STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT	:	
AND SEMI-ANNUAL STANDARD OFFER	:	DOCKET NO. 3657
SERVICE CHARGE, TRANSITION CHARGE	:	
AND TRANSMISSION CHARGE FILING	:	

REPORT AND ORDER

On December 30, 2004, Pascoag submitted its semi-annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect February 1, 2005. In that filing, Pascoag sought an increase to the SOS charge of 6.1%, from 5.167 cents per kilowatt-hour ("kWh") to 5.482 cents per kWh, an increase to the Transmission charge of 11.31% from 0.937 cents per kWh to 1.043 cents per kWh and a decrease to the Transition Charge of 66.62%, from 0.701 cents per kWh to 0.234 cents per kWh. Pascoag proposed to maintain the new rates for a twelve month period rather than the six-month period. The effect on the average residential customer using 500 kWh per month, combined with the distribution rate change that will go into effect on the same date, with be a 0.4% per month reduction, or 23 cents.[1]

Pascoag submitted Pre-Filed Testimony of Judith Allaire, Pascoag's Customer Service and Accounting Manager, in support of its filing. Ms. Allaire identified several factors which led to a higher over-collection than was forecasted. She noted that the output of interruptible power from the New York Power Authority ("NYPA") has equaled or been greater than the firm kWhs. Because of the higher deliveries of low cost power, monthly power costs were lower than expected. Another contributing factor was

[1] Pascoag Exhibit 05-1 (Pre-Filed Testimony of Judith Allaire), pp. 10-11, Schedule H-2. Pascoag filed an alternative calculation for a six-month rate which would reduce the typical residential monthly bill by $5.52. However, Pascoag did not recommend this rate as it would provide less rate stability for customers. Id.

the result of a change to the billing methodology used by the New England Independent System Operator ("ISO-NE") to bill the Massachusetts Municipal Wholesale Electric Corporation ("MMWEC"). The change from monthly to weekly billing affected Pascoag through its participation in Project Six – Seabrook Nuclear Unity. MMWEC pays the ISO-NE bills weekly from Pascoag's Working Capital Account held with MMWEC. MMWEC then reconciles the bills on a monthly basis and charges Pascoag. The third contributing factor to lower than projected costs was the lack of prolonged heat waves in the summer of 2004 alleviating the need to purchase additional energy to meet ISO-NE requirements. Ms. Allaire noted that Pascoag did not reach an energy peak during the month of August 2004, a typical peaking month for the Company.[2] In order to reduce the potential for large over collections, Ms. Allaire indicated that Pascoag reviewed its kWh growth over the past several years and increased the growth factor from 3% to 4.5% to more accurately reflect projected growth in the District.[3]

Ms. Allaire explained that Pascoag explored the feasibility of entering into two-year power contracts. However, because of the volatility in the energy market, Pascoag finalized one-year contracts for 2005. The first is for 2.5 MW at a fixed price around the clock from TransCanada. The second is for zero MW to 5.5 MW at a fixed price from Braintree Electric Light Department ("BELD") to make up the difference in Pascoag's hourly obligations and the power from NYPA, Seabrook and TransCanada contracts. Ms. Allaire noted that energy costs increased by 8.4% compared to the February to July 2004 filing period but that capacity costs are down.[4]

[2] Id. at 4-7.
[3] Id. at 7.
[4] Id. at 8-9.

Ms. Allaire explained that the reason Pascoag is requesting a twelve-month rate is twofold: (1) it allows the rates to coincide with the current power contract period and (2) it will provide price stability for customers over a twelve-month period rather than the potential for "rate shock" where rates drop significantly for six months only to be raised in six months.[5]

Finally, Ms. Allaire noted that since the distribution rate change implemented in February 2004, Pascoag has been in a positive financial situation and has reached several financial goals, including funding a separate, dedicated account for demand side management activity, satisfying all vendor payments within thirty days, and reducing debt service payments. Therefore, Pascoag will be submitting its updated credit rating application following the completion of its audited financial reports, expected by March 31, 2005.[6]

A. Standard Offer Service Charge

Electric distribution companies are required by R.I.G.L. § 39-1-27.3 to provide SOS to retail customers who choose not to purchase power through the retail access market from non-regulated power producers. Pascoag offers SOS to any customer not otherwise served by a non-regulated power producer even if the customer has previously left the system and wishes to return to having Pascoag supply its energy needs.

The proposed increase in Pascoag's SOS rate is based upon Pascoag's estimated purchased power costs for the upcoming twelve-month period. These estimates are based upon projections supplied by Energy New England ("ENE") for the period of February 2005 through January 2006, as well as assumptions regarding the market cost of power.

[5] Id. at 11.
[6] Id. at 12-15.

The proposed SOS also includes any reconciling balance for the prior twelve-month period.

The filing proposes an increase in the SOS rate from 5.167 cents per kWh to 5.482 cents per kWh for the period beginning February 1, 2005. This factor was determined as follows:

Forecast Standard Offer cost (February 2005 through January 2006)	$3,157,900
Reconciling period cost (February 2004 through January 2005)	2,367,749
Reconciling period revenues	(2,645,582)
Undercollection from January 2004	35,302
Total Standard Offer costs to recover	$2,915,368
Forecast MWH sales for the period	53,184
Standard Offer factor ($2,915,368/53,184,000)/kWh	$ 0.05482[7]

B. Transition Charge

Electric distribution companies are authorized by R.I.G.L. § 39-1-27.4 to collect a non-bypasssable transition charge from all customers of the electric distribution company. The Transition Charge includes the above-market cost of energy associated with Pascoag's purchases under the Seabrook Project Six Contract net of transmission costs and any savings from re-marketing Seabrook energy. This netted cost is offset by the market value associated with Seabrook energy purchases. The market value used in this filing is 7.274 cents per kWh based on a calculation of the Requirements Market Rate, the methodology accepted by the Commission in Pascoag's two most recent filings.[8]

In this filing, Pascoag's Transition Charge is based upon the forecast transition costs, as determined above, the reconciliation of past period costs, and from a refund of Project Six charges in a prior period.

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[7] Id. at Schedule H-1(A).
[8] Pascoag Ex. 05-1, p. 10, Pascoag Ex. 05-2 (Testimony of Timothy Hebert), pp. 4-5.

Pascoag's filing proposes a transition rate of 0.234 cents per kWh for the period beginning February 1, 2005. This factor was determined as follows:

Forecast Transition Cost (February 2005 through January 2006)	$ 285,291
Reconciling period cost (February 2004 through January 2006)	307,722
Reconciling period revenue	(378,979)
Overcollection from January 2004	(89,711)
Total Transition Charge costs to recover	$ 124,322
Forecast MWH sales for the period	53,184
Transition Charge factor ($124,322/53,184,000)/kWh	$ 0.00234[9]

C. Transmission Charge

Pascoag also has a reconciling Transmission Charge factor to recover the cost of transmitting energy from Pascoag's power supply sources to its distribution substation. The Transmission Charge applies only if a customer elects to have Pascoag provide transmission service to its distribution substation; otherwise the customer has the option of obtaining transmission service from its own suppliers.

The filing proposes a Transmission Charge factor of 1.043 cents per kWh for the period commencing February 1, 2005. This factor was determined as follows:

Forecast Transmission cost (February 2005 through January 2006)	$ 543,292
Reconciling period cost (February 2004 through January 2005)	471,996
Reconciling period revenue	(460,288)
Overcollection from January 2004	(281)
Total Transmission costs to recover	$ 554,719
Forecast MWH sales for the period	53,184
Transmission factor ($554,719/53,184,000)/kWh	$ 0.01043[10]

D. Division's Position

On January 19, 2005, on behalf of the Division of Public Utilities and Carriers ("Division"), Mr. David Stearns filed a Memorandum with the Commission recommending that the Commission approve Scenario II relating to Pascoag's SOS, Transmission and Transition rates as proposed by the Company. In addition to agreeing

[9] Pascoag Ex. 05-1, Schedule H-1(A).
[10] Pascoag Ex. 05-1 Schedule H-1(A).

with Ms. Allaire's reasoning, Mr. Stearns noted that refunding the over-collection over a twelve-month period, the same amount of time during which the over-collection accrued, should make it more likely that those customers responsible for the over-collection receive the proper level of refund. He also recommended that, rather than filing a full semi-annual reconciliation, Pascoag should be required to file a status report with the Commission by June 30, 2005 including the actual level of over or under-collection as of May 31, 2005, the projected over or under collection as of January 31, 2006 and a recommendation of whether or not the rates should be further adjusted.[11]

E. Hearing

On January 21, 2005, after due notice, the Commission conducted an evidentiary hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following entered appearances:

FOR PASCOAG:	William Bernstein, Esq.
FOR DIVISION:	William K. Lueker, Esq. Special Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson, Esq. Senior Legal Counsel

Pascoag presented Ms. Allaire and Mr. Hebert to testify in support of its filing. Ms. Allaire clarified that although the interruptible power from NYPA was greater than expected in 2004, because these allotments are not guaranteed, projections for 2005 did not include the increased allotments in order to avoid forecasting insufficient power costs.[12] Similarly, Ms. Allaire indicated that the power cost projections do not assume continuation of the full amount of credits from MMWEC relative to the new ISO-NE

[11] Division Ex. 05-1 (Memorandum of David R. Stearns), p. 2.
[12] Tr. 1/21/05, pp. 12-13.

billing system.[13] Mr. Hebert also testified that Pascoag's power portfolio provides significant insulation from market volatility.[14]

Ms. Allaire testified that the reason Pascoag is seeking to change the total inclusive rate for SOS, Transmission and Transition by only 23 cents per month is to ensure customers are paying the correct cost for each component, noting that if Pascoag did not "realign the factors, the over- and under-collection will never reconcile, so really this filing is truly a realignment of factors with that small over-collection flowing back basically over the same period of time that Pascoag collected it, a 12-month period."[15] Similarly, because of usage patterns, returning an over-collection that was accrued over a twelve month period over a subsequent six month period provides a larger percentage reduction in bills than when it is spread over a twelve month period which includes a high usage season, such as summer.[16]

Ms. Allaire explained that the main reason for the increase in projected Transition costs compared to 2004 is a result of the calculated market rate. Pascoag's Transition costs are entirely related to decommissioning costs relative to the Seabrook contract. She explained that costs associated with Seabrook are broken down between power and transition in accordance with the calculated market rate, which for 2005 is approximately 7.27 cents per kWh.[17]

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[13] Id. at 15-16. Ms. Allaire also indicated that the Working Capital Fund with MMWEC is an interest-bearing account. The interest is credited to Pascoag against power costs. Id. at 14.
[14] Id. at 30-31.
[15] Id. at 19, 34. The SOS account had a $242,500 over collection; the Transmission account had an $11,427 under collection and the Transition account had a $161,000 over collection. Netted out against projected costs, the monthly change in the combined rates is 23 cents for a typical residential customer. Division Ex. 05-1, p. 1.
[16] Id. at 27-28.
[17] Id. at 27.

Ms. Allaire also testified that because the Company is attempting to set twelve-month rates as opposed to six, she would like to file a semi-annual report with the Commission rather than a full semi-annual reconciliation filing. She indicated that she believes a rate change should be triggered based on some percentage of the total purchased power activity, but did not have a specific amount to recommend. Additionally, she would like to see Pascoag's reconciliation filings moved to December and June, if the June reconciliation filing is still required in order to match the rate adjustments with the power contracts. She noted that without the power contracts for the following January, it is difficult to project costs. If the filings are moved back one month to December for a rate change in January, Pascoag would have the power contracts at the time of their filing to change rates in the next calendar year.[18]

Commission Findings

After hearing and considering the evidence presented, the Commission rendered a Bench Decision, approving Pascoag's proposed Scenario II. Specifically, Pascoag is allowed, for usage on and after February 1, 2005, to increase the SOS rate to 5.482 cents per kWh, increase the Transmission rate to 1.043 cents per kWh and decrease the Transition rate to 0.234 cents per kWh.

Pascoag shall be required to file a status report with the Commission by June 30, 2005, including the actual level of over or under-collection as of May 31, 2005, a projection of the level of over- or under-collection expected at July 31, 2005 and January 31, 2006, and a recommendation of whether the rates should remain unchanged. Ms. Allaire testified that she believes the main factor in developing her recommendation should be based on the percentage of purchased power activity. The Commission finds

[18] Tr. 1/21/05, pp. 17-21.

this to be an appropriate methodology but declines to mandate the percentage change that would cause a change in rates. Because the Commission is approving a rate that is based on twelve month projections, the Commission expects that Pascoag's rates will remain in effect for one year.

Several years ago Pascoag attempted to project a twelve month rate and was caught in market volatility that required a rate change after six months. However, since that time, Pascoag's power portfolio has been developed with more of a view toward insulating ratepayers from such market volatility in light of a slowly developing competitive market. Additionally, Pascoag's filings have become more accurate and its witnesses more versed in their positions. Therefore, the Commission opines that Pascoag is more likely to succeed in its goal of setting a one year rate than it has in the past.

Finally, after its June 30, 2005 report, Pascoag may determine whether or not it should request tariff changes to eliminate the semi-annual filing and whether it should request a change in the rate year to match a calendar year. Pascoag's course of action would be to file a Tariff Advice with the Commission to eliminate or permanently change the requirements of the semi-annual filing and to file a Motion to change the filing year from the twelve month period February through January to a calendar year. If the Commission were to approve the change in filing year, Pascoag would be required to make an Annual Reconciliation filing on or before November 30 of each year.

Accordingly, it is

(18153) ORDERED:

1. Pascoag's Standard Offer Charge of $0.05482 per kWh is hereby approved to be effective for usage on and after February 1, 2005.

2. Pascoag's Transmission Charge of $0.01043 per kWh is hereby approved to be effective for usage on and after February 1, 2005.
3. Pascoag's Transition Charge of $0.00234 per kWh is hereby approved to be effective for usage on and after February 1, 2005.
4. On or before June 30, 2005, Pascoag shall file a status report including the actual level of over collection or under collection as of May 31, 2005, a projection of the level of over collection or under collection expected at July 31, 2005 and January 31, 2006, and a recommendation regarding whether or not the rates approved in this Order should remain in effect through January 31, 2006.
5. Pascoag's compliance tariffs, filed on February 10, 2005, are in compliance with the Commission's determination in this docket.
6. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON FEBRUARY 1, 2005 PURSUANT TO A BENCH DECISION ON JANUARY 21, 2005. WRITTEN ORDER ISSUED ON FEBRUARY 17, 2005.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Robert B. Holbrook, Commissioner