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. 4369**

REPORT AND ORDER

On November 7, 2012, Pascoag Utility District ("Pascoag") submitted its annual reconciliation of its Standard Offer Service ("SOS"), Transmission and Transition Rates for effect January 1, 2013. Pascoag requested that the current rate of $0.09167 kWh be reduced to $0.07670 kWh.[1] On December 6, 2012, 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 requested approval of a decrease of the SOS charge from 5.657 cents per kWh to 3.748 cents per kWh, an increase in the Transmission charge from 2.393 cents per kWh to 2.494 cents per kWh and an increase in the Transition Charge from 1.117 cents per kWh to 1.243 cents per kWh. The request, if approved, would result in a 500 kilowatt-hour residential customer experiencing a monthly decrease from $68.32 to $59.90.[2]

I. Pascoag's November 7, 2012 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 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

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[1] Pascoag Exhibit No. 1 filed November 7, 2012.
[2] Pascoag Exhibit No. 2 filed December 6, 2012.

its filing, Pascoag presented pre-filed testimony of Mr. Michael Kirkwood, General Manager and Ms. Judith Allaire, Assistant General Manager.

Mr. Kirkwood provided pre-filed testimony discussing Pascoag's supply portfolio. He noted that 35% of Pascoag's portfolio consists of fossil fuel based energy provided through its three year contract with Constellation Energy. The remaining 65% is a combination of 24% nuclear and 41% renewable which consists of wind and hydro power. Mr. Kirkwood explained that Pascoag's share of the Spruce Mountain Wind, LLC[3] production is 2.6% of the plant's 20 MW output which amounts to more than 1,700 MWh per year. He noted that although the contract cost of the power is set at $99.25 per MWH, Pascoag was able to offset this price by selling a number of Renewable Energy Certificates ("RECs") from the first quarter of 2012 for $59.00 per MWH. The sale of the RECs reduced Pascoag's total rate to approximately $40 per MWH which could ultimately decrease further based on the volatility of the cost of the RECs due to uncertainty regarding the Cape Wind project and biomass inclusion in Massachusetts. He noted that this contract has a term of fifteen years.[4]

Mr. Kirkwood described the new three year Load Following Energy contract with Constellation Energy. He asserted that this Load Following Energy contract is 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. This contract will provide for the need in any hour above what is provided by the firm entitlements. In 2013 the Constellation agreement provides for 80% of the difference each hour as opposed to in 2012 where 100 percent was provided. The cost of power over the term of

[3] 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.
[4] Pascoag Exhibit No. 1a, Direct Testimony of Michael Kirkwood, November 7, 2012 at 1-2.

the three year contract is 5.99 cents per kWh. Pascoag will take an additional 15% of Load Following energy through a supplemental arrangement that runs through May 31, 2013 and 5% from June 1, 2013 through December 31, 2014 at 4.675 cents per kWh. Additionally, he identified the benefit of this type of contract as one which 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.[5]

Mr. Kirkwood discussed ENE's negotiations with NextEra Energy Power Marketing during 2011 to purchase power from RISE and NextEra's subsequent sale of its gas-fired RISE combined cycle plant in Johnston. He explained that after the sale of the RISE facility, ENE and NextEra agreed to a ten year virtual contract that would replicate all the characteristics of a very efficient gas-fired combined cycle unit. He described how variable costs would be calculated using actual natural gas costs as an input and applying a 7.31 MMBTU/MWh heat rate plus a variable component, a fixed fuel component and a fixed capacity charge. He noted that energy which is in the form of a call option during peak hours that will allow the Company to decide each day whether to schedule energy during on-peak hours depending on the price. He expressed that the timing of this transaction allows for a discounted forward capacity rate.[6]

Mr. Kirkwood also discussed the negotiations that had occurred between ENE and a number of public power systems to purchase the total net plant output of the combined-cycle plant in Northern Massachusetts. He noted that in the spring of 2011, when it became apparent that no agreement would be reached, those negotiations ceased. He explained that the $200,000 that had been earmarked for this venture had been deposited

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[5] *Id.* at 2.
[6] *Id.* at 3.

into Pascoag's Purchase Power Restricted Fund in December of 2010 to be used to either fund the venture or to offset future rate increases. In Docket No. 4298, the Commission authorized Pascoag to return that $200,000 with interest to its ratepayers over a twelve month period to offset an expected increase in base rates resulting from the Commission's decision in Docket No. 4341.[7]

Mr. Kirkwood chronicled the history of Pascoag's Restricted Capital account noting that its purpose was to allow Pascoag to purchase needed capital items without having to incur debt service obligations. He explained how the Commission authorized the Company to fund the account at a lower level in 2011 and 2012 because of insufficient revenues it had collected to cover all operating and capital costs. He highlighted the fact that Pascoag currently has no long-term debt and how the Company was able to defer certain capital improvements without compromising reliability.[8]

Regarding the Company's power agreements, Mr. Kirkwood noted that use of EEI Master Agreements which it has in place with TransCanada, NextEra Energy, Constellation Energy and Macquarie Energy improve Pascoag's bargaining power and resulted in the beneficial Load Following Energy deals with Constellation Energy. In order to further navigate through what Mr. Kirkwood described as a financially challenging period in 2011 and 2012, he instituted a restriction on significant operating and capital expenditures limiting such to only those that would not jeopardize the safety or reliability of Pascoag's customers and employees. Lastly, he pointed out that Pascoag has maintained an A- credit rating with Standard and Poor's since 2008.[9]

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[7] *Id.* at 3-4. On July 6, 2012, Pascoag filed an Application to increase base rates. This Application was docketed as Docket No. 4341.
[8] *Id.* at 4-5.
[9] *Id.* at 5.

Ms. Allaire summarized the reconciliation of the factors and estimated an over-collection of $612,222. Like Mr. Kirkwood, she explained the history of the Restricted Fund for Capital and Debt Service noting that as of October 15, 2012 that account with Freedom Bank had a balance of $509,145 and was an eighteen month Repurchase Agreement with a term ending April 2013. She explained that the account allows for withdraws and deposits as necessary and has an interest rate of 0.8%. Ms. Allaire also described the Purchase Power Restricted Fund ("PPRF") created for the purpose of allowing the Company to use the over-collection of fuel revenues to pay future power expenses when its cash flow was inadequate to do so. Like the Restricted Fund for Capital and Debt Service, the PPRF is an eighteen month Repurchase Agreement with a term ending April 2013, an 0.8% interest rate and as of September 2012, a balance of $710,058. Both of these funds were described by Ms. Allaire as fully collateralized. In addition to these two accounts, Pascoag created a new account, Year-End Over Collection in July 2011 for a portion of the over-collection of fuel revenues. Ms. Allaire noted that as of October 30, 2012, this account had a balance of $225,074.[10]

Ms. Allaire identified a number of factors that resulted in the over-collection: the delivery of interruptible energy from the Niagara and St. Lawrence plants, a relatively mild winter, a reduction of Seabrook energy, additional savings resulting from the new contract with Constellation and the forecast for 2012 has been consistently higher than actual costs for the period. Ms. Allaire noted that once Pascoag received its October power invoices, it would provide actual October expenses and revenues. Additionally, the Company would provide the November and December invoices to the Division with its monthly updates. She provided the forecast power and transmission expense of

[10] Pascoag Exhibit No. 1b, Direct Testimony of Judith Allaire, November 7, 2012 at 1-3.

$4,337,463 for 2013 which was a decrease of $808,700 from 2012. The reasons she identified as contributing to the decrease were: adjustments to the NYPA allotment, a decrease in fixed costs for Seabrook, No Fuel Outage Scheduled for Seabrook in 2013, revisions to the capacity forecast, savings from Constellation agreements balancing purchase at $59.90 and load following at $46.75, some reduction in ISO charges, an adjustment in Hydro Quebec charges and the assumption that Pascoag would lose its largest industrial customer, Danielle Prosciutto International, in 2013.[11]

The slow recovering economy, slow collection of Account Receivable balances, bankruptcies and foreclosures were identified by Ms. Allaire as impacting Pascoag's financial position. She noted that Pascoag expected to write-off approximately $37,000. She also provided that the $200,000 plus interest encumbered last year in the PPRF was available to be returned to customers in 2013. Finally, she described the impact of the current filing as a decrease of 11% or $7.48 per month to a residential customer using 500 kilowatt-hours of electricity. As there were no new projects foreseen in the upcoming twelve month period, Ms. Allaire did not use a growth factor in forecasting Pascoag's 2013 rate.[12]

II. Pascoag's December 6, 2012 Updated Filing

On December 6, 2012, 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 2012, the amount of decrease to rates that Pascoag originally requested was further expanded. Ms. Allaire noted that the over-collection increased from $612,222 to $696,935. She described the effect that the additional over-

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

collection would have on an average residential customer using 500 kilowatt-hours of electricity per month. She explained that if the Commission chose to require Pascoag to return all of the over-collection which includes the $200,000 encumbered for rate stabilization, the monthly bill for the average residential customer would decrease by 12.3% or $8.42 per month.[13]

Ms. Allaire offered alternatives to the Commission that would allow for the Commission to defer the rate reduction until either February 1, 2013 or March 1, 2013 rather than the January 1, 2013 effective date proposed in the original filing so to be incorporated with an anticipated increase in Pascoag's rate case, Docket No. 4341, should the Commission approve the Settlement Agreement filed in that case. Should the Commission approve the Settlement Agreement in Docket No. 4341, the anticipated increase offset by the 12.3% decrease in the standard offer factor with an effective date of January 1, 2013 would result in an overall 6.1% reduction to a residential customer using 500 kilowatt-hours of electricity per month. She noted that a deferral to February 1 or March 1 would further reduce the impact on ratepayers as the present standard offer factor is over-collecting.[14]

III. Pascoag's December 14, 2012 Filing

On December 14, 2012, Pascoag filed a comparison of current rates and the impact of new rates should the Commission decide to defer implementation of those rates until either February 1, 2013 or March 1, 2013. Ms. Allaire identified the different impact on ratepayers associated with each of the alternatives proposed by Pascoag.

[13] Pascoag Exhibit No. 2, Revised Year-End Status Report, December 6, 2012 at 1-2.
[14] *Id.* at 2.

Additionally, the filing included impacts should the Commission accept the Settlement Agreement in Docket No. 4341.[15]

IV. The Division of Public Utilities and Carriers' Position

On December 14, 2012, David Stearns, Division Rate Analyst, filed a Memorandum with the Commission recommending that the Commission approve the rates proposed by Pascoag and that such rates be implemented to coincide with new base rates that could result from the Commission's decision in Docket No. 4341. Mr. Stearns noted that review of the actual revenues through November and actual expenses through October reveal an over-collection of $726,495 but that Pascoag anticipates the over-collection to be $696,935 on December 31, 2012. He also identified the forecast variances at that date to be an over-recovery of Standard Offer costs of $420,517, an over-recovery of transition costs of $25,874 and an over-recovery of transmission costs of $250,544.[16]

Mr. Stearns also discussed the history of the Special Purpose Entity and the Commission's approval of the $200,000 to be used to finance Pascoag's portion of participation in this consortium. He explained how the money was put into a Rate Stabilization Fund when the SPE endeavor did not come to fruition. He noted that interest on that $200,000 was $2,095.89 as of October 31, 2011. Adding this amount to the $696,935 over-collection allows for a total of $899,035 to be returned to customers during 2013. He reiterated Ms. Allaire's representations regarding the impact of a rate decrease should the Commission defer implementation of the effective date.[17]

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[15] Pascoag Exhibit No. 3, Alternative Effective Dates, December 14, 2012.
[16] Division Exhibit 1, Memorandum of David Stearns filed December 14, 2012 at 1.
[17] *Id.* at 1-2.

Mr. Stearns expressed the Division's recommendation that Pascoag continue monthly filing with the Division and that it file with the Commission by November 15, 2013 its annual status report with actual and projected over and under recovery amounts through December 31, 2013. He also represented that the Division recommended the Commission implement the new rates at the same time as the new base rates from Docket No. 4341 in order to avoid a large rate swing over a short period of time.[18]

IV. Hearing

On December 19, 2012, 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:	Karen Lyons, Esq. Special Assistant Attorney General
FOR COMMISSION:	Patricia S. Lucarelli, Esq. Chief of Legal Services

Mr. Kirkwood began by noting that now is an opportune time to increase base rates, since Pascoag has not had a rate increase since 2004. He indicated that the Company was fortunate to have such a dramatic decrease in power prices so that if the standard offer rate and the base rates were to go into effect simultaneously, customers would still experience a rate decrease even if base rates increased. He noted that the Company has been diligent in controlling its capital expenditures. He responded that present rates would remain the same should the Commission approve Pascoag's request to defer implementation of the standard offer rate until such time as new base rates were implemented. Ms. Allaire represented that programming changes could be completed by

[18] *Id.* at 2.

February 1, which Mr. Kirkwood identified as the Company's preference for an implementation date as it would allow for an increase in operational funds.[19]

Mr. Kirkwood explained the various power contracts reiterating what was contained in his prefiled testimony. Regarding capital expenditures for 2013, he identified a number of projects that were deferred from previous years that were to be undertaken including replacing a twenty year old bucket truck with an anticipated cost of somewhere within the $300,000 range, the money for which is presently in the capital reserve account. He noted that the electric side of Pascoag has no current debt and an A- rating from Standard and Poor's. As the Company's trucks do not accumulate significant miles because of the small size of the service area, Mr. Kirkwood stated that as long as they are maintained, they should have a life of approximately 20 years.[20]

Responding to questions regarding the Company's repurchase agreements where it has the ability to withdraw and transfer between accounts, Ms. Allaire testified that those agreements will likely be renewed for another eighteen month term when they expire in April of 2013. Mr. Kirkwood noted that Pascoag was able to obtain the best interest rate available from Freedom Bank which is also a local bank to Pascoag. When questioned about Hurricane Sandy, Mr. Kirkwood testified that it had a minimal impact compared to the impact of Hurricane Irene on Pascoag's customers and noted that Pascoag had offered and provided assistance to other utilities. He was unable to identify the reason that Pascoag had less outages than National Grid did during the storm or if it was due to the Company's use of tree wire stating only that Pascoag's distribution system uses primary coated wire mainly because the system is in a rural area.[21]

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[19] Transcript of Hearing, December 19, 2012 at 17-20.
[20] *Id.* at 20-26.
[21] *Id.* at 27-33.

V. Commission Findings

Immediately following the evidentiary hearing on December 19, 2012, the Commission voted to approve Pascoag's proposed rates effective for usage on and after February 1, 2013. The Commission applauds Pascoag for its presentation of various options for the Commission to consider and its analysis of rate impacts in conjunction with the impact of the Commission's future decision in Docket No. 4341. As in previous years, the evidence provided by Pascoag demonstrates its continued efforts 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

(21068) ORDERED:

1. Pascoag's Standard Offer Charge of $0.03550 per kWh is hereby approved to be effective for usage on and after February 1, 2013.
2. Pascoag's Transmission Charge of $0.02505 per kWh is hereby approved to be effective for usage on and after February 1, 2013.
3. Pascoag's Transition Charge of $0.01257 per kWh is hereby approved to be effective for usage on and after February 1, 2013.
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 FEBRUARY 1, 2013 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 20, 2012. WRITTEN ORDER ISSUED ON JUNE 13, 2013.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Mary E. Bray, Commissioner

Paul J. Roberti, Commissioner