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. 4211

REPORT AND ORDER

On November 10, 2010, Pascoag Utility District ("Pascoag") submitted its annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect January 1, 2011. Pascoag requested that the current rate of $0.10821 kWh be reduced to either $0.10131 or $0.10515 depending on the Commission's decision. On December 3, 2010, Pascoag filed updated schedules to reflect actual October expenses and November revenues, leaving only November expenses and December expenses and revenues to be estimated. While Pascoag does not seek to increase the overall rate, it requests approval to realign the individual factors by decreasing the SOS charge from 7.655 cents per kWh to either 6.678 or 7.064 cents per kWh depending on the Commission's decision regarding Pascoag's request to fund its Rate Stability Fund ("RSF"), increasing the Transmission charge from 2.008 cents per kWh to 2.290 cents per kWh and decreasing the Transition Charge from 1.158 cents per kWh to 1.132 cents per kWh. The request, if approved, would result in a 500 kilowatt-hour residential customer experiencing a decrease from $76.58 to either $72.97 or $74.90 per month depending on the Commission's decision regarding the RSF.[1]

I. Pascoag's November 10, 2010 Filing

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

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[1] Pascoag Exhibit No. 1 filed November 13, 2009; Pascoag Exhibit No. 2 filed December 4, 2009.

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. Ms. Judith Allaire, Assistant General Manager of Pascoag, explained that the proposed rate of $0.10130 per kWh or $$0.10515 per kWh, depending on the Commission's decision regarding the RSF, is based on projected costs and a projected over collection of $335,787.[2]

Ms. Allaire noted that the over-collection was a combination of a number of events: historic flooding in the spring that caused higher than forecasted usage because of more customers using sump pumps and dehumidifiers; extreme heat in the summer resulting in a peak demand of 12.4 MW's or a 0.3 MW increase to the prior peak; Pascoag selling back energy to the pool because of its receipt of interruptible kilowatt hours from its Niagara and St. Lawrence allotments through September 2010; and an increase in the monthly MMWEC Surplus Fund Credit that increased Pascoag's monthly credit from $1,736 to $8,610 which became effective July 2010. Pascoag's 2011 forecast is based on several assumptions including: a net decrease in fixed costs associated with Seabrook and the increase in the Surplus Fund credit; adjustments to forward capacity costs; Dominion capacity purchases; an increase in Dominion energy transactions; new power purchases from Spruce Mountain beginning in September; a reduction of $14/MWH in the BELD contract, and an increase in energy purchased from BELD; increased sales to ISO-NE for off-peak power; adjustments to ISO expenses; an increase in the OATT RNS rate and an increase in the DAF charge.[3]

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[2] Pascoag Exhibit No. 1, Pre-Filed Testimony of Judith R. Allaire at 1.
[3] *Id.* at 1-3.

Ms. Allaire described Pascoag's 2011 power portfolio which is comprised of 51.2% fossil fuels, 17.6% nuclear and the remaining 31.2% of renewable/sustainable power. She described the Spruce Mountain Project which is a new on shore wind facility of up to ten 2MW nameplate turbines being developed in Maine. This project is scheduled for a September 2011 start-up date and the $99.25 per MWH cost should be reduced by certain offsets. Pascoag anticipates a cost of $75 per MWH and a fifteen year term contract. Ms. Allaire noted the $79.50 per MWH cost in the Dominion 2010 to 2011 contract and a $14 per MWH decrease in the BELD contract for $59.00 per MWH. Ms. Allaire also discussed two other projects identified by Pascoag in last year's filing, specifically, MMWEC Project 2006A located in Ludlow which Pascoag's Board of Utility Commissioners voted to withdraw from because of construction delays and project costs and the new generating facility in Taunton, MA. Additionally, Pascoag is an active participant with other public power systems in New England considering purchasing all of the output from a plant in Central Massachusetts. The group, the Special Purpose Entity ("SPE"), will all obtain varying shares of the plant and Pascoag will receive 3.08% of the output. The group is currently exploring funding options and will notify the Commission and the Division of its findings as soon as it is able.[4]

Ms. Allaire also discussed Pascoag's Purchase Power Restricted Fund ("PPRF") and how it is currently funded at $499,276. She noted that in August, 2010 Pascoag encountered high power invoices and lower than expected revenues. The ability to withdraw from the PPRF allowed Pascoag to avoid late charges and a resulting negative impact on its credit worthiness. The PPRF was fully reimbursed by mid-October. Additionally, Pascoag extended the terms of its PPRF and Restricted Fund for Capital

[4] Id. at 3-5.

and Debt Service Account to eighteen months which increased the interest it earns on both accounts from 1.1% to 1.25%. The extension had no effect on Pascoag's ability to access funds from either of these accounts.[5]

Pascoag's Restricted Fund for Capital and Debt Service has allowed it to purchase capital items while avoiding debt service obligations. Currently, the electric division of Pascoag has no long-term debt obligations. Ms. Allaire also described that Pascoag's agreements with TransCanada and NextEra Energy improve Pascaog's positions in contract negotiations. Additionally, Pascoag is scheduled for an annual review and rating by Standard and Poor's. Ms. Allaire anticipates that the absence of long term debt coupled with the funding of the PPRF will have a positive impact on Pascoag's rating which is currently an A- rating.[6]

Ms. Allaire proposed two options for the treatment of the over-collection. The first option would return the entire amount to ratepayers resulting in a rate decrease of approximately 4.5% or a monthly decrease to the average 500 kilowatt-hour residential customer of $3.46. The second option allows $200,000 of the over-collection to be retained by Pascoag in a newly created Rate Stabilization Fund ("RSF") the purpose of which is to offset future rate increases or to partially satisfy Pascoag's obligations to the SPE. Funds from this account would only be allowed to be used after consultation with the Division. This option, preferred by Pascoag, would result in a rate decrease of approximately 2% or a monthly decrease of $1.54 for the average 500 kilowatt-hour residential customer.[7]

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[5] *Id.* at 5.
[6] *Id.* at 6.
[7] *Id.* at 6-7.

II. Pascoag's December 3, 2010 Updated Filing

On December 3, 2010, Pascoag filed an update to its original filing to reflect actual October energy costs and revenue and actual November revenue. Because the October costs and revenue and actual November revenue resulted in changes to the projected over- and under-collections at the end of 2010, Pascoag's request to decrease rates was further expanded. Ms. Allaire noted that the over-collection increased from $335,787 to $357,986. The difference between the forecasted and actual figures was the result of a number of factors including October power expenses being lower than expected and October sales being higher than forecasted. Even though October sales were higher than forecasted, November sales were lower than forecasted because of warmer weather. After calculation, the net difference of the sales and expenses resulted in a $22,199 additional over-collection.[8]

Ms. Allaire described the effect that the additional over-collection would have on an average residential customer's using 500 kilowatt-hours of electricity per month bill. She explained that if the Commission decides to require Pascoag to return all of the over-collection, the monthly bill for this customer will decrease by 4.7% or $3.61 per month. Should the Commission permit Pascoag to retain $200,000 of the forecasted over-collection, the result on that customer's bill would be a decrease of 2.2% or $1.68 per month. Finally, Ms. Allaire noted that Pascoag used a one percent growth factor in its forecast. She pointed out that in 2010 consumption was very high. She identified the spring flooding and the above average summer temperatures as causing Pascoag to reach

[8] Pascoag Exhibit No. 2, Revised Year-End Status Report at 1-2.

a new peak demand. She also identified several proposed residential developments planned for 2011 which she noted support the use of a one percent growth factor.[9]

The revised filing also identified the components of the rate depending on which option the Commission chose to approve. Option 1 which flows back the entire over-collection would result in a rate of $0.10100, standard offer service comprising $0.06678, transition comprising $0.01132 and transmission comprising $0.00282. Option 2 which allows Pascoag to retain $200,000 to fund the RSF would result in a rate of $0.10821, standard offer service comprising $0.07064, transition comprising $0.01132 and transmission comprising $0.02290.[10]

III. Division's Position

On December 10, 2010, Mr. David Stearns, Division Rate Analyst, filed a Memorandum with the Commission recommending that the Commission approve the rates in option two proposed by Pascoag for usage on and after January 1, 2011. Mr. Stearns explained that the forecast variances at December 31, 2010 are as follows: "Standard Offer: over recovery of $234,005, Transition: over recovery of $19,471, and Transmission: over recovery of $104,510."[11]

Mr. Stearns described Pascoag as a part of a group of public power systems and noted that this group was considering purchasing the entire output of a plant in Massachusetts. He explained how ENE created the group into the Special Purpose Entity ("SPE") and that each would obtain a different percentage of the output, Pascoag's

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[9] *Id.* at 2-3.
[10] *Id.*
[11] Division Exhibit 1, Memorandum of David Stearns filed December 10, 2010 at 1.

percentage being approximately 2.3 MWs or 3.08% of the total plant output. Mr. Stearns described the two options presented by Ms. Allaire.[12]

Mr. Stearns indicated that the Division recommended option two which would allow Pascoag to retain $200,000 of the over collection in order to establish a RSF. He pointed out that the decrease for a typical 500 kWh customer would be approximately 2.2% or $1.68 per month. The Division also recommended that should the $200,000 not be used for participation in the SPE, that Pascoag be instructed to file a plan with the Commission for an alternative use of the money or refund the same to its customers. Furthermore, the Division recommended that Pascoag continue monthly filing with the Division and that it file with the Commission by November 15, 2011 its annual status report with actual and projected over and under recovery amounts at December 31, 2011.[13]

IV. Hearing

On December 22, 2010, 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:	Jon Hagopian, Esq. Special Assistant Attorney General
FOR COMMISSION:	Patricia S. Lucarelli, Esq. Chief of Legal Services

Ms. Judith Allaire, Assistant General Manager of Pascoag and Mr. Theodore Garille, General Manager of Pascoag, testified in support of the filing. Ms. Allaire explained that with option two, the $200,000 amount would be restricted and for the

[12] *Id.* at 1-2.
[13] *Id.* at 2.

purpose of investing in the special purpose entity. Timothy Hebert of ENE provided an explanation of the SPE noting that in Massachusetts, the law allows for cooperatives of at least two municipal light plants. The cooperative has the ability to acquire a generating asset that would be too large for a single entity to acquire on its own. The Massachusetts law allows for Pascoag's participation as long as there are at least two Massachusetts light plants. Mr. Hebert explained that each participant in the entity would have the choice of either becoming a member of the co-op and owning a part of the project or being a unit contract holder and getting the power only.[14]

Mr. Garille discussed the retention of the $200,000 over collection that would be used to invest in the SPE. He stated that if the project does not materialize, Pascoag would commit to flowing the money back to its ratepayers. He also noted that this money would include interest. Mr. Garille also discussed the financing options. He pointed out that Pascoag was in favor of five year financing and believes that to be the most advantageous to its ratepayers noting that the savings in interest between the five and twenty year financing outweighs the little increase to ratepayers. He pointed out that currently Pascoag has no debt. Mr. Garille explained that when the decision of whether each member of the entity would seek its own financing or whether the entity should do it as a group, Pascoag requested the ability to secure financing on its own as it has had success securing attractive financing in the past. He again noted that Pascoag would only be a unit contract holder for output only and it is not contemplating owning the plant.[15]

Mr. Garille testified about the benefits of Pascoag's participation in the entity. He discussed the plant being able to generate power for $48 a megawatt hour and the fact that Pascoag would get the capacity credit from the plant because it would be a quasi-

[14] Transcript of Hearing, December 22, 2010 at 1-8.
[15] *Id.* at 9-13.

owner. He also pointed out that the plant has a new combustion turbine and is "virtually a new plant." Additionally, because the plant is already in existence, there are no siting issues and it is a clean natural gas fired plant. Mr. Hebert interjected that the life of a new turbine is approximately thirty years and noted that this was a valuable purchase opportunity for Pascoag because of the low purchase price.[16]

V. Commission Findings

Immediately following the evidentiary hearing on December 22, 2010, the Commission voted to approve Pascoag's proposed rates effective with usage on and after January 1, 2011. The Commission applauds Pascoag for its presentation of various options for the Commission to consider and agrees with Pascoag that its second option of retaining $200,000 of the over collection will be most beneficial to its ratepayers. The Commission commends Pascoag for its efficient operation and superb management. Its ratepayers clearly receive high quality and committed service from Pascoag's general manager and staff. This is evident by the forward looking actions that Pascoag continues to take to ensure its ratepayers receive power at the least possible cost and its well-run and maintained distribution system. Pascoag's participation in the SPE will clearly result in great benefit to its ratepayers. The Commission continues to believe that based on the strength of Pascoag's financial management, the current filing requirements of monthly status reports with the Division are sufficient. Additionally, the Commission approved Pascoag's supply portfolio pursuant to R.I. Gen. Laws §39-1-27.8.

Although the Commission expressed sadness last year with the announcement that Mr. Garille would retire in October 2010, the Pascoag ratepayers had the benefit of his service for more than another year. The Commission would be remiss not to again

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[16] *Id.* at 14-19.

acknowledge his long and distinguished tenure with Pascoag. He is more than deserving of the numerous accolades that have been expressed throughout the years by Commissioners, staff members, ratepayers and other utility personnel. He has devoted numerous hours to ensuring that Pascoag's ratepayers spend no more than absolutely necessary for electricity. He has transformed that utility into a superbly run operation. Mr. Garille's openness and transparency about the operations at Pascoag as well as his professionalism, intellect, and business savvy have made him an invaluable asset to that utility. The Commission is confident that he will leave Pascoag on a steady course that will continue to efficiently serve its ratepayers.

Accordingly, it is

(20270) <u>ORDERED</u>:

1. Pascoag's Standard Offer Charge of $0.07064 per kWh is hereby approved to be effective for usage on and after January 1, 2011.
2. Pascoag's Transmission Charge of $0.02290 per kWh is hereby approved to be effective for usage on and after January 1, 2011.
3. Pascoag's Transition Charge of $0.01132 per kWh is hereby approved to be effective for usage on and after January 1, 2011.
4. Pascoag's supply procurement plan as required by R.I. Gen. Laws §39-1-27.8 is hereby approved.
5. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON JANUARY 1, 2011 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 22, 2010. WRITTEN ORDER ISSUED ON JANUARY 28, 2011.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner