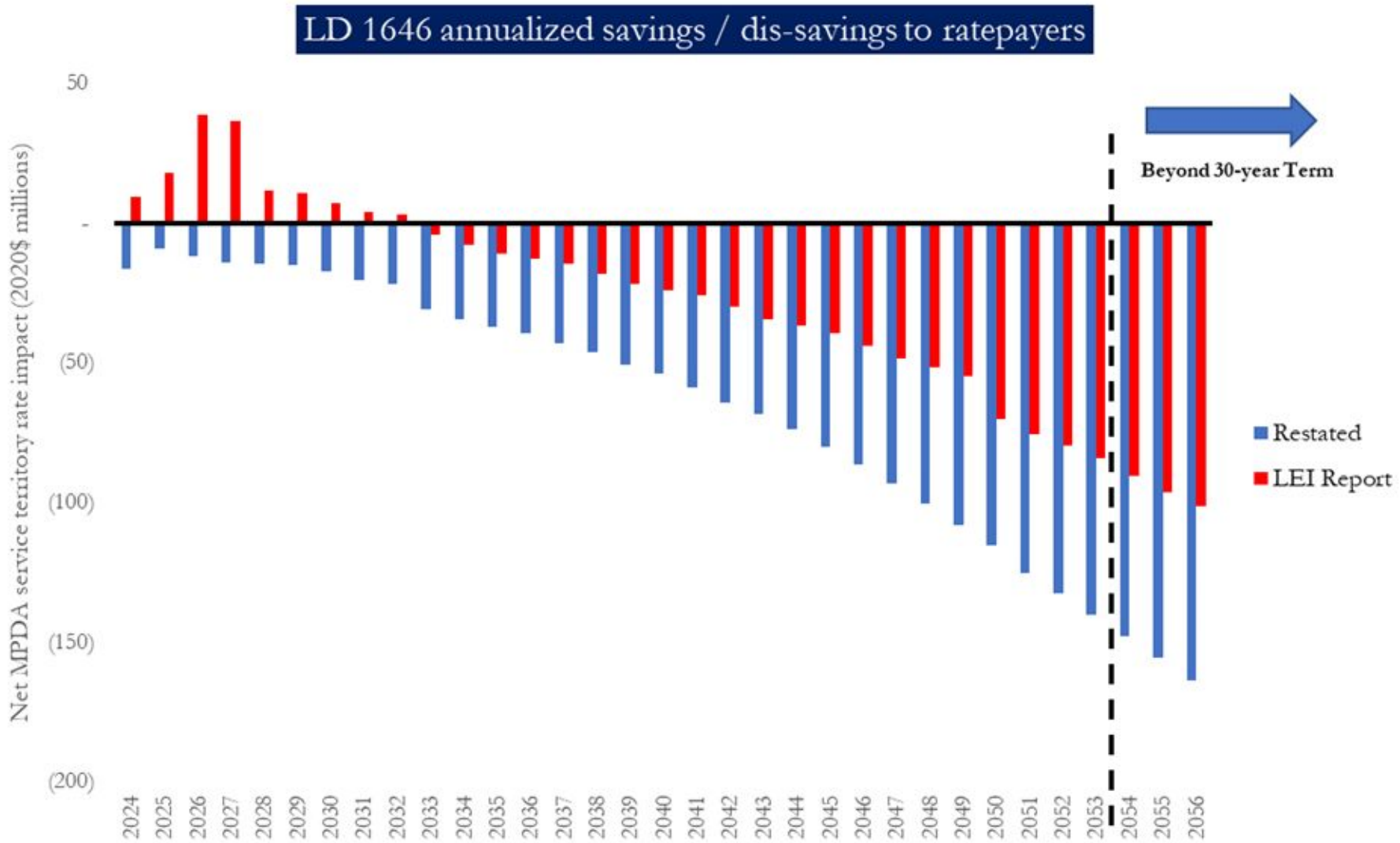


- As the percent of MPDA Annual Free Cash Flows allocated to new investment decreases, the amount of debt MPDA must issue increases
- Interest Payments are reported on the Income Statement and therefore increase Revenue Requirements and lower MPDA savings to ratepayers
- Cash Reserves are reported on the Balance Sheet and are ratepayer assets
- The LEI Report looks only at the Income Statement
- By ignoring the Balance Sheet it fails to consider more than $5 billion of Cash Reserves

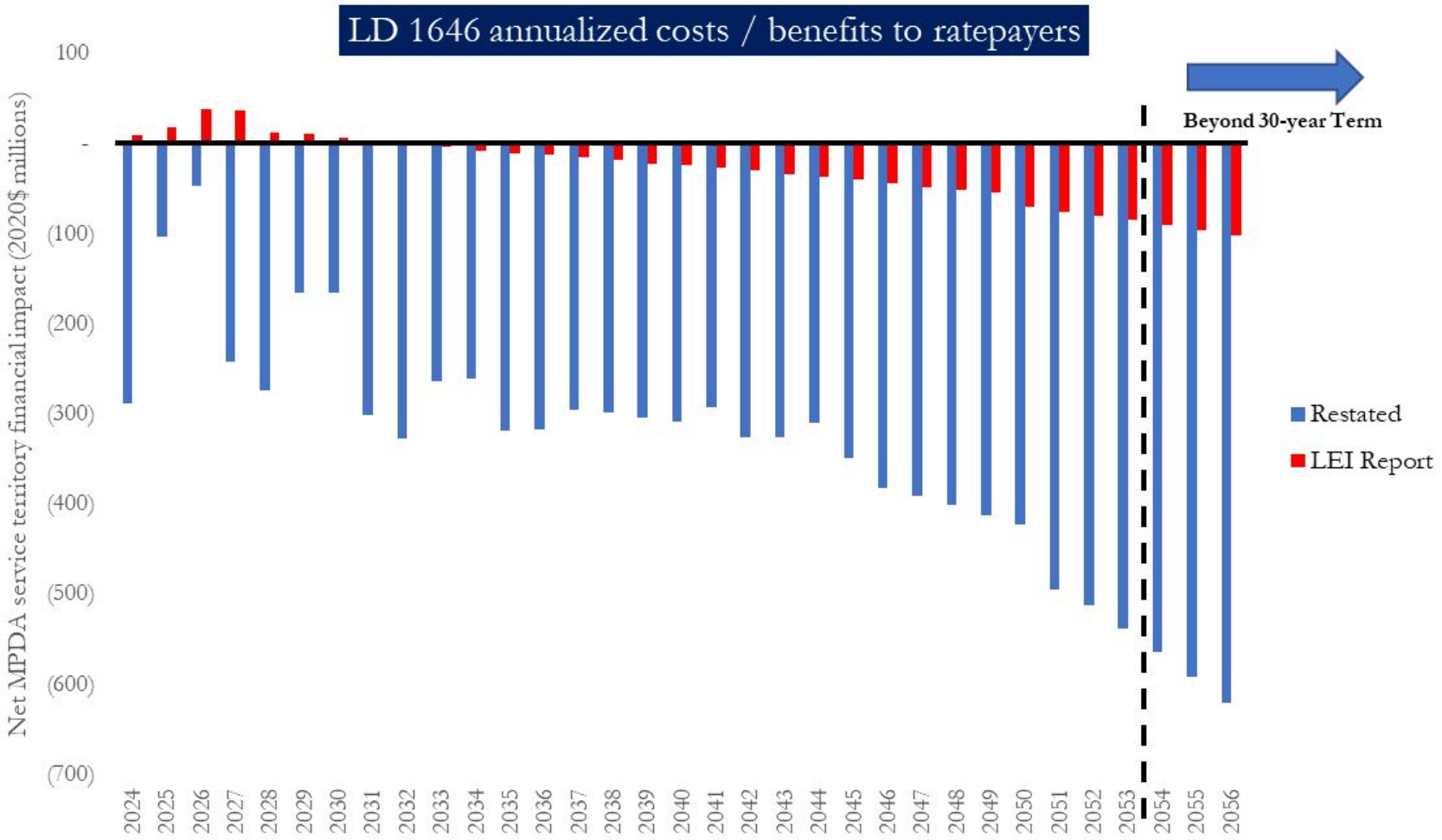


Comparison of Debt Position – LEI Model v. Restated Model

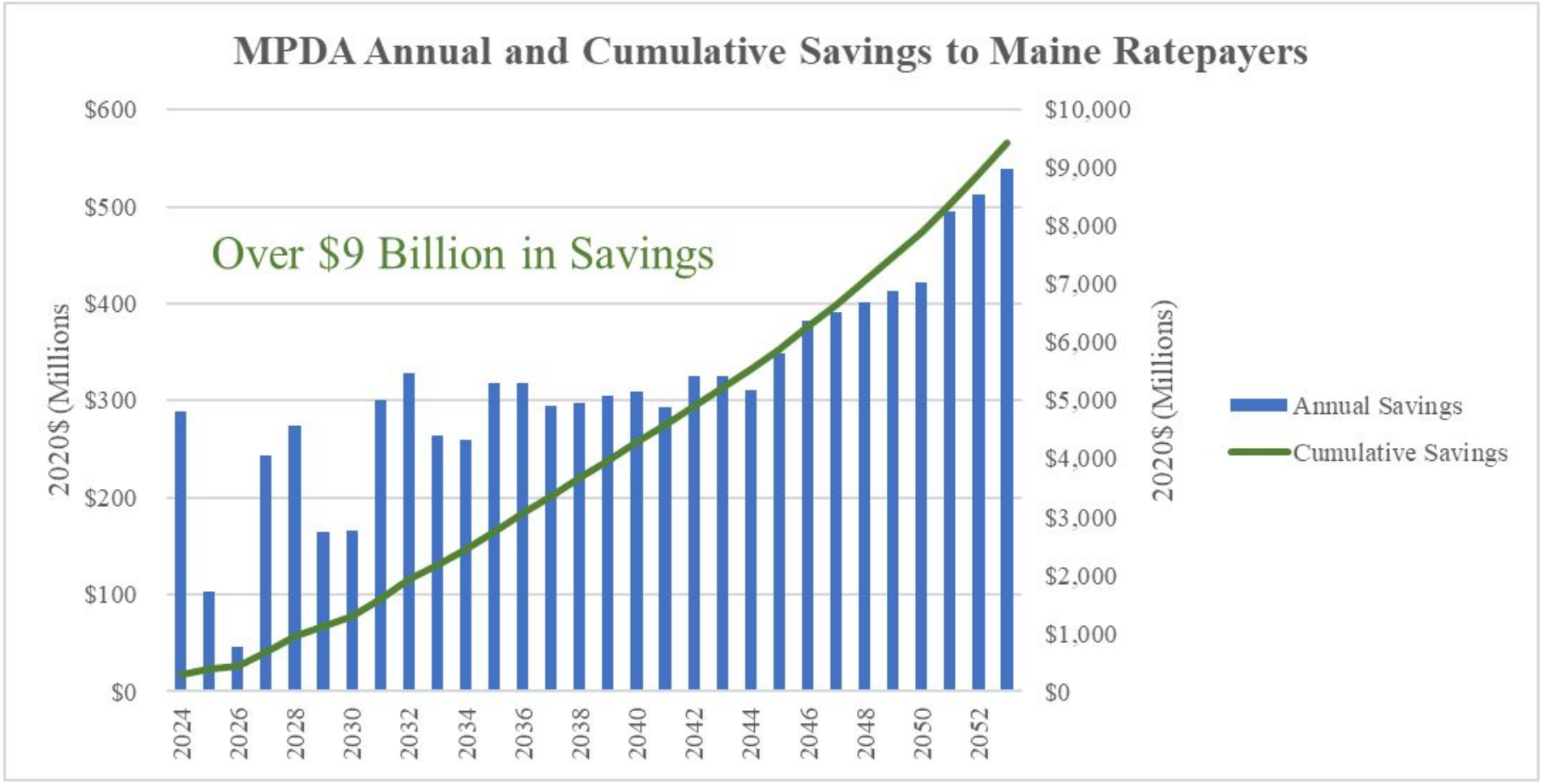
Comparison of Ratepayer Savings – LEI Report v. Restated Model (No Balance Sheet Effects)



Comparison of Ratepayer Savings – LEI Report v. Restated Model (With Balance Sheet Effects)



Maine Ratepayer Savings – Restated Model



Using LEI Model Figures – What is the return to Maine Ratepayers if the MPDA is established in 2024 and then sells itself in 2053?

- Net Book Value of plant and equipment in 2053 is $15.556 billion.
- Sell MPDA to Private Entity at 1.5x Net Book Value – Sale Price is $23.335 billion.
- Total MPDA Debt in 2053 is $21.289 billion, which must be paid off.
- This leaves a net value of $2.046 billion.

- Add to this the total annual savings over the 30 years = $0.650 billion
- Add to this Cash Reserves in 2053 = $5.161 billion
- Add to this Accumulated Interest on Cash Reserves (at 2%) = $1.285 billion

- Maine Ratepayers are $9.146 billion better off by 2053.

Using Restated Model Figures – What is the return to Maine Ratepayers if the MPDA is established in 2024 and then sells itself in 2053?

- Net Book Value of plant and equipment in 2053 is $15.353 billion.
- Sell MPDA to Private Entity at 1.5x Net Book Value – Sale Price is $23,030 billion.
- Total MPDA Debt in 2053 is $15.448 billion, which must be paid off.
- This leaves a net value of $7.528 billion.

- Add to this the total annual savings over the 30 years = $1.723 billion
- Add to this Cash Reserves in 2053 = $7.718 billion
- Add to this Accumulated Interest on Cash Reserves (at 2%) = (Included)

- Maine Ratepayers are $16.696 billion better off by 2053.

Comparison of LEI and Restated Model

		LEI Report ($million)	Restated ($million)
Savings - Rev. Req. Differential	npv 2020	$232	$858
Rate Base w/ Acquisition premium	2053	$18,362	$18,285
Rate Base w/o acquisition premium	2053	$15,556	$15,353
Balance Sheet			
Debt			
Balance of Initial Debt	2053	$8,165	$2,638
New Taxable Debt	2053	$520	$884
New Tax-Free Debt	2053	$12,612	$11,925
Total Debt	2053	$21,298	$15,448
Cash Balance	2053	$5,161	$7,718
Net Balance Sheet Position	2053	$16,137	$7,730
2053 Acquisition of IOUs	2053	$23,335	$23,030
Acquisition Multiple of Rate Base	1.5		
MPDA Debt Position - 2053	2053		
IOU Acquisition in 2053	2053	$23,335	$23,030
IOU Acquisition in 2024	2053	$16,137	$7,730
Ratepayer Benefit of 2024 MPDA	2053	$7,198	$15,300
NPV of Ratepayer Benefit to 2020	3.5%	$2,235	$4,750
Savings - Rev. Req. Differential	2053	$232	$858
Value of MPDA to Maine Ratepayers	**npv 2020**	**$2,467**	**$5,608**
Savings - Rev. Req. Differential	2053	$650	$1,723
Savings - Rev. Req. Differential (2054-56)	2056	$288	$467