

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: STORM CONTINGENCY FUNDS

DOCKET NO. 2509

Report and Order

On December 18, 1996, the Public Utilities Commission ("Commission") initiated a comprehensive review of storm contingency funds ("SCF"s) for the five electric utilities in Rhode Island: the Narragansett Electric Company ("Narragansett"), Blackstone Valley Electric Company ("BVE"), Newport Electric Corporation ("Newport"), Block Island Power Company ("BIPCO"), and the Pascoag Fire District ("Pascoag").¹ Storm contingency funds were established for the purpose of providing a mechanism for the utilities to recover restoration expenses as a result of extraordinary storms, without having to seek either rate surcharges or filing for periodic rate relief. The Commission determined to examine the utilities' funding, expenditures, and accounting for storm restoration costs, as well as reviewing guidelines and policies applicable to SCFs.

Following public notice, a hearing was conducted at the offices of the Commission, 100 Orange Street, Providence on February 28, 1997. The following appearances were entered at that time:

¹ At the present time, neither BIPCO nor Pascoag maintain SCFs that were established by the Commission.

FOR NARRAGANSETT: Ronald Gerwatowski, Esq.
Craig L. Eaton, Esq.

FOR THE DIVISION: Paul J. Roberti, Esq.
Special Assistant Attorney General

FOR BVE and NEWPORT: Doron F. Ezickson, Esq.

FOR BIPCO: Michael R. McElroy, Esq.

FOR PASCOAG: Ina Suuberg, Esq.

FOR THE COMMISSION: Adrienne G. Southgate
General Counsel

In his opening statement for the Division, Mr. Roberti provided an historical perspective on SCFs. He noted that the Commission had established the first such fund for Narragansett almost fourteen years ago, with a \$200,000 “deductible” to be applied before the funds could be accessed. During the first ten years, the fund was tapped only twice. The Commission used a seven-year amortization period to build up the storm account so that adequate funds would be available in the event of a major storm. Over the past three years, however, Narragansett has accessed the SCF several times. In part, this is because the deductible threshold, in real terms, has become too low. It is also attributable to some confusion about “extraordinary” storms. Relying upon the Supreme Court’s explicit language in Narragansett Electric Company v. Burke, 415 A.2d 177 (R.I. 1980), Mr. Roberti read the limiting concept of very unusual storm events into the Commission’s inaugural decision. Thus, storms such as Hurricane Gloria and Hurricane

Bob would be eligible for storm fund redress, but a run-of-the-mill storm, even one causing significant damage, ought to be covered in base rates.

The Division presented John Bell,² who testified that all three utilities which currently maintain SCFs operate these funds in a reasonable manner. He suggested that the Commission issue some generic guidelines to address certain inconsistencies in operating procedures, and that the guidelines cover the areas of allowable storms, allowable fund charges, segregation of funds, interest on fund balances, accounting for SCFs, funding levels and fund caps, and reporting of fund activities.

Mr. Bell noted that the Commission had set a specific threshold for Narragansett's access to its SCF, but had not done so for either BVE or Newport. He recommended selecting a trigger amount, set sufficiently high to ensure that only expenses related to extraordinary storms are charged to the SCF, and not expenses associated with storms that represent typical New England weather. He pointed out that, in the period from 1991 to 1994, Narragansett had accessed its SCF for four storms, as did BVE, while Newport utilized its SCF for three storms. The frequency of access, in his view, belied the intention of funding only extraordinary storms.

He proposed that 5% of the utilities' total distribution maintenance costs, as recorded in certain FERC accounts, would be an appropriate trigger. To offset the effects of any wide swings in maintenance expenses as well as

² Mr. Bell's prefiled testimony was admitted as DPU Ex. 1.

inflationary effects, he recommended the use of a three-year rolling average. With these parameters, Narragansett's "deductible" is \$446,163; BVE's is \$140,502; and Newport's is \$84,405.

During cross-examination, Mr. Gerwatowski expanded upon his opening statement's emphasis on decoupling the threshold from the deductible. He introduced evidence of a major winter storm in 1992³ which created a charge against the SCF of \$429,000. Under Mr. Bell's proposal, Narragansett would have been unable to access the SCF, despite the clearly "unusual"⁴ nature of this storm.

Narragansett's witness was David M. Webster, who works in the Rate Department of New England Power Service Company, performing revenue requirements analysis for retail companies, including Narragansett.⁵ Mr. Webster testified that Narragansett's annual contribution through rates to the SCF, \$641,000, did not need to be increased. However, he recommended that the cap on the SCF should be increased from \$5,799,000 to \$8,938,000, and developed a new threshold of \$320,000 for Narragansett by inflating the previously authorized deductible of \$200,000.

³ "Incredible Storm Rips the Northeast, Thousands Lose Power," Providence Sunday Journal (December 13, 1992), admitted as Narragansett Ex. 2.

⁴ Transcript, p. 26 (February 28, 1997).

⁵ Mr. Webster sponsored Narragansett Exs. 1 through 8.

Mr. Webster's prefiled testimony proposed that the threshold and deductible be set at the same amount, \$320,000. During his direct testimony, he proposed an alternative, using the Division's suggested threshold of about \$450,000. Storms exceeding this level would be compensable, but rather than limiting recovery to the amount over the threshold, Mr. Webster proposed allowing the company to collect every dollar over a deductible, such as the \$320,000 suggested in his prefile.⁶ Mr. Webster testified that setting the deductible too high unfairly limits the Company's recovery of its incremental storm-related costs, and artificially inflates the number to which Mr. Bell would apply his 5% figure, thus increasing the threshold even more in subsequent years.

During cross-examination, Mr. Webster agreed that the threshold should escalate annually to reflect the effects of inflation. He also acknowledged that if the Commission had not elected to allocate roughly \$6,000,000 in DSM funds to the SCF, it would have been necessary for Narragansett to propose some increase in the annual allocation in rates for storm funding.

Narragansett's SCF has been in a deficit position for nine of the fifteen years from 1982 through 1996. The deficits were caused by service restoration costs from two hurricanes which hit Rhode Island in 1985 and

⁶ Mr. Webster pointed out that, in Massachusetts, MECO has proposed that once the threshold is exceeded, *all costs* of a given storm will be recoverable.

1991. As of December, 1996, the fund balance was a negative \$3,300,000, but this reflected the smallest deficit over the last six year, since the SCF was charged with \$6,400,000 in 1991-1992 relating to Hurricane Bob.⁷ Since annual funding in rates is \$641,000, the Commission addressed the continuing deficit by application of the surplus 1996 year-end Demand Side Management (“DSM”) fund balance.⁸ That Commission decision provided for the SCF to be supplemented by \$6,000,000 of available DSM funds, resulting in a positive SCF reserve of approximately \$2,700,000.

Theodore G. Garille, General Manager, testified on behalf of Pascoag. He said that Pascoag had established a SCF of \$100,000 on August 26, 1996, based upon the Division’s recommendations. The fund was used in December, 1996, to offset the costs of an extraordinary ice storm. Mr. Garille stated that the \$26,000 expenditure was almost exclusively for restoration of service and utilization of the Mutual Aid Agreement with other utilities; there were no capital expenditures. Applying the Division’s 5% figure, Pascoag would have a \$27,000 deductible. Thus, the entire cost of the December ice storm would have been non-compensable.

Pascoag proposed that there not be any threshold applied to its SCF. Rather, Mr. Garille suggested that the notion of “reasonability” should limit the use of the SCF to extraordinary storms. He pointed out that Pascoag is

⁷ See PUC Ex. 6.

⁸ See Order No. 15156 (Docket No. 1939, issued March 4, 1997).

unique because it is not for profit, and has no allowance in rates for the SCF. He added that Pascoag would like to be able to transfer funds from its cash reserve or accumulations in its deferred maintenance budget to replenish the SCF at a level of \$100,000. In his view, this would live up to the spirit of the Division's recommendations while avoiding a request for rate augmentations.

The EUA Companies called Augustine Camara, Comptroller of the EUA Service Corporation.⁹ Mr. Camara testified that the Division's recommendations were reasonable and easily quantifiable.

BVE has had annual funding in rates of \$160,000, and had not incurred a deficit balance in the SCF over the last twelve years. At December, 1996, the SCF had a balance of \$345,046.¹⁰

The situation is different in Newport's service territory, which is vulnerable to catastrophic damage from coastal storms. The Commission established an SCF for Newport in 1987, setting initial annual contributions as \$40,000 with a cap of \$370,000.¹¹ The Company had accrued \$206,408.94 in reserves through 1991, but thereafter experienced significant funding deficits as a result of Hurricane Bob-related charges to the SCF of \$1,358,155

⁹ Mr. Camara's prefiled testimony was admitted as BVE Ex. 1 and Newport Ex. 1.

¹⁰ See PUC Ex. 5.

¹¹ See Order No. 12405 (issued August 7, 1987) in Docket No. 1872. Subsequently, in Docket No. 2036, Newport was permitted to collect \$240,000 per annum with a cap of \$500,000. Order No. 14039 (issued September 28, 1992).

in 1992; two winter-season storms in March, 1993 and December, 1994; and certain unamortized charges from Hurricane Gloria which were transferred to the SCF pursuant to Newport's general rate filing in 1992. At December, 1996, the deficit balance in the SCF remained at \$717,662.¹² The ratepayers have had to pay interest on the deficit balances, which three times during the period from 1992 to 1996 exceeded \$1,000,000. The total interest payments for this period total \$378,303. With annual funding in rates of \$240,000, it would take at least three years for the deficit to be eliminated, assuming no additional storm costs are incurred. Mr. Camara proposed a reserve of \$1,800,000 to adequately protect Newport's customers from extraordinary storm damages and to stabilize rates.

The Commission unanimously agreed that Newport's serious deficit position had to be addressed. The prospect of additional ratepayer interest charges eroding the reserve which the Commission intended to create with its augmented rate order in 1992, as well as the real possibility that Newport will incur further storm charges prior to the balancing of the CSF, compel immediate action. The Commission therefore directed that a Montaup Electric Company purchased power refund of approximately \$1,200,000, received in 1997, would be applied to Newport's SCF.¹³

¹² See PUC Ex. 4.

¹³ See Order No. 15363 (issued August 12, 1997) in Docket No. 1706.

BIPCO called no witnesses. Mr. McElroy noted that the company has no SCF, but suggested that creating one would be a prudent step. He urged the Commission to issue a generic order which would authorize and guide the utilities in establishing and maintaining such funds.¹⁴

On March 28, 1997, the clerk received Joint Proposals and Settlements in lieu of comments from Narragansett, BVE, Newport, and the Division. These documents outline the following agreements with regard to the large investor-owned utilities' SCFs:

- New thresholds and deductibles are set at \$450,000/\$300,000 for Narragansett; \$140,000/\$94,000 for BVE; and \$84,000/\$56,000 for Newport
- The thresholds automatically escalate annually on January 1 of each year by the U.S. Average-Urban Consumer Price Index.
- The deductibles will not automatically change, but will be subject to Commission review during rate case filings.
- The interest rate on the SCF shall be the average rate over the prior calendar year for 10-year constant maturity Treasury Bonds as reported by the Federal Reserve Board, adjusted annually on March 1.
- The companies agree to certain reporting requirements with regard to the SCF, in keeping with Division recommendations.

At open meetings on April 29 and June 30, 1997, the Commission considered the issues presented in this docket. Following discussion, the Commission agreed to accept the stipulations filed by the large investor-owned utilities and the Division. The Commission adopted the

¹⁴ Mr. McElroy detailed his position in a post-hearing memorandum received on March 13, 1997. On March 28, 1997 the Division responded, opposing BIPCO's proposals.

recommendation of Division witness John Bell to add specific language defining the allowable charges to the Storm Fund Reserves, as follows:

Charges to the storm fund may only be made for incremental, non-capital, storm related costs such as overtime pay and charges for outside contractors. Capital costs, regular time pay and overheads should not be charged to storm contingency funds because they are recovered through other means.

The Commission also agreed to allow Pascoag to continue to fund its SCF through operating reserves. However, it rejected BIPCO's proposal to establish and fund a SCF at 3.5% of its average distribution maintenance expense.

With the opening of this docket, it was the Commission's intention to address guidelines for accessing the SCFs provided for in rates, to examine the serious funding deficits apparent in the SCFs of two major electric utilities, and to determine if funding changes should be implemented. The SCFs have been established so that funding reserves will be available for extraordinary storm-related costs. The objective is to fund these extraordinary charges over a period of time through an annualized funding level. This provides some rate stability in regard to funding storm restoration costs.

We have adopted the guidelines agreed to in settlements filed by the Division and the three electric companies with SCFs. These settlements establish meaningful thresholds and deductible amounts before SCFs can be

assessed. They also provide for a uniform rate of interest to apply to fund balances, and timely reporting to the Commission of SCF activity. Those guidelines are supplemented with the directive to only charge the SCFs for incremental, non-capital, storm-related costs such as overtime pay and charges for outside contractors.

We have reviewed the information and testimony provided by Pascoag and BIPCO as they are the two electric utilities with no base rate funding for SCFs. We find no need to establish specific funding in base revenues for these two companies at this time.

We will continue to review the level of funding for storm restoration costs in rates, and specifically address funding within general rate filings of our electric distribution companies. It was the Commission's desire not to impact base utility rates for storm funding, since the Utility Restructuring Act has resulted in a number of changes to rates this year.¹⁵ Therefore, the Commission has looked to available funding sources outside of base rate revenues allocated to SCFs. This has remedied the significant deficits in SCFs for Narragansett and Newport, and provided for both companies a positive reserve balance for storm restoration costs without affecting current rates.

According, it is

¹⁵ At January 1, rates increased for the Performance Based Rate allowances. The transition charge of 2.8 cents per kWh was effective July 1, and the unbundled bill format will be reflected in summer billings for all investor-owned utilities except BIPCO.

(15360) ORDERED:

1. The stipulations jointly submitted by the Narragansett Electric Company and the Division of Public Utilities and Carriers, and by the Blackstone Valley Electric Company, the Newport Electric Company, and the Division of Public Utilities and Carriers, are hereby approved with the limitation of charges proposed by Division witness Bell, quoted in the text of this Report and Order.

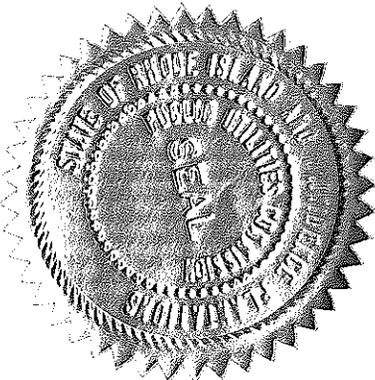
2. The 1996 Montaup PCAC refund of approximately \$1,200,000 shall be used to fund the Newport Electric Corporation Storm Contingency Fund.

3. Block Island Power Company's proposal to establish and fund a Storm Contingency Fund is rejected at this time.

4. Pascoag Fire District's current practice with regard to its Storm Contingency Fund is hereby approved.

5. Narragansett, BVE, and Newport shall act in accordance with all other findings and instructions contained within this Report and Order.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND ON JUNE 30
1997, PURSUANT TO AN OPEN MEETING DECISION. WRITTEN
ORDER ISSUED AUGUST 19, 1997.



PUBLIC UTILITIES COMMISSION


James J. Malachowski, Chairman


Kate F. Racine, Commissioner

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
BEFORE THE PUBLIC UTILITIES COMMISSION

In Re: Investigation of Storm Contingency : Docket No. 2509
Funds :

JOINT PROPOSAL AND SETTLEMENT
IN LIEU OF COMMENTS
SUBMITTED BY
THE NARRAGANSETT ELECTRIC COMPANY AND
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

In lieu of comments filed in this docket, the Division of Public Utilities and Carriers (Division) and The Narragansett Electric Company (Narragansett or Company) jointly file this proposal and settlement regarding Narragansett's Storm Fund.

Background

Following the hearing conducted on February 28, 1997, the Company and the Division commenced discussions to determine if they could agree on changes to the Company's Storm Fund. After discussion, the Company and the Division have agreed on a joint proposal to submit to the Commission in lieu of briefing the issues.

Settlement

- (1) The company's Storm Fund shall have a new threshold of \$450,000 and a deductible of \$300,000.
- (2) The threshold shall automatically escalate annually on January 1, of each year by the Consumer Price Index (U.S. Average - Urban). The deductible will not change, but be subject to review by the Commission at the time that the Company files rate cases.
- (3) The interest rate on the Storm Fund shall be the customer deposit rate, which is based on the average rate over the prior calendar year for 10-year constant maturity Treasury Bonds as reported by the Federal Reserve Board. The interest rate shall be adjusted on March 1st annually.
- (4) The Company agrees to the following reporting requirements:
 - a. To file with the Commission within 90 days of the calendar year-end, a report showing the beginning balance, the monthly activity and the ending balance of the fund and also the calculation of the current years threshold and support for the current years interest rate.

b. To file with the Commission within 90 days after the occurrence of a storm, a report which provides a description of the storm along with a summary of the extent of the damage to the Company's system, including the number of outages and length of outages.

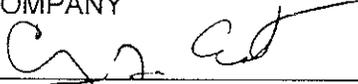
c. To file with the Commission an accounting within 30 days after final charges and accounting adjustments to the storm fund for a particular storm have been made by the Company.

- (5) This joint proposal and settlement is the product of settlement negotiations and is subject to the approval of the Commission. If the Commission does not approve this joint proposal and settlement in its entirety, this joint proposal and agreement shall be deemed withdrawn.

IN WITNESS WHEREOF, this document has been executed by the appropriate representatives of the parties identified below, each being fully authorized to do so.
Dated at Providence the 28th day of March, 1997.

RESPECTFULLY SUBMITTED,

THE NARRAGANSETT ELECTRIC
COMPANY



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Assistant General Counsel
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DIVISION OF PUBLIC UTILITIES
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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
BEFORE THE PUBLIC UTILITIES COMMISSION

In Re: Investigation of Storm Contingency)
Funds)
_____)

Docket No. 2509

JOINT PROPOSAL AND SETTLEMENT
IN LIEU OF COMMENTS
SUBMITTED BY
BLACKSTONE VALLEY ELECTRIC COMPANY,
NEWPORT ELECTRIC CORPORATION AND
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

In lieu of comments filed in this docket, Blackstone Valley Electric Company (Blackstone) and Newport Electric Corporation (Newport) (or together "the Companies") and the Division of Public Utilities and Carriers (Division) jointly file this proposal and settlement regarding the Companies' Storm Funds.

Background

Subsequent to the hearing conducted on February 28, 1997, the Companies and the Division commenced negotiations to determine if they could agree on changes to the Companies' Storm Funds. After discussion, the Companies and the Division agreed on the joint settlement proposal set forth below, and to submit it to the Commission in lieu of briefing the issues.

Settlement

- (1) Blackstone's Storm Fund shall have a threshold of \$140,000 and a deductible of \$94,000. Newport's Storm Fund shall have a threshold of \$84,000 and a deductible of \$56,000.
- (2) The threshold shall automatically escalate annually on January 1 of each year by the Consumer Price Index (U.S. Average - Urban). The deductible will not change, but will be subject to review by the Commission at the time that the Companies file general rate cases.
- (3) The interest rate on the Storm Funds shall be the average rate over the prior calendar year for 10-year constant maturity Treasury Bonds as reported by the Federal Reserve Board. The interest rate shall be adjusted on March 1 annually.

- (4) The Companies agree to the following reporting requirements:
- a) file with the Commission within 90 days of the calendar year-end a report showing the beginning balance, the monthly activity and the ending balance of the Storm Fund, and also the calculation of the current year's threshold and support for the current year's interest rate;
 - b) file with the Commission within 90 days after the occurrence of a storm a report which provides a description of the storm along with a summary of the extent of the damage to the distribution system, including the number of outages and length of outages; and
 - c) file with the Commission an accounting within 30 days after final charges and accounting adjustments to the Storm Fund for a particular storm have been made.
- (5) To provide for consistency with Newport in the treatment of the funds, Blackstone need not set aside funds into a separate bank account as provided for in Docket Nos. 1605, (Order No. 10695) and 1849 (Order No. 12231).
- (6) This joint proposal and settlement are the product of settlement negotiations and subject to the approval of the Commission. If the Commission does not approve this joint proposal and settlement in its entirety, this joint proposal and agreement shall be deemed withdrawn.

IN WITNESS WHEREOF, this document has been executed by the appropriate representatives of the parties identified below, each being fully authorized to do so. Dated at Providence the 28th day of March, 1997.

RESPECTFULLY SUBMITTED,

NEWPORT ELECTRIC CORPORATION
 BLACKSTONE VALLEY ELECTRIC
 COMPANY

DIVISION OF PUBLIC UTILITIES
 AND CARRIERS


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