**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS**
**PUBLIC UTILITIES COMMISSION**

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| **IN RE: PASCOAG UTILITIES DISTRICT ANNUAL RECONCILIATION OF STANDARD OFFER SERVICE, TRANSMISSION AND TRANSITION CHARGES** | : | **DOCKET NO. 4298** |

# REPORT AND ORDER

On November 4, 2011, Pascoag Utility District ("Pascoag") submitted its annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect January 1, 2012. Pascoag requested that the current rate of $0.10486 kWh be reduced to either $0.08760 or $0.09143 depending on the Commission's decision. On December 3, 2011, Pascoag filed updated schedules to reflect actual October expenses and November revenues, leaving only November expenses and December expenses and revenues to be estimated. Pascoag requests approval of a decrease to the SOS charge from 7.064 cents per kWh to either 5.274 or 5.657 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 2.290 cents per kWh to 2.393 cents per kWh and decreasing the Transition Charge from 1.132 cents per kWh to 1.117 cents per kWh. The request, if approved, would result in a 500 kilowatt-hour residential customer experiencing a decrease from $74.90 to either $66.39 or $68.31 per month depending on the Commission's decision regarding Pascoag's request to retain $200,000 for future rate stabilization.[1]

## I. Pascoag's November 4, 2011 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

[1] Pascoag Exhibit No. 1 filed November 4, 2011; Pascoag Exhibit No. 2 filed December 2, 2011.

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 Pascoag to supply its energy needs. In support of its filing, Pascoag presented pre-filed testimony of Mr. Michael Kirkwood, its General Manager and Ms. Judith Allaire, its Assistant General Manager.

Mr. Kirkwood provided pre-filed testimony discussing Pascoag's supply portfolio. He noted that 47% of Pascoag's portfolio consists of fossil fuel based energy provided through its three year contract with Constellation Energy. The remaining 53% is a combination of 18% nuclear and 35% renewable which consists of wind and hydro power. Mr. Kirkwood explained that Pascoag's share of the Spruce Mountain Wind, LLC[2] production is 2.6% of the plant's 20 MW output which amounts to more than 1,700 MW per year. He noted that final cost of this power will likely be in the $75 MW range after the cost of Renewable Energy Certificates ("RECs") are deducted but that final cost could be less based on the volatility of the cost of the RECs due to uncertainty regarding the Cape Wind project and biomass inclusion in Massachusetts.[3]

Mr. Kirkwood described the new three year Load Following Energy contract with Constellation Energy. He described this Load Following Energy contract as very efficient. Specifically, he noted that for every hour, Pascoag's load requirement will be compared to the hourly output of Pascoag's other firm entitlements. The Constellation contract will provide the need in any hour above what is provided by the firm entitlements. He stated that the kWh cost over the term of the three year contract is $5.99/kWh. Additionally, he identified the benefit of this type of contract as one which

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[2] Mr. Kirkwood identified Spruce Mountain Wind, LLC as a new wind powered facility in Woodstock, Maine developed by Patriot Renewables, LLC which is headquartered in Quincy, Massachusetts.
[3] Pascoag Exhibit No. 1a, Direct Testimony of Michael Kirkwood, November 4, 2011 at 1-2.

will more precisely match Pascoag's customer load with its power supply and reduce the instances of when Pascoag will have to sell excess energy back to the ISO-NE market at a price less than the purchase price.[4]

Mr. Kirkwood also discussed the negotiations that were occurring last year between ENE and a number of public power systems to purchase the total net plant output of the combined-cycle plant in Northern Massachusetts. This venture was referred to as the Special Purpose Entity Project ("SPE"). Pascoag earmarked $200,000 for this venture, however, negotiations ceased. Pascoag is now proposing that the $200,000 be used to offset any future rate increase. Mr. Kirkwood noted that although the Northern Massachusetts venture did not materialize, ENE continues to look for opportunities for its public power constituents and is currently reviewing a natural gas-fired combined-cycle power station in central Rhode Island.[5]

Mr. Kirkwood requested that Pascoag be allowed to retain the $200,000 plus any accumulated interest that was set aside last year for the Northern Massachusetts project. He noted that a base rate increase is expected to be put into effect in early 2013 and that Pascoag and its consultant will be performing a full cost of service ("COS") study. He pointed out that Pascoag's operating costs have increased since its last rate case which was approximately seven years ago. He offered that using this money to offset the expected rate increase would assist in minimizing the impact of a rate increase on Pascoag's customers. Mr. Kirkwood also explained that since 2004, Pascoag successfully funded it Capital Restricted Fund in the amount of $376,000. In 2011, Pascoag did not have sufficient funds to cover its capital and operating expenses and requested permission of the Commission to fund the account at a reduced level for 2011

[4] *Id.* at 2.
[5] *Id.* at 2-3.

and 2012. In Docket No. 3546, Order No. 20527, the Commission granted Pascoag's request to fund the account in the amount of $185,000 for 2011 and $62,500 for 2012. Mr. Kirkwood asserted that as long as Pascoag reduces capital expenditures during these two years, the account should maintain a balance of approximately $500,000.[6]

Mr. Kirkwood also identified a number of ways in which Pascoag has improved its fiscal situation. First he noted the existence of the EEI Master Power Purchase and Sales Agreements that are in place with TransCanada, NextEra Energy, Constellation Energy and Macquarie Energy. He stated that these Agreements have improved Pascoag's negotiating position. Additionally, he pointed out that he has restricted significant expenditures and made budget cuts which do not jeopardize the safety and reliability of Pascoag's customers and employees. Lastly, Mr. Kirkwood pointed out that Pascoag has maintained its A- credit rating with Standard and Poor's since 2008.[7]

Ms. Allaire summarized the reconciliation of the factors and estimated and over-collection of $393,002. She pointed out that the over-collection does not include the $200,000 that Mr. Kirkwood identified was to be used for the purpose of investigating the feasibility of purchasing the output from the plant in Northern Massachusetts. She stated that actual October power invoices would be supplied to the Commission with an addendum to this filing as soon as they become available and noted that November and December invoices would be provided to the Division as soon as they were received.[8]

Ms. Allaire noted that the over-collection was a combination of a number of events: higher than expected sales in 2011, higher than normal temperatures in July, and the monthly MMWEC Surplus Fund Credit of $8,610 which became effective July 2010.

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[6] *Id.* at 3-4.
[7] *Id.* at 4-5.
[8] Pascoag Exhibit No. 1b, Direct Testimony of Judith Allaire, November 4, 2011 at 1-2.

Additionally, Ms. Allaire noted that Pascoag's actual purchased power costs are lower than the ENE forecast. Pascoag's 2012 forecast is based on several assumptions including: the Constellation Load-Following contract; adjustments to NYPA Demand Rate and Capacity Factor; adjustments in fixed costs associated with Seabrook, Capacity Factor and the Surplus Fund credit; adjustments in ENE's monthly fee; new wind entitlement from Spruce Mountain; increased sales to ISO-NE for off-peak power; adjustments to ISO expenses; adjustments to OATT RNS rate and a reduction in National Grid's DAF charge.[9]

Ms. Allaire also provided an update on Pascoag's Purchased Power Restricted Fund ("PPRF") and explained that after including $200,000 last year to the PPRF for the SPE Project the balance in this fund was $699,276. She noted that Pascoag transferred $100,000 of this money to meet outstanding power bill obligations and to date has reimbursed the account with $80,000. She represented that the remaining $20,000 will be reimbursed to the account by December. She described how this account and the Restricted Fund for Capital Projects and Debt Service were combined into an eighteen month Repurchase Agreement with an interest rate of 0.8% and how both accounts are fully collateralized and accessible. She also explained that this year, Pascoag had to request permission from the Commission to reduce its funding of the Restricted Fund for Capital Projects and Debt Service for 2011 and 2012 in order that it be able to meet its operating expenses.[10]

The current economy and an increase in operating costs since its last rate case are issues identified by Ms. Allaire as impacting Pascoag's financial position. She noted that Pascoag anticipates a bid award by December 15, 2011 for a consultant that will prepare

[9] *Id.* at 2-3.
[10] *Id.* at 4.

a comprehensive Cost of Service Study. She expects that this Cost of Service Study and Rate Design will be filed with the Commission in June 2012. She recommended that the $200,000 set aside for the SPE be held in abeyance and used to offset any rate increase that will result when new base rates go into effect in 2013.[11]

Ms. Allaire offered two options for the Commission to consider in addressing the reduction in power costs. The first option would be to flow back to customers the entire over-collection of $393,000 and the $200,000 encumbered in the PPRF. She cautioned that this option could result in "roller coaster" rates. Should the Commission choose this option, Ms. Allaire asserted that a residential customer using 500 kilowatt-hours would see his/her monthly bill decrease by 11.5%, from $74.90 to $66.27. Under the second option, Pascoag would refund the entire over-collection but retain the $200,000 encumbered in order to use the same to reduce the potential impact of a base rate increase in 2013. Ms. Allaire asserted that a residential customer using 500 kilowatt-hours would see his/her monthly bill decrease by 9% or from $74.90 to $68.18. Ms. Allaire indicated that Pascoag's preference was the second option so that it could use the $200,000 to reduce the impact of a base rate adjustment. She also noted that Pascoag is not forecasting any sales growth, but may be losing a large industrial customer.[12]

## II. Pascoag's December 2, 2011 Updated Filing

On December 2, 2011, 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 a change to the projected over-collection at the end of 2011, Pascoag's request to decrease rates was further expanded. Ms. Allaire noted that the over-collection decreased from $393,002 to

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

$389,766. 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 and the $200,000, the monthly bill for this customer will decrease by 11.4% or $8.51 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 8.8% or $6.59 per month.[13]

Ms. Allaire also updated the amount in the PPRF to $710,058 noting that Pascoag fully reimbursed the fund for the money that had been used to meet outstanding power bill obligations and that the fund had accrued $10,782 in interest. She also noted that Pascoag's Restricted Fund for Capital Projects and Debt Service had accrued interest of $7,934.84. In reporting on the Cost of Service Study progress, Ms. Allaire stated that Pascoag received a total of four proposals that are currently under review and that an award will be made shortly. She also provided a memorandum from a representative of Energy New England ("ENE") relative to Pascoag's 2012 power purchases, a breakdown of Pascoag's bad debt write-off accounts and a cash flow summary report for October 2011 and November 2011.[14]

## III. Division's Position

On December 13, 2011, 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, 2012. Mr. Stearns noted that review of the actual revenue through November and actual expense through October reveal an over-collection of $437,735 but that Pascoag anticipates the

[13] Pascoag Exhibit No. 2, Revised Year-End Status Report, December 2, 2011 at 1-2.
[14] *Id.* at 3-4.

over-collection to be $389,766 on December 31, 2011. He also identified the forecast variances at that date to be an over-recovery of Standard Offer costs of $234,791, and over-recovery of transition costs of $19,992 and an over-recovery of transmission costs of $134,983.[15]

Mr. Stearns also discussed the SPE and the Commission's approval of the $200,000 to be used to finance Pascoag's portion of participation in this consortium. He noted that interest on that $200,000 was $2,095.89 as of October 31, 2011. He also noted Pascoag's intent to file a comprehensive cost of service study and rate design proposal in 2012 since it had not requested a rate increase from the Commission since 2003. Additionally, Mr. Stearns mentioned that Pascoag is in jeopardy of losing its largest industrial customer, Danielle Prosciutto Industries and that such a loss would adversely affect the utility.[16]

Mr. Stearns discussed both options presented by Pascoag and indicated that the Division recommended option two which would allow Pascoag to retain the $200,000 and any interest it accrued in order to alleviate any increase in rates that may result from the Pascoag's cost of service filing. He pointed out that the decrease for a typical 500 kWh customer would be approximately 8.8% or $6.59 per month. The Division also recommended that Pascoag continue monthly filing with the Division and that it file with the Commission by November 15, 2012 its annual status report with actual and projected over and under recovery amounts at December 31, 2012.[17]

## IV. Hearing

[15] Division Exhibit 1, Memorandum of David Stearns filed December 13, 2011 at 1.
[16] *Id.* at 1-2.
[17] *Id.* at 2.

On December 20, 2011, following public notice, the Commission conducted an evidentiary hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following entered appearances:

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| FOR PASCOAG: | William Bernstein, Esq. |
| FOR DIVISION: | Jon Hagopian, Esq.<br>Special Assistant Attorney General |
| FOR COMMISSION: | Patricia S. Lucarelli, Esq.<br>Chief of Legal Services |

Ms. Judith Allaire, Assistant General Manager of Pascoag and Mr. Michael Kirkwood, General Manager of Pascoag, testified in support of the filing. Ms. Allaire provided testimony regarding the $389,766 projected over-collection. She explained that the $200,000 amount that was set aside for the investment in the SPE had accrued approximately $2,100 in interest. Ms. Allaire testified that it was Pascoag's preference to refund the entire over-collection and to retain the $200,000 plus the interest it accrued to be used for future rate stabilization. She noted that Pascoag will be conducting a Cost of Service Study in early 2012 and anticipates that will result in an impact on base rates.[18]

Mr. Kirkwood discussed the migration of the Daniel Prosciutto Corporation from Pascoag's service area. He stated that the area to which that corporation is planning to move is not within Pascoag's service area. He identified that corporation as making up approximately twenty (20%) percent of Pascoag's load. He indicated that he has been in discussions with the Daniel Prosciutto Corporation and that Pascoag has the ability to serve it even though it is not in Pascoag's service area.[19]

Ms. Allaire also testified that Pascoag had awarded a contract to B&E Consulting to conduct its Cost of Service Study and that Pascoag anticipated filing something with

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[18] Transcript of Hearing, December 20, 2011 at 4-7.
[19] *Id.* at 7-11.

the Commission in early June, 2012. She described the actions that Pascoag took to respond to Hurricane Irene and received money from FEMA as a partial reimbursement of the money it cost to respond to the storm. Mr. Kirkwood reiterated Ms. Allaire's testimony regarding Pascoag's response to the storm noting that by Tuesday afternoon, 90 to 95 percent of Pascoag's customers had their power restored. He also complimented his employees, emphasizing the sense of pride that they have in their company and giving particular credit to Ms. Allaire for securing the FEMA funds.[20]

## V. Commission Findings

Immediately following the evidentiary hearing on December 20, 2011, the Commission voted to approve Pascoag's proposed rates effective with usage on and after January 1, 2012. 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 the $200,000 that was previously reserved for Pascoag's investment in the SPE for the purpose of minimizing the rate impact of a future application to increase base rates is forward looking and in the best interest of its ratepayers. Pascoag continues to operate in a superb and efficient manner that provides high quality and committed service to its customers. 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.

Accordingly, it is

(20637) <u>ORDERED</u>:

[20] *Id.* at 11-19.

1. Pascoag's Standard Offer Charge of $0.05657 per kWh is hereby approved to be effective for usage on and after January 1, 2012.
2. Pascoag's Transmission Charge of $0.02393 per kWh is hereby approved to be effective for usage on and after January 1, 2012.
3. Pascoag's Transition Charge of $0.01117 per kWh is hereby approved to be effective for usage on and after January 1, 2012.
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, 2012 PURSUANT TO A BENCH DECISION ON DECEMBER 20, 2011. WRITTEN ORDER ISSUED ON JANUARY 3, 2012.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner