STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITIES DISTRICT	:	
ANNUAL RECONCILIATION OF STANDARD	:	DOCKET NO. 3709
OFFER SERVICE, TRANSMISSION AND	:	
TRANSITION CHARGES	:	

REPORT AND ORDER

On November 14, 2005, Pascoag Utility District ("Pascoag") submitted its annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect January 1, 2006. On December 6, 2005, Pascoag filed a new Transition Tariff to change the methodology used to calculate the Transition charge. In this docket, Pascoag seeks an increase to the SOS charge from 5.482 cents per kWh to 7.206 cents per kWh, a decrease to the Transmission charge from 1.043 cents per kWh to 1.005 cents per kWh and an increase to the Transition Charge from 0.234 cents per kWh to 1.190 cents per kWh. The effect on the average residential customer using 500 kWh per month, if approved, would be an increase of $13.22, or 23.5% for an overall bill of $69.48 per month.

I. Pascoag's Filings

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 January 1, 2006 through December 31, 2006. The proposed SOS also includes any reconciling balance for the prior twelve-month period.

A major factor affecting the SOS rate results from the expiration of Pascoag's two-year all-requirements contract with TransCanada for a portion of its load. That contract was replaced with a five-year contract with Dominion Energy Marketing ("Dominion"). As a result, according to Mr. Timothy Hebert, Pascoag's consultant from ENE, locking in the power pricing for approximately 40% of Pascoag's load for five years will provide some rate stability to customers. In addition, the price for this portion of the load will decline after Calendar Year 2006. Thus, the pricing structure for this contract is $90.35 per MWH in 2006 and $78.25 per MWH during the period January 1, 2007 through December 31, 2010.[1]

Ms. Allaire, an Assistant General Manager of Pascoag Utility District, explained that Pascoag's energy portfolio for 2006 will be made up of the following mix of long and short-term contracts: NYPA Hydropower – 20%; Seabrook Nuclear Power – 18%; Dominion Coal Power – 46%; and Braintree Electric Light Department ("BELD") short-term contract – 16%.[2]

While Ms. Allaire indicated that it was Pascoag's opinion that the portfolio mix is in the best interest of ratepayers, she noted that there had been some problems with the NYPA billing, in addition to those raised at Pascoag's previous hearing. She advised the

[1] Pascoag Ex. 05-1 (Pre-Filed Testimony of Timothy Hebert), pp. 2-3.
[2] Pascoag Ex. 05-1 (Pre-Filed Testimony of Judith Allaire), pp. 12.

Commission that Pascoag had met with NYPA personnel and believed that NYPA is in the process of implementing internal controls to avoid future billing errors originating with NYPA.[3]

The filing proposes an increase in the SOS rate from 5.482 cents per kWh to 7.206 cents per kWh for the period beginning January 1, 2006. This factor was determined as follows:

Forecast Standard Offer cost (January 2006 through December 2006)	$3,936,618
Reconciling period cost (February 2005 through December 2005)	2,829,794
Reconciling period revenues	(2,600,477)
Over-collection from January 2005	(153,741)
Total Standard Offer costs to recover	$4,012,194
Forecast MWH sales for the period	55,677
Standard Offer factor ($4,012,194/55,677,000 kWh)	$ 0.07206[4]

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. Under the current Tariff, 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 based on calculation the Requirements Market Rate, the methodology previously accepted by the Commission.[5]

However, in this filing, calculation of the rate under the current Transition Tariff yields a negative Transition Charge while, at the same time, Pascoag will be incurring

[3] Pascoag Ex. 05-1 (Pre-Filed Testimony of Judith Allaire), p. 10.
[4] Pascoag Ex. 05-2, Schedule H-1(B).
[5] Pascoag Ex. 05-1 (Pre-Filed Testimony of Judith Allaire), p. 12-13, Pascoag RIPUC #965.

Transition related charges.[6] Therefore, on December 1, 2006, Pascoag filed a Tariff Advice to change the methodology of calculating the Transition Charge. Under the proposed Transition Tariff, the Transition Costs are defined as the estimated aggregate amount of Pascoag's required payments under the Power Service Agreement and Project Participants Agreement exclusive of the Reserve and Contingency Fund billings to Massachusetts Municipal Wholesale Electric Company, related to the Seabrook Nuclear power facility. This amount shall be extracted directly from Pascoag's annual Audited Financial Statements. Transition Charge shall then be calculated as follows: (1) estimating the total Transition Cost for the upcoming twelve-month period; (2) adding or deducting any over-collection or under-collection from previously approved rates to ensure the reconciliation of costs; and (3) dividing the costs by the sum of the estimated District sales made to the residential, commercial, and industrial classes. The sales are the total retail sales that are estimated to be made to both retail customers and distribution-only customers during the upcoming twelve-month period.[7]

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.

[6] Pascoag Ex. 05-2, (Pre-Filed Testimony of Judith Allaire), p. 1.
[7] Pascoag's Proposed Tariff RIPUC #966.

Pascoag's filing proposes a transition rate of 1.190 cents per kWh for the period beginning January 1, 2006. This factor was determined as follows:

Forecast Transition Cost (January 2006 through December 2006)	$ 703,370
Reconciling period cost (February 2005 through December 2005)	254,801
Reconciling period revenue	(130,171)
Over-collection from January 2005	(165,260)
Total Transition Charge costs to recover	$ 662,740
Forecast MWH sales for the period	55,677
Transition Charge factor ($662,740/55,677,000 kWh)	$ 0.01190[8]

C. Transmission Charge

Pascoag also has an annual 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 1.005 cents per kWh for the period commencing January 1, 2006. This factor was determined as follows:

Forecast Transmission cost (January 2006 through December 2006)	$ 584,089
Reconciling period cost (February 2005 through December 2005)	454,127
Reconciling period revenue	(492,886)
Under-collection from January 2005	(14,248)
Total Transmission costs to recover	$ 559,579
Forecast MWH sales for the period	55,677
Transmission factor ($584,089/55,677,000 kWh)	$ 0.01005[9]

II. Division's Position

On December 16, 2005, Mr. David Stearns, Division Rate Analyst V, filed a Memorandum with the Commission recommending that the Commission approve Pascoag's SOS, Transmission and Transition rates as proposed by the Company in its December 6, 2005 filing, including the proposed Transition Tariff change. He

[8] Pascoag Ex. 05-2, Schedule H-1(B).
[9] Pascoag Ex. 05-2 Schedule H-1(B).

recommended the rates be approved for usage on and after January 1, 2006. Mr. Stearns also recommended that Pascoag be required to file with the Commission a status report by June 30, 2006 to include the actual level of over-collection or under-collection as of May 31, 2006 as well as the projected over-collection or under-collection as of June 30, 2006 and December 31, 2006.

III. Hearing

On December 18, 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-Frias, Esq. Senior Legal Counsel

Ms. Judith Allaire, Mr. Timothy Hebert and Mr. Theodore Garille, General Manager of Pascoag, testified in support of the filing. In discussing the change to the Transition Tariff, Ms. Allaire testified that she believed that the change will be more reflective of Pascoag's true transition costs and will be much easier to track because it is known and measurable rather than based on a formula. She clarified that given the information currently available, the transition charges should cease in 2019. However, Pascoag will continue to receive power through the Seabrook contract through 2026.[10]

Addressing a letter received by the Commission on the day of the hearing regarding billing errors related to the NYPA power in the amount of approximately $13,000 which was not charged to Pascoag, Ms. Allaire indicated that the repayment of

[10] Tr. 12/19/05, pp. 14-15.

that under-billing over a period of a six or twelve month period would not have a material impact on Pascoag's rates, despite its not being included in the forecasted expenses. With regard to the meeting with NYPA in 2005 to discuss other billing issues, Ms. Allaire indicated that the meeting focused more on internal NYPA controls, but also tangentially addressed billing issues related to the New York Independent System Operator. She indicated that she is still comfortable with the new controls NYPA is putting into place, although Pascoag did have to request a bill correction as recently as October 2005.[11] Mr. Garille added that he had contacted one of the managers at NYPA to discuss this issue and it was their position that this most recent billing error was on the part of the New York Independent System Operator and not NYPA. He stated that NYPA would be investigating the matter more closely.[12]

Addressing Pascoag's energy supply portfolio, including the new long term contracts, Ms. Allaire testified that Pascoag receives approximately 20% of its power from NYPA contracts, 18% from Seabrook, 46% from Dominion, and 16% from Braintree. Mr. Hebert explained that the BELD contract, which will be renegotiated at the end of 2006, is in place to fill the gaps between Pascoag's total electric consumption and the sum of the production from the other three contracts in any given hour. He testified that, in his opinion, the Dominion contract is positive for Pascoag because of the significant increase in power costs over the last third of 2005. He stated that this contract provided an effective way to reduce near-term rate impacts and to stabilize rates through the tiered pricing over time. In addition, Mr. Hebert noted that Dominion is an asset

[11] Id. at 17-20.
[12] Id. at 20-22.

owner, making the supply more stable than a marketer who is not an asset owner.[13] Specifically addressing pricing, Mr. Hebert testified that he believed that $78.25 per MWH for the period 2007 through 2010 will prove to be a reasonable amount because, looking at the market now, it is below the price for that period of time.[14] Turning to the effect of a fixed load on Pascoag's overall portfolio, Mr. Hebert acknowledged that a contract which makes up approximately 46% of Pascoag's 2006 load will make up a smaller percentage in later years. However, he testified that the reduced percentage will not be terribly significant. He concurred that the main goal of the procurement was to manage the portfolio with long and short term contracts in order to provide known pricing on major components of the load.[15]

The Division presented Mr. David Stearns to testify on behalf of the Division's position. He testified that in his opinion, Pascoag's filing is reasonable and in the best interests of the ratepayers. In forming his opinion, he noted that Pascoag's long term contract with Dominion would allow it to lock in reasonable rates for a number of years. He supported the change in the Transition Tariff because it more clearly reflects the transition charge than the old formula did.[16]

IV. Commission Findings

After hearing and considering the evidence presented, the Commission approved the Transition Tariff RIPUC #966, filed December 1, 2006. The Commission also approved the proposed rates as filed on December 6, 2005. While the impact of the new rates represents a 23.5% increase to the overall monthly bill of a typical residential

[13] Id. at 22-24, 26.
[14] Id. at 25.
[15] Id. at 25-26.
[16] Id. at 31-32.

customer, Pascoag's SOS rate of $0.07206 is the lowest in the State of Rhode Island. The main driver behind the current increase is a 31% increase in Pascoag's purchased power expenses. However, Pascoag's new long-term purchased power contract will most likely produce lower costs and stability and savings to customers over the life of that contract through 2010.

Pascoag should closely monitor the NYPA invoices and maintain communications sufficient with NYPA to assure itself that NYPA is employing adequate internal and external monitoring systems of accounting.

Accordingly, it is

(18508) <u>ORDERED</u>:

1. Pascoag's Standard Offer Charge of $0.07206 per kWh is hereby approved to be effective for usage on and after January 1, 2006.
2. Pascoag's Transmission Charge of $0.01005 per kWh is hereby approved to be effective for usage on and after January 1, 2006. Pascoag's Transmission Charge shall include transmission costs identifiable as related to power provided by the New York Power Authority.
3. Pascoag's Transition Charge of $0.0119 per kWh is hereby approved to be effective for usage on and after January 1, 2006.
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, 2006, a projection of the level of over collection or under collection expected at July 31, 2006 and December 31, 2006, and a recommendation regarding whether

or not the rates approved in this Order should remain in effect through December 31, 2006.

5. Pascoag's compliance tariffs, filed on December 23, 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 JANUARY 1, 2006 PURSUANT TO A BENCH DECISION ON DECEMBER 18, 2005. WRITTEN ORDER ISSUED ON JANUARY 23, 2006.

PUBLIC UTILITIES COMMISSION

____
Elia Germani, Chairman

____
Robert B. Holbrook, Commissioner

____
Mary E. Bray, Commissioner