



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

November 28, 2012

Luly E. Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

**Re: Docket 4341 Pascoag Utility District's Application to Change Electric
Base Distribution Rates
Settlement Agreement**

Dear Ms. Massaro,

The Division of Public Utilities and Carriers ("Division") and the Pascoag Utility District ("Pascoag" or "PUD") have reached a Settlement Agreement ("Agreement") that resolves all issues between the Division and Pascoag in the above referenced docket. The attached Agreement and accompanying schedules detail the settlement which provides for an increase of \$513,963 in additional revenues compared to Pascoag's original request of \$584,145. This is an increase of 25.4% over rate year distribution system revenues at present rates, not including the purchased power related revenues that are passed through. When purchased power pass-through revenues are considered, the settled increase is 6.7% over total rate year revenues at present rates.

This Agreement is filed in lieu of the Division's direct testimony which was due to be filed on November 30, 2012 under the docket's procedural schedule. The Agreement was reached after the receipt of three sets of discovery followed by discussions among the parties. The Division believes this Agreement represents a fair and reasonable resolution of the filing. The settled rate year revenue requirement is consistent with the rate year revenue requirement that the Division would have recommended had the Division filed direct testimony in the docket. The Agreement includes a descriptive narrative providing the basis for the settled cost of service amounts. In addition to this filing by the Division, Pascoag will be filing the settlement rates, tariffs and Terms and Conditions within the next few days.

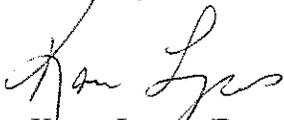
The combined effect of settled distribution rate changes and pass-through rate changes in Pascoag's filing in Docket 4369 (standard offer, transmission, and transition rates for 2013),

Luly E. Massaro, Commission Clerk
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would result in a net decrease for Pascoag's customers. Therefore, the Division suggests coordinating the effective date of new base rates with the effective date of new rates for the proposed standard offer, transmission, and transition factors as a way to mitigate the rate volatility customers would see if all the rate changes did not take effect at the same time. New base rates would typically go into effect after the full statutory suspension period, which in this docket is on or around April 1, 2013. The Division would have no objection if the rates went into effect prior to that date (such as February 1 or March 1).

The Parties agree that the provisions of the Settlement Agreement are just and reasonable and in the public interest, and we respectfully request the Commission's approval. If you have any question, please feel free to contact me at 401-274-4400, Extension 2403 or klyons@riag.ri.gov.

Sincerely,



Karen Lyons, Esq.
Special Assistant Attorney General

cc: Docket 4341 Service List

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

)	
IN RE: PASCOAG UTILITY DISTRICT)	
ELECTRIC DEPARTMENT)	DOCKET NO. 4341
RATE APPLICATION)	
)	

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between Pascoag Utility District – Electric Department (“PUD” or “Pascoag”) and the Division of Public Utilities and Carriers (“Division”), referred to collectively as the “Parties,” in order to resolve the issues pending in the above-captioned proceeding. The Parties jointly request approval of this Settlement Agreement by the Rhode Island Public Utilities Commission (“Commission”).

I. RECITALS AND SETTLEMENT TERMS

Pursuant to R.I.G.L. § 39-3-11, on July 6, 2012, PUD filed with the Commission a Filing for Rate Change. In its filing, PUD requested approval of new rates designed to collect additional revenues in the amount \$584,145 or 7.53% over total test year including pass-through items of standard offer, transmission and transition revenues. The filed adjusted test year total revenues were \$7,754,096. Adjusting out the pass-through revenue items results in test year distribution system revenues of \$2,016,169.

The filed distribution revenue increase of \$584,145 is an increase of 28.97% over rate year distribution revenues at current rates. In its initial filing, PUD filed testimony and supporting exhibits and schedules by Michael R. Kirkwood, PUD's General Manager, Judith R. Allaire, Assistant General Manager, Finance and Customer Service for PUD, and David Bebyn, C.P.A.

In response to PUD's filing, the Division conducted an investigation of PUD's proposed rate changes and engaged utility expert Thomas Catlin of Exeter Associates to review the Pascoag filing and make a recommendation to the Commission. The Division submitted three sets of discovery to Pascoag, performed an analysis of the proposed revenue request of the PUD and engaged in discussions with Pascoag to discuss its proposed findings and recommendations. As a result, the Parties reached a settlement as to the revenue increase for the Pascoag Utility District. The Parties have agreed that Pascoag rate year revenues should be increased by \$513,963 in lieu of the filed request of \$584,145. The derivation of this increase is presented in the accompanying schedules and reflects the following adjustments to Pascoag's filed request:

A. Revenue Loss Due to Tropical Storm Irene.

As a result of Tropical Storm Irene, all District customers were without power for 56 hours and 30 minutes in August 2011. While outages occur from time to time in every year, this outage due to Tropical Storm Irene was clearly abnormal. Accordingly, the Division proposed to adjust revenues at present rates to reflect the additional revenues Pascoag would have received had this outage not occurred. As shown on Schedule TSC-3, this results in an increase in distribution revenues of \$9,903.

B. Incremental Expenses Related to Tropical Storm Irene

During the 2011 test year, District employees worked 96 hours of overtime that was billed to National Grid and Norwich Public Utilities for mutual aid assistance. In addition, operations employees worked approximately 395 hours and administrative employees worked approximately 50 hours of overtime dealing with Tropical Storm Irene service restoration for District customers.¹ A review of historical overtime levels shows that overtime hours in 2011 were well in excess of levels in prior years. In 2011, a total of 1,810 overtime hours were worked compared to an average of 1,173 hours per year in 2007 through 2010. Based on this, the Division proposed adjusting overtime wages to exclude the overtime incurred for both mutual aid and in-District service restoration efforts.

In response to DIV 1-9, Pascoag indicated that it also incurred incremental expenses as a result of Tropical Storm Irene for outside tree contractors, flaggers and materials and supplies. Because Pascoag made a separate adjustment to normalize Miscellaneous General expense, the account to which the outside tree contractor and flagger expenses were charged, no adjustment to eliminate those expenses was proposed. However, the Division did propose excluding the incremental materials and supplies expense. As shown in Schedule TSC-4, the total reduction in the rate year cost of service to remove incremental expenses incurred as the result of Tropical Storm Irene is \$23,762. This includes \$19,107 of overtime wages, \$3,193 for materials and supplies and \$1,462 of FICA taxes related to overtime labor.

C. Outside Services - Pension Expense.

¹ These hours were estimated based on reported overtime expense and average overtime wage rates per the responses to DIV 1-9 and DIV 2-6.

During 2011, Pascoag recorded an adjustment to Outside Services - Pension expense to reverse an overpayment made by the District Water Department in 2010 for its share of 2010 expense. This accounting adjustment results in the overstatement of 2011 test year Outside Services Pension expense and should be eliminated. As shown on Schedule TSC-5 eliminating this accounting adjustment reduces rate year expense by \$5,160.

D. Storm Reserve Funding.

The Parties agree to an annual funding allowance of \$20,000. The Parties agree that the storm reserve fund should only be used when significant incremental storm-related costs are incurred and not for the costs of more routine storms that occur on a more frequent basis. The Parties agree that the storm reserve may be utilized if the total incremental storm costs from a weather event exceed \$4,000, subject to a deductible of \$2,500. The reserve shall only be used to pay for incremental costs incurred as the result of the storm. Pascoag will notify the Division and Commission within sixty days of a storm event when it utilizes the storm reserve. The notification will include a brief description of the event, and an accounting of the amount charged against the storm reserve indicating the total storm costs and the application of the deductible.

E. Director's Medical Insurance

The Parties agree to exclude the cost included in the rate year for medical and dental insurance provided to the District's outside counsel. As shown on Schedule TSC-6, this adjustment reduces rate year expense by \$17,124.

Pascoag also provided medical insurance to three members of its Board of Directors and dental insurance to four members. The Parties agree that as existing Board members

are replaced on the Board, medical and dental insurance no longer be provided to new Board members.

F. Board Member Compensation

For those Board members not receiving medical or dental insurance, the Parties agree that Pascoag may provide annual cash compensation of \$3,000 annually for service on the Board.

G. Life, Disability and Vision Insurance

The Parties agree that insurance expense will be reduced by \$2,893, as shown on TSC-7, to reflect reductions in premiums from its carrier.

H. FICA Transfer

The Parties agree to reduce rate year payroll taxes by \$6,448 to reflect the FICA taxes associated with the administrative salaries allocated or transferred to the Water Department. See TSC-8.

I. DPI Revenue Loss

For purposes of settlement, the settled revenue increase and rates are based on the assumption that a major industrial customer identified in the PUD filing as DPI and having been described as intending to leave the PUD system, has already left the system. This is subject to the following provision: DPI will be billed at the new rates from the time the rate increase approved in this proceeding goes into effect until DPI fully discontinues service. All base revenues collected from DPI at the new rates will be set aside in the purchased power reserve fund to help replenish that fund. Pascoag will report to the Division and Commission on a quarterly basis the revenues that are credited to the purchased power reserve fund as a result of this provision.

J. Over-collected Purchased Power Costs

In conjunction with the settlement of this rate case, Pascoag will return to ratepayers over 12 months the over-collected balance of purchased power reconciling factor (standard offer, transition, and transmission) beginning with the next effective change in the rates for standard offer transmission and transition factors. Pascoag will be allowed to draw the necessary funds from the purchased power reserve fund.

K. Rate Design

For settlement purposes, the Parties agree to determine rates using the District's cost allocation/rate design model adjusted for the Division's adjustments to billing units for Tropical Storm Irene and operating expenses.

After due consideration of the Pascoag's testimony, exhibits and other documentation included in the filing of PUD as well as the Division's review of the filing, discovery responses, and the settlement discussions, the Parties have agreed to the settlement terms described above which resolve all issues relating to PUD's Application. The Parties believe that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

II. ADDITIONAL TERMS OF SETTLEMENT

A. This Settlement Agreement is the product of negotiation and compromise. The making of this agreement establishes no principles or precedents. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

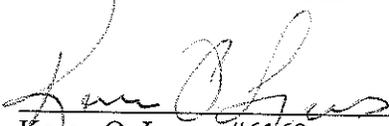
B. The acceptance of this agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any issue in any subsequent rate proceeding.

C. In the event that the Commission (i) rejects this Settlement Agreement, (ii) fails to accept this Settlement Agreement as filed, or (iii) accepts the Settlement Agreement subject to conditions unacceptable to any party hereto, then this Settlement Agreement shall be deemed withdrawn and shall be null and void in all respects.

AS WITNESS WHEREOF, the parties agree that this settlement agreement is reasonable and have caused this document to be executed by their respective representatives, each being fully authorized to do so, on this *14* day of November, 2012.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By its attorney,

PETER F. KILMARTIN
ATTORNEY GENERAL


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PASCOAG UTILITY DISTRICT
By its attorney


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PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Summary of Revenues and Expenses at
Present and Proposed Rates
Rate Year Ended December 31, 2013

	Rate Year Amount Per Pascoag	Division Adjustments	Rate Year at Present Rates	Proposed Rate Increase	Rate Year at Proposed Rates
Revenue					
Demand/Distribution	\$ 1,521,138	\$ 9,903	\$ 1,531,041	\$ -	\$ -
Customer Charge	306,897	-	306,897	-	-
Public Street Lights	33,950	-	33,950	-	-
Private Street Lights	40,804	-	40,804	-	-
Power Factor Adjustment	1,541	-	1,541	-	-
Other	111,839	-	111,839	-	-
Total Revenue	\$ 2,016,169	\$ 9,903	\$ 2,026,072	\$ 513,963	\$ 2,540,035
Expenses					
Distribution Operating Expense	276,000		276,000	-	276,000
Customer Service Operating Expense	310,180		310,180	-	310,180
Administrative Operating Expense	969,256	(20,687)	948,569	-	948,569
Distribution Maintenance	385,000	(20,790)	364,210	-	364,210
General Maintenance	39,352		39,352	-	39,352
Miscellaneous General Expense	142,909		142,909	-	142,909
Payroll and Property Taxes	95,463	(7,910)	87,553	-	87,553
Other Interest Expense	7,525		7,525	-	7,525
Subtotal	\$ 2,225,685	\$ (49,387)	\$ 2,176,298	\$ -	\$ 2,176,298
Capital Outlays	306,200		306,200	-	306,200
Storm Contingency	30,000	(10,000)	20,000	-	20,000
Total Expenses	\$ 2,561,885	\$ (59,387)	\$ 2,502,498	\$ -	\$ 2,502,498
Operating Reserve	38,428	(891)	37,537	-	37,537
Total Cost of Service	\$ 2,600,313	\$ (60,278)	\$ 2,540,035	\$ -	\$ 2,540,035
Revenue Surplus/(Deficiency)	\$ (584,145)	\$ 70,181	(\$513,963)	\$ 513,963	\$ 0

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Summary of Division Adjustments to
 Rate Year Expenses
 Rate Year Ended December 31, 2013

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Tropical Storme Irene Outage Revenues	\$ 9,903	Schedule TSC-3
Tropical Storm Irene Incremental Expense	(23,762)	Schedule TSC-4
Outise Services-Pension	(5,160)	Schedule TSC-5
Health Care Premiums-Outside Legal Counsel	(17,124)	Schedule TSC-6
Updated Life, Disability and Vision Pemiums	(2,893)	Schedule TSC-7
Board Member Compensation	6,000	See Note (1)
FICA Taxes Transferred to Water	(6,448)	Schedule TSC-8
Storm Reserve Funding	(10,000)	
Operating Reserve	(891)	See Note (2)
Total Expense Adjustments	\$ (60,278)	
Total Division Adjustments to Income	<u>\$ 70,181</u>	

Note:

(1) Reflects Allowance of \$3,000 per Board member not receiving health insurance.

(2) Based on 1.5% of total expenses as reflected on Schedule TSC-1.

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Revenues to Reflect
 Revenue Lost due to Tropical Storm Irene
 Rate Year Ended December 31, 2013

	Residential	Commercial
Total kWh Sales (1)	3,106,190	313,942
Number of Hours Service Provided (2)	<u>687.5</u>	<u>687.5</u>
Sales Per Hour	4,518	457
Number of Hours Service Lost due to Irene (3)	<u>56.5</u>	<u>56.5</u>
Additional kWh Sales without Outage	255,272	25,800
Current Distribution Rate per kWh	<u>\$ 0.03464</u>	<u>\$ 0.04110</u>
Additional Distribution Revenue	\$ 8,843	\$ 1,060
Total Additional Revenue		<u><u>\$ 9,903</u></u>

Notes:

- (1) Per response to DIV 1-4.
- (2) Based on 31 day month less 56.5 hours of service interruption to all customers.
- (3) per responses to DIV 1-4 and 2-1. All customers were without power for 56.5 hours.
- (4) Per Schedule DGB-15, page 1 of 2.

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Remove Incremental Expenses
Related to Tropical Storm Irene
Rate Year Ended December 31, 2013

	<u>Test Year Amount (1)</u>
Operations Department Overtime	\$ 14,161
Office/Administrative Overtime	1,510
Mutual Aid Overtime-National Grid (2)(3)	1,790
Mutual Aid Overtime-Norwich Public Utilities (2)(3)	1,646
Materials & Supplies charged to O&M	3,193
FICA Taxes on Overtime Labor at 7.65%	<u>1,462</u>
Adjustment to Rate Year Expense	\$ (23,762)

Notes:

- (1) Per response to DIV 1-9, except where noted.
- (2) Per response to DIV 1-7, reflects 50 hours of overtime for mutual aid to National Grid and 46 hours for Norwich Public Utilities.
- (3) Cost based on average overtime cost of \$35.79 per hour for operations employees in 2011 per response to DIV 2-6.

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Outside Services - Pension
Rate Year Ended December 31, 2013

	<u>Adjustment</u>
2011 Year End Adjustment to Reverse 2010 Water Department Overpayment	\$ 5,160
Amount Properly Included as Ongoing Expense	<u>-</u>
Adjustment to Expense	<u><u>\$ (5,160)</u></u>

Note:

(1) Per response to DIV 1-21 and 2-4.

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Eliminate Health Care Premiums
for Outside Legal Counsel
Rate Year Ended December 31, 2013

	<u>Adjustment</u>
Rate Year Health Insurance Premiums included for Outside Legal Counsel	\$ 17,124
Amount Recoverable in Rates per Division	<u>-</u>
Adjustment to Expense	<u><u>\$ (17,124)</u></u>

Note:

(1) Per response to DIV 1-21 and 2-4.

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Life, Disability and Vision Insurance
Premiums to reflect Swith in Insurance Providers
Rate Year Ended December 31, 2013

	<u>Adjustment</u>
Life, Disability and Vision Premiums under New Policy (1)	\$ 14,034
Amount per District (2)	<u>17,196</u>
Reduction in Premiums	(3,162)
Reduction in Admin Expense to Water (3)	<u>(269)</u>
Adjustment to Electric Expense	<u><u>\$ (2,893)</u></u>

Notes:

- (1) Per response to DIV 2-5. Amount for vision insurance reflects 20% employee co-pay.
- (2) Per Schedule DGB-5.
- (3) Estimated based on perecentage of premiums attributable to Office/Admin

PASCOAG UTILITY DISTRICT - ELECTRIC DEPARTMENT

Adjustment to Reflect FICA Taxes
Associated with Admin Transfer to Water Operations
Rate Year Ended December 31, 2013

	<u>Adjustment</u>
Rate Year Salaries Transferred to Water (1)	\$ 84,294
FICA Tax Rate	<u>7.65%</u>
Adjustment to Electric FICA Taxes	<u>\$ (6,448)</u>

Note:

(1) Per Schedule DGB-7.