STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITIES DISTRICT	:	
ANNUAL RECONCILIATION OF STANDARD	:	**DOCKET NO. 4454**
OFFER SERVICE, TRANSMISSION AND	:	
TRANSITION CHARGES	:	

REPORT AND ORDER

Electric distribution companies are required by R.I. Gen. Laws § 39-1-27.3 to provide Standard Offer Service (sometimes SOS) to retail customers who choose not to purchase power through the retail access market from non-regulated power producers. On November 1, 2013, Pascoag Utility District (Pascoag) submitted an annual reconciliation of its Standard Offer Service,[1] Transmission,[2] and Transition[3] Rates for effect January 1, 2014. Responding to a $256,928 under-collection, Pascoag requested that the Public Utilities Commission (PUC) allow a 23.8% increase in rates which would amount to a $15.06 monthly increase for a residential customer using 500 kilowatts (kW) of electricity a month. On December 6, 2013, 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 an increase of the Standard Offer Service charge from $0.03550 per kWh to $0.07039 per kWh, an increase in the Transmission charge from $0.02505 per kWh to $0.02488 per

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[1] Pascoag's tariff defines Standard Offer Service charge as the charge for Pascoag to provide energy to its customers.
[2] The Transmission Charge recovers Pascoag's costs of getting electricity from the generating station to Pascoag's sub-station.
[3] The Transition Charge is a surcharge representative of a transition cost paid by Pascoag to other utilities and suppliers.

kWh, and a decrease in the Transition Charge from $0.01257 per kWh to $0.00568 per kWh.[4]

I. Pascoag's November 1, 2013 Filing

In support of its filing, Pascoag presented pre-filed testimony of Michael Kirkwood, Pascoag's General Manager, and Judith Allaire, Assistant General Manager. Mr. Kirkwood provided pre-filed testimony discussing Pascoag's supply portfolio. As required by R.I. Gen. Laws §39-1-27.8, each electric distribution company must submit a supply procurement plan for approval by the PUC. Pascoag submits its plan as part of its Standard Offer Service Reconciliation each year.

Mr. Kirkwood noted that 38% of Pascoag's portfolio consists of fossil-fuel based energy provided through its three-year contract with Constellation Energy, a supplemental agreement with Constellation Energy and a virtual gas-fired transaction reached with NextEra Energy Power Marketing. The remaining 62% of the power entitlements are a combination of 23% nuclear power and 39% renewable/sustainable power, consisting of wind and hydro power.

Mr. Kirkwood provided additional details regarding Pascoag's renewable portfolio, highlighting that Pascoag's share of the Spruce Mountain Wind, LLC[5] production is 2.6% of the plant's 20 MW output, amounting to approximately 1,700 MWh per year. He noted that, although the contract cost of the power is set at $99.25 per MWh, Energy New England (ENE),[6] on behalf of Pascoag, was able to offset this price by selling a number of Renewable Energy Certificates (RECs) from the first and second quarters of 2013.

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[4] Pascoag Ex. 2 Dec. 6, 2013.

[5] 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.

[6] ENE an energy cooperative, was founded in 1998 and formed by members of the public power community to enhance their competitive position and to attain operating efficiencies in power supply and retail account management.

The sale of the RECs reduced Pascoag's total rate to approximately $34.85 per MWh and $35.75 per MWh, respectively. Mr. Kirkwood noted that although the uncertainty regarding the Cape Wind project makes estimating the value of future RECs difficult, their value should remain over $30.00 for the next few years resulting in additional offsets to Pascoag's cost for wind power.[7]

Mr. Kirkwood described Pascoag's two very efficient Load Following Energy contracts[8] with Constellation Energy that run through 2014. Specifically, he related that for every hour, Pascoag's load requirement will be compared to the hourly output of Pascoag's other firm entitlements. These contracts will provide for the need in any hour above what is provided by the firm entitlements. 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.[9]

Mr. Kirkwood discussed ENE's negotiations with NextEra Energy Power Marketing during 2012 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 and for which Pascoag has agreed to a 1MW transaction. He described how variable costs would be calculated using actual natural gas costs as an input and applying a 7.31 MMBTU[10]/MWh heat rate plus a variable component, a fixed fuel component, and a fixed capacity charge. He

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[7] Pascoag Ex. 1a Nov. 4, 2013 at 1-2.
[8] Load Following Energy contracts are contracts for the amount of energy needed to meet a percentage of Pascoag's system requirements, i.e., their actual load less their other contractual entitlements.
[9] *Id.* at 2-3.
[10] A MMBTU is a million British Thermal Units, commonly referred to as a BTU. A BTU is the measurement of heat created by burning a specific material, in this instance natural gas.

related that the terms of the agreement provide for energy which is in the form of a call option during peak hours, which allows the Company to decide each day on the basis of price whether to schedule energy during on-peak hours. He expressed that the timing of this transaction allows for a discounted forward capacity rate.[11]

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 that because Pascoag had collected insufficient revenues to cover all operating and capital costs, the PUC authorized the Company to fund the account at a lower level in 2011 and 2012. He related that once new rates were approved in Docket No. 4341, Pascoag was able to begin funding this account at the new approved level of $306,200. He highlighted the fact that Pascoag currently has no long-term debt and was able to defer certain capital improvements without compromising reliability.[12]

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, improved 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 might jeopardize the safety or reliability of Pascoag's customers and employees. He pointed out that the Settlement Agreement, entered into with the Division of Public Utilities and Carriers (Division) and approved by the Commission in Docket No. 4341, has greatly improved Pascoag's

[11] *Id.* at 3.
[12] *Id.* at 3-4.

operational cash flow and its ability to provide for capital needs. Regarding the utility's financial state, he related that Pascoag has maintained an A- credit rating with Standard and Poor's since 2008. Finally, Mr. Kirkwood identified the two reasons Pascoag's SOS rate is increasing so significantly: (1) the return in 2013 of approximately $394,000 of over-collection to customers, which in turn lowered the Standard Offer rate compared to actual power costs, resulting in an under-collection of power costs of approximately $580,000 and (2) the increase in the cost of natural gas, due in part to pipeline restrictions in New England and changes in the NEPOOL market rules.[13]

Ms. Allaire summarized the reconciliation of the factors and estimated an under-collection of $256,928. Like Mr. Kirkwood, she explained the history of the Restricted Fund for Capital and Debt Service. She noted that as of October 2013, that account with Freedom Bank had a balance of $466,713.50 and was an eighteen-month Repurchase Agreement with a term ending October 2014. The account allows for withdrawals and deposits as necessary and has an interest rate of 0.8%. Ms. Allaire also described the Purchase Power Restricted Fund 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 Purchase Power Restricted Fund is an eighteen-month Repurchase Agreement with a term ending October 2014, an 0.8% interest rate, and as of October 2013, a balance of $446,522.60. Both of these funds were described by Ms. Allaire as fully collateralized. In addition to these two accounts, Pascoag created a new account in July 2012, Year-End Over-Collection, for a portion of the over-collection of fuel revenues. Ms. Allaire noted that because of the under-collection in revenues, Pascoag transferred $245,000 from this

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[13] *Id.* at 4-5.

account to the Purchase Power Restricted Fund. As of October 2013, the Year-End Over-Collection account had a balance of $5,666.19. Finally, based on the Settlement Agreement in Docket No. 4341, Pascoag created a Storm Fund, into which $20,000 will be deposited annually. Because the rates approved in Docket No. 4341 will only be in effect for ten months of the current year, this year's annual contribution to the Storm Fund for 2013 will amount to $16,667.[14]

Ms. Allaire identified the two primary reasons that cause the under-collection: (1) the low delivery of interruptible power from the Niagara and St. Lawrence plants and (2) a cold, stormy winter season that resulted in increased transmission and energy costs during the first quarter of 2013.[15]

Ms. Allaire noted that the 2014 forecasted power and transmission expense of $5,325,720 is $988,260 more than the 2013 budget forecast. She identified six reasons contributing to the increase: (1) adjustments made to transmission costs due to congestion; (2) estimated purchases for the NextEra Rise Call Option for January through May, which were updated based on current market pricing; (3) the change from sales to purchases from ISO-NE for power adjustments to estimated ISO expenses; (4) adjustments to estimated ISO expenses; (5) adjustments to the Offer Access Transmission Tariff Regional Network Service rate; and (6) an adjustment to add Pascoag's largest customer, Danielle Prosciutto International, load back into the forecast.[16]

The slow-recovering economy, slow collection of Account Receivable balances, bankruptcies and foreclosures, and difficulty in collecting from protected customers were identified by Ms. Allaire as impacting Pascoag's financial position. She noted that

[14] Pascoag Ex.1b Nov. 4, 2013 at 1-4.
[15] *Id.* at 4-5.
[16] *Id.* at 5-6.

Pascoag expected to write-off approximately $26,000 and that Pascoag has complied with all reporting requirements. Finally, she described the impact of the current filing as an increase of 23.8% or $15.06 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 2014 rate.[17]

II. The Division of Public Utilities and Carriers' Position

On December 2, 2013, David Stearns, Division Rate Analyst, filed a Memorandum with the Commission recommending that the Commission approve the rates proposed by Pascoag. Mr. Stearns described Pascoag's 2013 rates as an anomaly, explaining that the unusually low rates were the result of a large over-collection of almost $700,000 from lower purchased power, transition, and transmission costs as well as $200,000 previously held for the group purchase of a public power system. Mr. Stearns discussed the history of the Special Purpose Entity (SPE) 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. Adding the $200,000 plus the interest it had accrued was an over-collection of $696,935, for a total of $899,035 to be returned to customers during 2013.[18]

Mr. Stearns identified an increase of $15.06 per month for the typical 500 kWh residential customer. He compared the monthly bill of $78.39 to the $88.30 monthly bill of a National Grid customer using the same amount of electricity. After a thorough and careful review of Pascoag's proposed rates, Mr. Stearns represented that the Division recommended approval of the rates for effect January 1, 2014. Additionally, he recommended that the Commission require Pascoag to continue to file monthly reports

[17] *Id.* at 6-7.
[18] Division Ex. 1 Dec. 14, 2012 at 1-2.

with the Division as well as its annual status report with the Commission by November 15, 2014.[19]

III. Pascoag's December 6, 2013 Addendum 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 under-collection at the end of 2013, the amount of increase to rates that Pascoag originally requested was reduced. Ms. Allaire noted that the under-collection decreased from $256,929 to $171,677. She related the effect that the under-collection would have on an average residential customer using 500 kilowatt-hours of electricity per month as a 22% increase from present rates from $63.33 to $77.23 per month. Also provided with the testimony was a Summary of Rates from 2009 to the present.[20]

IV. Division of Public Utilities and Carriers Response to Addendum Filing

On December 9, 2013, the Division filed a response to Pascoag's December 6, 2013 Addendum. Mr. Stearns noted that with the incorporation of actual purchased power revenue and expense and sales for October and November of 2013, Pascoag's proposed rates would result in an increase in the typical 500 kWh residential bill of $13.90 or 22%. He again recommended that the PUC approve Pascoag's per-kWh rates as proposed for effect January 1, 2014.

V. Hearing

On December 12, 2013, following public notice, the Commission conducted an evidentiary hearing. Counsel for Pascoag, William Bernstein, provided a brief history of the quasi-municipal district, noting that while it also provides water service, only the

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[19] *Id.* at 2-3.
[20] Pascoag Ex. 2 Dec. 6, 2013 at 1.

electric side is subject to regulation by the PUC. Acknowledging that the requested rate increase was large, Mr. Bernstein pointed out that for four of the last five years, Pascoag had requested rate decreases. Elaborating on his pre-filed testimony, Mr. Kirkwood testified that the majority of the increase was caused by an increase in standard offer, noting that the 2013 rate of 3.5 cents was doubling. He explained that the 2013 rate of 3.5 cents per kWh resulted from the large over-collection accrued at the end of 2012 that was returned to customers over the course of 2013. He also described the interaction between the gas and electricity markets which, because of pipeline constraints, results in high energy costs in New England relative to the rest of the country. He asserted that Pascoag is about 92 to 93% hedged at the current time, with a large portion of the portfolio being hydropower. Noting that Pascoag also has an entitlement in the Seabrook Nuclear Power Plant, he offered that the energy from that facility is inexpensive.[21]

In describing the territory and number of customers, Mr. Kirkwood related that Pascoag serves between 4,600 and 5,000 customers in the village of Pascoag and a portion of Harrisville, both in Burrillville. When questioned, he described the virtual contract with NextEra. He explained that during discussions with ENE, NextEra sold the combined cycle facility in Johnston, Rhode Island to another company. However, the marketing division of NextEra remained interested in selling power to the public power entities. What resulted was a ten-year contract with the pricing based on a 7.3 heat rate for any power Pascoag buys from NextEra, mimicking the low cost from a very efficient gas-fired power plant. He testified that Pascoag does not necessarily know where the power is coming from, but NextEra is supplying it to them for the price of the gas multiplied by the heat rate. Mr. Kirkwood also explained that Pascoag is not obligated to

[21] Hr'g, Tr. at 2-12, 39-40, Dec. 12, 2013.

take power from NextEra. It has a call option which it enables it to take only power it needs, thus eliminating Pascoag's risk of being stuck with unneeded extra power.[22]

Ms. Allarie provided testimony on the Company's current rates. She also related that she was responsible for sending the notice of the rate increase to customers and had not had any customer response to the notice. Even at the annual meeting where the budget for the Company was approved by the Board of Directors, Ms. Allaire expressed that there was no objection to Pascoag's proposed rate increase. She also explained that because of the return of the money set aside for the Special Purpose Agreement that did not come to fruition, customers have not experienced that base rate increase.[23]

VI. PUC Findings

Immediately following the evidentiary hearing on December 12, 2013, the PUC voted to approve Pascoag's proposed rates effective for usage on and after January 1, 2014. As in previous years, the evidence provided by Pascoag demonstrated its continued efforts to operate in a superb and efficient manner, providing high quality and committed service to its customers. The PUC is satisfied that the increase sought is due to market conditions and not anything that was within Pascoag's control. The PUC 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.

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[22] *Id.* at 13-18.
[23] *Id.* at 44-47.

ACCORDINGLY, it is

(21431) <u>ORDERED</u>:

1. Pascoag's Standard Offer Charge of $0.07039 per kWh is hereby approved to be effective for usage on and after January 1, 2014.
2. Pascoag's Transmission Charge of ($0.02488)[24] per kWh is hereby approved to be effective for usage on and after January 1, 2014.
3. Pascoag's Transition Charge of ($0.00568) per kWh is hereby approved to be effective for usage on and after January 1, 2014.
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, 2014 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 12, 2013. WRITTEN ORDER ISSUED ON APRIL 15, 2014.

PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Jr., Commissioner

[24] Dollar amounts in parentheses denote decreases.