Memorandum

To: **L. Massaro**

Commission Clerk

From: D. R. Stearns

Rate Analyst, Division of Public Utilities & Carriers

Date: 7/20/06

Re: Pascoag Utility District Transition, Transmission, and Standard Offer Charges, RIPUC Docket 3709

On June 30, 2006, the Pascoag Utility District ("Pascoag", or "Company"), in accordance with the Commission's report and order in Docket 3709, filed with the Commission a mid-year status report of the standard offer, transition and transmission accounts.

The report indicates that as of May 31, 2006 Pascoag's actual under recovery of purchased power expense is $81,567. That net amount includes a standard offer under recovery of about $84,200. Assuming the current rates remain in effect, the Company anticipates the net under recovery will increase to about $286,000 at the end of December 2006. An under recovery of this magnitude, according to Pascoag, could have a significant negative effect on the Company's cash flow.

To explain the reason for the standard offer under recovery, the Company cites several factors, including:

- Fewer kWh sold during the first 5 months of 2006 than projected in the sales forecast used to calculate the current standard offer rate, partially due to lower sales growth than anticipated;
- less energy available from NYPA than anticipated, due to low water conditions. Replacement power had to be purchased at a considerably higher price, and;
- The actual under recovery at December 31, 2005 was about $19,000 greater than estimated in the calculation of the current rate.

Pascoag has performed several analyses to determine, in the Company's opinion, how to best moderate the potential under recovery while mitigating any increase in rates. As a result, Pascoag proposes adjusting standard offer, transition and transmission rates. The proposed rates are designed to eliminate any under recovery and to collect purchased power expenses over a seventeen-month period, from August 1, 2006 through December 31, 2007. The rates would reduce the potential under recovery at December 31, 2006 to about $183,000. According to Pascoag representatives, this is a manageable amount, and would not result in cash flow problems. Considering Pascoag's recent history of cash flow difficulties, which have since been resolved, this was a concern.

Specifically, under Pascoag's proposal the standard offer rate would increase by 1.31 mills, from $0.07206 to $0.07337 per kWh. The transition rate would increase by 2.08 mills, from $0.01190 to $0.01398 per kWh, while the transmission rate would decrease from $0.01005 to $0.00991 per kWh, or 0.14 mills. The net requested increase in rates is $0.00325 per kWh. The monthly bill of a typical residential customer using 500 kWh per month would increase by $1.63, or 2.3%, from $69.48 to $71.10.

If approved, Pascoag's combined standard offer, transition and transmission rate will equal 9.727 cents per kWh. In comparison, this is about 18% lower than the current energy rates of Narragansett Electric Company d/b/a National Grid, which total 11.489 cents per kWh, excluding RI Gross Earnings Tax.

Implementing a small increase in rates over a seventeen-month period, rather than a larger increase beginning August 1, 2006 followed by a subsequent decrease at January 1, 2007, would have the advantages of avoiding "rate shock" while promoting rate stability, in keeping with Commission policy.

After review, the Division recommends that the Commission:

- approve Pascoag's proposed standard offer, transition and transmission rates described above, commencing with usage on August 1, 2006, with no expiration date certain;
- direct the Company to continue to monitor purchased power revenue and expense, giving consideration to revising rates in the event that a substantial over recovery or under recovery is anticipated, and;
- order Pascoag to submit to the Commission purchased power status reports on the following schedule:

  by each January 31, with actual balances as of the most recent month for which data are available, and a projection of purchased power revenue and expense by month through the next December 31; and

  by each June 30, with actual balances as of the most recent month for which data are available, and a projection of purchased power revenue and expense by month through the remainder of the calendar year.

Cc: Thomas Ahern,

Administrator, Division of Public Utilities and Carriers