STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITIES DISTRICT ANNUAL RECONCILIATION OF STANDARD OFFER SERVICE, TRANSMISSION AND TRANSITION CHARGES	: : : :	DOCKET NO. 3896

REPORT AND ORDER

On November 9, 2007, Pascoag Utility District ("Pascoag") submitted its annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect January 1, 2008. Pascoag requested no change in its rates. On November 20, 2007, Pascoag filed an Addendum which proposed a change in the separate SOS, Transmission and Transition rates, but which resulted in no overall change to the overall charge for the three rates. On December 5, 2007, Pascoag filed updated schedules to reflect actual October expenses, leaving only November and December expenses and revenues to be estimated.

In this docket, Pascoag seeks an increase to the SOS charge from 6.758 cents per kWh to 7.014 cents per kWh, an increase to the Transmission charge from 1.204 cents per kWh to 1.310 cents per kWh and a decrease to the Transition Charge from 1.764 cents per kWh to 1.402 cents per kWh. The effect on the average residential customer using 500 kWh per month, if approved, would be no change, retaining the overall bill of $71.10 per month.[1]

[1] This proposal would result in a projected under-collection at December 31, 2008 of $168,551.00. PUC-2 (Pascoag's Responses to Commission's Second Set of Data Requests).

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 to 7.014 cents per kWh 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, 2008 through December 31, 2008. In contrast to prior years, the proposed SOS does not include any reconciling balance for the prior twelve-month period because of a prior decision by the Commission to allow Pascoag to use any over-collection for the period January 1, 2007 through December 31, 2007 to fund a Purchased Power Reserve Fund ("PPRF").[2]

Ms. Allaire, an Assistant General Manager of Pascoag Utility District, explained that Pascoag's energy portfolio for 2008 will be made up of the following mix of long and short-term contracts: NYPA Hydropower – 20.1%; Seabrook Nuclear Power – 18.4%; Dominion Fossil Fuel – 48.2%; and Braintree Electric Light Department ("BELD") short-term contract – 13.2%. Ms. Allaire indicated that the projected over-collection of $77,928 resulted primarily from the fact that Pascoag received more interruptible energy from NYPA in 2007 than expected and as a result, was able to sell back more expensive power into the market while taking advantage of the lower cost

[2] Pascoag Ex. 1 (Pre-Filed Testimony of Judith Allaire), p. 1.

hydropower. This benefit was somewhat offset by the increased Transmission Usage Charges ("TUC") on the NYPA power due to a maintenance outage of a 345kV line. However, the TUCs have returned to normal.[3]

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 Pascoag's 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. The 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.[4] In this filing, Pascoag's Transition Charge of 1.402 cents per kWh is based upon the forecast transition costs based on the above-referenced calculation.

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

[3] *Id.* at 2-3.
[4] Pascoag's Proposed Tariff RIPUC #966.

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. Pascoag's proposed transmission charge of 1.310 cents per kWh is based on its forecast costs for 2008, including increased capacity costs. However, Pascoag did not include a forecasted net increase of $126,000 from National Grid ("NGrid") which resulted from a change in designation of a line that connects Pascoag's system to NGrid's system. Ms. Allaire stated that Pascoag's General Manager was still in negotiations with NGrid regarding the final cost to be charged to Pascoag and because the matter had not been settled, Pascoag did not include the additional costs, indicating that it could address such additional costs in its mid-year reconciliation.[5] Inclusion of this charge would result in a retail transmission charge of 1.547 cents per kWh, or 0.237 cents per kWh more than proposed by Pascoag.

II. Division's Position

On November 28, 2007, Mr. David Stearns, Division Rate Analyst V, filed a Memorandum with the Commission recommending that the Commission adjust Pascoag's proposed SOS, Transmission and Transition rates to a level that will recover the net increase of $126,000 in transmission costs, recover the forecast 2008 purchased power expense with no anticipated over- or under-recovery in the SOS, transmission or transition accounts at December 31, 2008, and allow Pascoag to fund the PPRF with any over-collection remaining at December 31, 2007. Therefore, he recommended the Commission approve the following rates: SOS – 7.094 cents per kWh, Transmission – 1.548 cents per kWh, and Transition – 1.402 cents per kWh. The effect of the Division's

[5] *Id.* at 4-6.

recommendation was an increase to the typical residential customer using 500 kWh per month of $1.59 or 2.2% from $71.10 to $72.69. He recommended the rates be approved for usage on and after January 1, 2008.

III. Hearing

On December 17, 2007, following public 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. Ms. Allaire testified that Pascoag disagreed with the Division's recommendation to raise the rates.[6] Mr. Garille confirmed that NGrid would agree to a rate on the dedicated facilities of $226,000 annually, which is approximately $126,000 more than Pascoag had been paying under the old NGrid FERC tariff.[7] Mr. Garille indicated that he had no doubt the increased rate would become effective on January 1, 2008.[8]

Mr. Garille explained a new line item, Project 2006A, which is an interest in a proposed gas fired combined cycle generating unit, now named Stonybrook No. 3, projected to be completed in 2010, a time when Pascoag's SOS contract with Dominion expires. Mr. Garille explained that once completed, the Massachusetts Municipal

[6] Hearing CD Transcript, 12/17/07, p. 11.
[7] *Id.* at 13-14.
[8] *Id.* at 16

Wholesale Electric Company ("MMWEC") would own the plant and Pascoag would be a participant. This means that MMWEC would own and operate the plant and Pascoag would be guaranteed 3 MW of output and capacity. In order to be a participant, Pascoag pledged approximately $84,000 to the initial two planning phases of the project. However, Pascoag has written into the contract an escape clause which can be exercised before the third phase of the process begins in the event a review of the project in August 2008 reveals that there could be serious cost overruns.[9] He clarified that Pascoag would have ownership in the output of the plant, but would be classified as a project participant and would not get depreciation in the plant.[10]

Mr. Garille noted that as part of the passage of the 1996 URA, Pascoag was granted an exception that would allow Pascoag to be both an electric distribution company and a non-regulated power producer. Mr. Garille also noted that Pascoag would need to file a least-cost procurement plan with the Commission in 2008. He believed that, assuming Pascoag does not exercise the escape clause regarding the Stonybrook No. 3 unit, customers would benefit because the current estimation of cost for the output is significantly below the current market prices. Additionally, Pascoag would not be subject to fluctuations in the high priced capacity market under this contract. He indicated that the output from Stonybrook No. 3 would be approximately 25 percent of Pascoag's maximum load. However, because the typical load is between seven and nine MWs, the percentage could be larger.[11]

After discussing Pascoag's collections practices, write-offs, and cash-flow experiences over the past few years, Ms. Allaire indicated although Pascoag has been

---

[9] *Id.* at 17-21.
[10] *Id.* at 31.
[11] *Id.* at 22-32.

better able to manage its finances than several years prior, she did not necessarily believe Pascoag should cease a mid-year true-up filing. Mr. Garille concurred, but stated that Pascoag would defer to the Commission's preference, indicating that it was not troublesome or burdensome.[12]

Discussing the need for a PPRF for purposes of meeting cash-flow issues during the winter moratorium on service termination, Ms. Allaire stated that Pascoag works within the Commission's Rules Governing the Termination of Residential Electric, Gas and Water Utility Service in order to collect as much revenue as possible, including terminating service when necessary. However, during the moratorium, the collection of accounts receivable is prolonged. Additionally, there is a timing issue related to non-residential billing cycles which exacerbates the problem during the winter. Therefore, because of these two combined factors, Ms. Allaire indicated that Pascoag would be more comfortable with a cushion representing approximately three weeks of purchased power invoices, given the fact that the largest of the power bills is due during the third week of each month. Additionally, if there were an unexpected need to purchase higher cost power due to something like an unscheduled shut-down of Seabrook, the funds would be there without the need for emergency rate relief.[13]

Ms. Allaire clarified that in the event Pascoag utilized money from the PPRF and there were insufficient funds to reimburse the PPRF, Pascoag would not be seeking a rate increase for purposes of reimbursing the PPRF.[14] Finally, once Pascoag reaches the

[12] *Id.* at 38-48.
[13] *Id.* at 51-60.
[14] *Id.* at 60-61.

$300,000 threshold, any future over-collections, MMWEC refunds or "anything over that [$300,000] it's our intention that that flow back through rates to customers."[15]

Discussing an additional benefit of the PPRF to customers, Ms. Allaire stated that it would assist Pascoag in obtaining a better credit rating, which Pascoag was in the process of obtaining. Mr. Hebert testified that the credit rating would make Pascoag more attractive to energy suppliers, noting that suppliers look for investment grade or BBB- as a minimum. He indicated that if there is no credit rating, suppliers may seek to place financial triggers in the contract such as a certain amount of cash or cash to debt ratio. Getting a credit rating of investment grade obviates the need for those triggers. With regard to the large suppliers, without a credit rating, Pascoag would be limited to transactions with Dominion or TransCanada.[16] Mr. Hebert indicated that the per MWH savings could be approximately $0.50 to $1.00, equating to $60,000 per year based on Pascoag's current load and contracts.[17] Based on all of the benefits discussed above, Ms. Allaire agreed that if the Commission was persuaded by the Division's recommendation to raise the SOS, Transmission and Transition rates, it was Pascaog's position that the benefits to customers of a PPRF outweigh the desire to avoid a rate increase.[18]

Ms. Allaire then confirmed that based on updated figures, the projected over-collection for December 2007 was $147,250. She also agreed that Pascoag's calculation of projected costs for 2008 did not include the $126,000 increase in transmission. She also confirmed Mr. Garille's testimony that it appears the increased cost will go into

[15] *Id.* at 61.
[16] *Id.* at 63-64.
[17] Hearing Summary, 12/17/07.
[18] *Id.* Mr. Garille agreed that one of the primary differences is that Pascoag is not an investor owned utility like the others in the State of Rhode Island. He noted that investor owned utilities can tap into shareholder funds to address cash-flow issues and that this avenue is not available to Pascoag. Therefore, he also agreed with Ms. Wilson-Frias' question that that the PPRF would act as a partial substitute for that flexibility. *Id.*

effect on January 1, 2008. In response to Mr. Nault's question regarding why it would then be appropriate not to include those costs, Ms. Allaire indicated that Pascoag believes it will continue to benefit from the sale of interruptible power, noting that in December 2007 and January 2008, there will be no reduction in NYPA firm power supply.[19]

Mr. Garille then noted that of course, the interruptible supply is dependent upon the weather, but, while noting that he is not a weather forecaster, opined that with the recent snow, it is unlikely there will be NYPA reductions in the very near future. However, Ms. Allaire testified that Pascoag was comfortable with its proposal based on its 2007 experience with interruptible power. They suggested that it would be appropriate to maintain the rates for six months to see how the budget compares to actual expenses, noting that there would be an opportunity to adjust rates then.

Ms. Allaire agreed that if the $42,000 under-collection that Pascoag is projecting had to be collected over 12 months and the $126,000 increased transmission cost had to be collected over 12 months, the necessary increase would be $1.59, but if these costs had to be recovered over the last six months of 2008, the increase would be approximately $3.00. Ms. Allaire acknowledged that if the Commission did not allow funding of the PPRF at this time, Pascoag could make projections that recognized all expected costs and still allowed for rate stability.[20]

Ms. Allaire acknowledged that if the $147,250 over collection was not applied to the PPRF and was used to offset the 2008 expenses, that because she expected a credit from MMWEC in 2008 similar to that received in 2007, the PPRF account would be funded at that time at almost half of the $300,000 target. Ms. Allaire also clarified that

[19] *Id.*
[20] *Id.*

the expected 2008 MMWEC credit was not included in the revenue projections for 2008 and therefore, would be available to fund the PPRF.[21]

The Division presented Mr. David Stearns to testify on behalf of the Division's position. He testified that the rates being proposed by Pascoag were not set in a way to recover the anticipated costs in 2008 and he had concerns regarding Energy New England's load projections. He also testified that the advantages of the PPRF, both to the Company and the customers, outweigh the disadvantage of a small rate increase. Finally, he testified that the Division would like to continue receiving mid-year reports from Pascoag, especially given the fact that Pascoag had indicated it would not be a burden to continue filing them and because of his concerns with Pascoag's load forecast.[22]

In response to Mr. Stearns' concerns, Mr. Hebert indicated that he was comfortable with the projections, noting that the projections were akin to the 2007 experience plus load growth. He did note that the interruptible power is weather dependent creating some uncertainty, but that load growth is another uncertainty. He also pointed out that by using the 2007 experience, he was not as concerned as he might be if the forecast doubled or tripled the expected interruptible power sales.[23]

IV. Commission Findings

At its open meeting on December 20, 2007, the Commission voted unanimously to approve the Division's position because the retail rates should be based on all forecast costs for the time period for which the rates are being set, and because Pascoag has shown through the evidence and at the hearing that the benefits of funding the PPRF with the projected December 31, 2007 over-collection will outweigh the burden of the small

[21] *Id.*
[22] *Id.*
[23] *Id.*

increase. The Commission specifically noted that funding the PPRF will strengthen Pascoag's position when seeking its credit rating. The Commission further noted that as a non-investor owned utility, Pascoag does not have the same resources as a shareholder utility to utilize when there is a cash-flow problem. This makes Pascoag unique from NGrid and Block Island Power Company.

Addressing Pascoag's interest in the Stonybrook No. 3 unit, Pascoag has been paying a monthly fee for the right to be a participant in the project and to receive 3 MW plus capacity once the unit comes on line. The purpose of the payment is for the exploration of the licensing and permitting and pre-construction administrative work. There is an escape clause in the contract whereby Pascoag can review the status of the project and costs and decide whether or not to continue as a project participant or whether to withdraw. Unlike NGrid, Pascoag was granted special status by the General Assembly under the 1996 URA, specifically, R.I. Gen. Laws § 39-1-27(g). This provision of the law states, "[a]fter notice and public hearing, the commission may exempt electric distribution companies subject to this paragraph from (1) the requirement to transfer ownership of generation and transmission facilities to affiliated companies pursuant to subsection (a) and (2) the prohibition against selling electricity at retail pursuant to subsection (d) of this section with respect to sales within the service territory of such electric distribution company, if it determines that such exemptions are in the public interest." This section appears to require the Commission to make affirmative findings to exempt Pascoag from the prohibition against ownership of generation by an electric distribution company. However, in this case, Mr. Garille testified that Pascoag will not own a piece of the generator, but rather, the right to a specific level of output and capacity.

MMWEC will own and operate the unit and will have the rights and obligations associated with ownership and operation. Therefore, the Commission finds that unless Pascoag will be in an ownership role with regard to the Stonybrook No. 3 unit, it will not need to seek an exemption from the Commission. Pascoag will, however, still have to participate in the System Reliability and Least Cost Procurement proceedings as required under 2006 legislation, specifically R.I. Gen. Laws § 39-1-27.7 and when determining whether or not to continue its participation in the Stonybrook No. 3 project, should be considering how this will fit into Pascoag's "plan for system reliability and energy efficiency and conservation procurement" in accordance with the law and the standards that will be approved by the Commission prior to August 2008.

Finally, in the past several years, Pascoag's financial management has improved dramatically through increased collections activities and sound cash management. The Commission originally ordered Pascoag to make monthly compliance filings and over time, was able to allow less frequent compliance filings. The time has come where Pascoag appears to be in the position of recognizing when there is a financial strain and believes in advising the Commission and Division promptly. Therefore, while the Commission, at the recommendation of the Division and the agreement of the Company, will continue to require a semi-annual reconciliation filing, there will be no need for testimony or a request to maintain or change rates unless the Company and/or the Division believes a change is necessary. Pascoag has shown to the Commission that it is capable of sound fiscal management and does not need to incur the additional expense of a filing which requires it to provide any additional documentation to the Commission than that which it already generates internally.

Mid-year reviews are not the appropriate time for making policy changes without a hearing and record and as such, the Commission will only entertain rate increases or other changes to policies through a hearing process which hopefully, will take place during the annual reconciliation. In the event Pascoag and/or the Division petitions for a rate decrease at mid-year, a request may also be made for waiver of a hearing on the basis that good cause exists under R.I. Gen. Laws § 39-3-12 to pass savings through to ratepayers as expeditiously as possible.

Accordingly, it is

(19221) ORDERED:

1. Pascoag's Standard Offer Charge of $0.07014 per kWh is hereby denied.
2. The Division of Public Utilities and Carriers' recommended Standard Offer Service Charge of $0.07094 is hereby approved to be effective for usage on and after January 1, 2008.
3. Pascoag's Transmission Charge of $0.01310 per kWh is hereby denied.
4. The Division of Public Utilities and Carriers' recommended Transmission Charge of $0.01548 is hereby approved to be effective for usage on and after January 1, 2008.
5. Pascoag's Transition Charge of $0.1402 per kWh is hereby approved to be effective for usage on and after January 1, 2008.
6. On or before June 30, 2008, Pascoag shall file a status report including the actual level of over collection or under collection as of May 31, 2008 and a

projection of the level of over collection or under collection expected at July December 31, 2008.

7. Pascoag may utilize the over-collection accrued at December 31, 2007 to fund the restricted Purchased Power Reserve Fund up to a total balance of $300,000.

8. Pascoag shall file updated Standard Offer, Transmission and Transition Tariffs that are in compliance with the Commission's determination in this docket.

9. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON JANUARY 1, 2008 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 20, 2007. WRITTEN ORDER ISSUED ON MARCH 5, 2008.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

Mary E. Bray, Commissioner