

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT :
ANNUAL RECONCILIATION OF STANDARD : DOCKET NO. 4006
OFFER SERVICE, TRANSMISSION AND :
TRANSITION CHARGES :

REPORT AND ORDER

On November 6, 2008, Pascoag Utility District (“Pascoag”) submitted its annual reconciliation of its Standard Offer Service (“SOS”), Transmission and Transition Rates for effect January 1, 2009. Pascoag requested an increase in its combined rate from \$0.10044 kWh to \$0.11201 kWh or eight (8%) percent. On December 4, 2008, Pascoag filed updated schedules to reflect actual October expenses, leaving only November and December expenses and revenues to be estimated. This filing reflected a decrease in Pascoag’s original request for an eight (8%) percent increase to a six and nine tenths (6.9%) percent increase. Pascoag seeks an increase to the SOS charge from 5.942 cents per kWh to 6.338 cents per kWh, an increase to the Transmission charge from 2.440 cents per kWh to 3.294 cents per kWh and a decrease to the Transition Charge from 1.662 cents per kWh to 1.411 cents per kWh. The request, if approved, would result in a 500 kilowatt-hour residential customer experiencing an increase of \$4.99, or 6.86 percent per month, from \$72.69 to \$77.68.¹

I. Pascoag’s November 6, 2008 Filing

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

¹ Pascoag Exhibit No. 1 filed November 6, 2008; Pascoag Exhibit No. 2 filed December 4, 2008.

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. Ms. Allaire explained the proposed 9.94 percent increase in SOS, Transmission and Transition from \$0.10044 per kWh to \$0.11043 per kWh as based on projected costs and a projected over collection of \$14,186..

Judith R. Allaire, Assistant General Manager of Pascoag noted that the proposed increase in Pascoag's SOS energy expense rate to 6.456 cents per kWh is based upon Pascoag's estimated purchased power costs for the upcoming twelve-month period of \$4,443,120. These estimates are based upon energy expense projections supplied by Energy New England ("ENE") for the period of January 1, 2009 through December 31, 2009. The projections are adjusted by any over- or under- collection projected at the end of 2008. Pascoag projected an over-collection of \$356,177.²

Ms. Allaire noted that Pascoag's Purchased Power Restricted Fund ("PPRF") is fully funded to its currently approved level of \$300,000 and that Pascoag will flow the \$37,578 of Project Six Surplus Funds back to its customers over an eleven month period beginning July 2008. She explained that Pascoag's energy portfolio for 2009 will be made up of the following mix of long and short-term contracts: NYPA Hydropower – 27.9%; Seabrook Nuclear Power – 17.1%; Dominion Fossil Fuel – 44.8%; and Braintree Electric Light Department ("BELD") short-term contract – 10.2%. Ms. Allaire indicated that the projected over-collection of \$356,177 for Standard Offer Service resulted primarily from the fact that Pascoag received more interruptible energy from NYPA in

² Pascoag Exhibit No. 1, Pre-Filed Testimony of Judith R. Allaire at 1.

2008 than expected and, as a result, was able to sell back more expensive power into the market while taking advantage of the lower cost hydropower.³

B. Transition Charge

Electric distribution companies are authorized by R.I.G.L. § 39-1-27.4 to collect a non-bypassable 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 of \$705,686 for the upcoming twelve-month period; (2) deducting the \$30,686 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 1.407 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 substation. The Transmission Charge applies only if a customer elects to have Pascoag

³ *Id.* at 2-4.

⁴ Pascoag's Proposed Tariff RIPUC #966.

provide transmission service to its distribution substation; otherwise the customer has the option of obtaining transmission service from its own suppliers.

Ms. Allaire explained that the large under-collection in transmission experienced by Pascoag was due in large part to dramatic increases in transmission expenses associated with New York Power Authority Power (“NYPA”) power. She noted that as a result of trading strategies that caused deliberate loop flows between the New York Independent System Operator (“NYISO”) and other ISO’s, increased congestion around Lake Erie created a benefit to certain parties from the differences in locational marginal prices in neighboring areas. For example, for the period of June 2008, total NYPA transmission expense was \$126,590, as opposed to the same period for the previous year which was \$36,944. At the current time, FERC is conducting a confidential investigation to determine whether any market rules were broken. Pascoag has filed for intervention in this matter.⁵

Pascoag’s proposed transmission charge of 3.338 cents per kWh is based on its forecast costs of \$1,435,426 for 2009, including increased capacity costs. The increase in Pascoag’s transmission expenses was caused by a number of factors: 1) the NYPA transmission costs as discussed above, 2) a forty-nine (49%) increase, from \$27.89 per kW year to \$41.57 per kW year, in the rate for Regional Network Service (“RNS”) throughout New England to reflect the increased revenue requirements required by the New England Transmission Owners to support the infrastructure and 3) the 2009 forecasted increase in National Grid’s Network Transmission Service by \$201,600. Pascoag requested a \$0.00898 per kWh increase in its transmission rate to \$0.03338 per

⁵ Pascoag Exhibit 1, Pre-Filed Testimony of Judith R. Allaire at 2-3.

kWh to recover its projected costs listed above plus a projected 2008 under-collection of \$311,305.⁶

Ms. Allaire also discussed Pascoag's market monitoring and future procurements. She noted that Pascoag negotiated a one year contract with Dominion Power and remains a participant in two new plants scheduled to come on line in late 2011 or early 2012. Based on current economic conditions, Pascoag used a two (2%) percent growth factor. She reported that Pascoag's financial position to be sound.⁷

II. Pascoag's December 4, 2008 Updated Filing

On December 4, 2008, Pascoag filed revisions to a number of its schedules to reflect actual October energy costs and actual November revenue. Because the October costs and actual November revenue resulted in changes to the projected over- and under-collections at the end of 2008, Pascoag's request to increase rates decreased from an eight (8%) percent increase to a six and nine-tenths (6.9%) percent increase. Ms. Allaire stated that the November 6, 2008 request for \$0.06456 kWh for Standard Offer Service, \$0.01407 kWh for Transition and \$0.03338 kWh for Transmission was revised to \$0.06338 kWh for Standard Offer Service, \$0.01411 kWh for Transition and \$0.03294 kWh for Transmission.⁸

III. Division's Position

On December 12, 2008, Mr. David Stearns, Division Rate Analyst, filed a Memorandum with the Commission recommending that the Commission approve the rates proposed by Pascoag for usage on and after January 1, 2009. Mr. Stearns explained that the forecast variances at December 31, 2008 are as follows: "Standard Offer: over

⁶ *Id.* at 4-5.

⁷ *Id.* at 5-8

⁸ Pascoag Exhibit No. 2, Revised Year-End Status Report.

recovery of \$416,389, Transition: under recovery \$31,706, and Transmission: under recovery of \$288,864.” He noted that Ms. Allaire had provided explanation of the reasons for the variances. Mr. Stearns proposed that Pascoag file on or before June 31, 2009, a status report reconciling actual and projected revenues and expenses in 2009.⁹

IV. Hearing

On December 18, 2008, 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:	Patricia S. Lucarelli, Esq. Chief of Legal Services

Ms. Judith Allaire and Mr. Theodore Garille, General Manager of Pascoag, testified in support of the filing. Ms. Allaire testified that a large portion of the 2009 increase is a result of increase transmission costs. Mr. Garille explained in detail why the NYPA issue caused a large portion of the increase in transmission costs. Mr. Garille testified that there is day-ahead scheduling on all Regional Transmission Organizations that is supposed to be scheduled on the most efficient route. The power Pascoag purchases from NYPA comes down from New York and is transferred to a transmission line available to Pascoag called Rosemont for Rhode Island. Mr. Garille described what he believed to be a gaming of the system by certain persons who scheduled transactions going west on this line at the last minute. This caused the power Pascoag purchased to be

⁹ Division Exhibit 1, Memorandum of David Stearns filed December 12, 2008.

redirected to another more expensive secondary transmission line. In an attempt to stop and prevent this type of action, NYISO filed an exigent filing and a tariff with FERC.¹⁰

When the issue of Pascoag's requirement to submit semi-annual reports to the Commission was broached, Mr. Bernstein requested that Pascoag be relieved of this obligation absent unusual circumstances. Mr. Lueker represented that the Division did not object to this request noting that over the past several years, Pascoag has operated very well.¹¹

Mr. Garille also explained Pascoag's future procurement plan. He noted that that Pascoag secured contracts with St. Lawrence and Niagara that are cost based up through 2017 with the ability to continue purchasing through 2057. He also discussed how Pascoag is working with Energy of New England and entered into a five-year contract with Dominion that is currently 7.8 cents per kilowatt hour through 2010. Pascoag has also contracted with Dominion for 3MW of power for 2011 and has contacted Dominion through ENE for additional supply beyond that in 2011 and 2012, rather than go to market and be subject to sharp fluctuations. He explained that Pascoag has joined as a participant in a combined cycle plant in Ludlow, Massachusetts that has been approved by the Massachusetts Siting Board and has subscribed to 3 MWs on another plant being planned in Taunton, Massachusetts. Mr. Garille attributed Pascoag's success in his contracting to the A-minus credit rating the Company received from Standard & Poor's.¹²

V. Commission Findings

At its open meeting on December 23, 2008, the Commission voted unanimously to approve Pascoag's proposed rates effective with usage on and after January 1, 2009.

¹⁰ Transcript of Hearing, December 18, 2008 ("Tr.") at 5-12.

¹¹ *Id.* at 15-16.

¹² *Id.* at 19-25.

The Commission commends Pascoag for its efficient operation and superb management. Its ratepayers clearly receive high quality and committed service from Pascoag's manager and staff. Based on the strength of Pascoag's financial management, the Commission finds it unnecessary to continue the requirement that Pascoag file mid-year status reports with the Commission. Pascoag shall file monthly status reports with the Division reflecting over and/or under collections.

The Commission finds that Pascoag's portfolio approach is consistent with the Supply Procurement Statute, R.I. Gen. Laws §39-1-27.8. Furthermore, it is not unreasonable for the Commission to have potentially different policies for Pascoag and National Grid regarding procurement, especially given the size of the utility. The size of Pascoag and the small number of Commercial and Industrial customers that Pascoag serves would most likely not require enough load for supplier interest in Request for Proposals for just Pascoag's big customers and this would be expensive for Pascoag to manage. This Commission has previously found in Docket No. 3931, when reviewing the Least Cost Procurement Statute, R.I. Gen. Laws §39-1-27.7, that the portfolio approach supports the system reliability and fuel diversity goals of the statute. The Commission also finds that based on the testimony provided by Pascoag regarding its 2010 procurement plans, specifically that its supply portfolio contracts do not all end in 2009 and that it is already contracting beyond 2010 to hedge costs, that its procurement plan is consistent with the law, reasonable and in the best interest of all of its ratepayers when viewed as a whole.

Accordingly, it is

(19583) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.06338 per kWh is hereby approved to be effective for usage on and after January 1, 2009.
2. Pascoag's Transmission Charge of \$0.03294 per kWh is hereby approved to be effective for usage on and after January 1, 2009.
3. Pascoag's Transition Charge of \$0.01411 per kWh is hereby approved to be effective for usage on and after January 1, 2009.
4. Pascoag's supply procurement plan as required by R.I. Gen. Laws §39-1-27.8 is hereby approved.
5. Pascoag's compliance tariffs filed on December 30, 2008 is hereby approved.
6. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON JANUARY 1, 2009
PURSUANT TO AN OPEN MEETING DECISIONS ON DECEMBER 23, 2008.
WRITTEN ORDER ISSUED ON FEBRUARY 26, 2009.

PUBLIC UTILITIES COMMISSION

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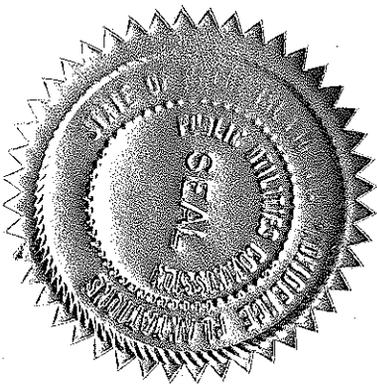
Elia Germani, Chairman



Robert B. Holbrook, Commissioner



Mary E. Bray, Commissioner



*Chairman Germani concurs but is unavailable for signature.