

**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

On April 25, 2014, Pascoag Utility District-Electric Department (Pascoag) submitted a mid-year filing to the Rhode Island Public Utilities Commission (Commission or PUC) seeking an increase in its Standard Offer Service (SOS), Transition, and Transmission rates. The request for a rate increase was prompted by higher than forecasted prices a result of the volatile and highly priced power markets during the course of the winter months.¹ In support of this request, the Company offered the pre-filed testimonies of Michael R. Kirkwood, Pascoag's General Manager, and Judith R. Allaire, Pascoag's Assistant General Manager.²

Mr. Kirkwood related that because much of New England's generation supply is dependent on natural gas fired generation, the price of natural gas has a significant impact on generation prices. The limited availability of natural gas caused by pipeline constraints to New England, he explained, drove up spot market locational marginal pricing. Moreover, ISO-NE was forced to secure oil-fired generation at a significantly higher price. Although it was hedged for 93% of its load requirement, long periods of extremely cold weather required Pascoag to make spot purchases costing more than

¹ The Commission had approved Pascoag's existing rates for effect January 1, 2014: SOS - \$0.07039 per kWh, Transmission - (\$0.02488) per kWh, and Transition - (\$0.00568) per kWh.

² Prefiled testimony generally is available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at www.ripuc.org/eventsactions.html, organized by docket number.

double its \$0.07 per kWh Standard Offer Rate and caused the call option rate for Pascoag's Virtual RISE contract with NextEra to be higher than anticipated.³

Mr. Kirkwood described the high transmission costs Pascoag experienced with its New York Power Authority (NYPA) purchases, caused by congestion charges that increased significantly during the winter months. He related that he was informed by the Massachusetts Municipal Wholesale Electric Company (MMWEC), which administers the NYPA transactions on behalf of Pascoag, that reliability and pricing issues were the result of pipeline constraints to the Northeast and that once winter ended, charges were expected to be more moderate. Finally, Mr. Kirkwood noted that Pascoag is working with Energy New England (ENE)⁴ to enter into a three year fixed pricing contract for 100% load following energy.⁵ That contract should eliminate further unhedged volatility during the winter months over the next few years.⁶

Ms. Allaire explained that Pascoag chose to file a mid-year status report rather than waiting until it filed its annual report to avoid rate shock. Like Mr. Kirkwood, she explained that energy prices during the winter months had been significantly higher than forecast. Even though Pascoag was able to access funds from its Purchase Power Restricted Fund in order to pay its bills on time, it has not been able to fully replenish that fund due to the continued high cost of energy. She noted that between November and

³ Kirkwood Direct at 1-2, (April 25, 2014); http://www.ripuc.org/eventsactions/docket/4454-Pascoag-Book1-Testimony_4-25-14.pdf.

⁴ Energy New England, an energy cooperative, was founded in 1998 by members of the public power community to enhance their competitive position and to attain operating efficiencies in power supply and retail account management.

⁵ Load following energy is energy that will meet needs over and above other fixed entitlements.

⁶ Kirkwood Direct at 2-3.

February, power costs were almost a half million dollars more than what had been forecast.⁷

Ms. Allaire reiterated Mr. Kirkwood's testimony identifying the high natural gas prices and large increases in transmission costs associated with purchases from NYPA as the two major factors in causing Pascoag's higher power costs. She related that as of March Pascoag's under-collection amounted to more than \$800,000. Ms. Allaire noted that Pasocag had not been funding its Restricted Fund for Capital and Debt Services to the approved level, instead choosing to timely pay power invoices and partially reimburse its Purchase Power Restricted Fund. Additionally, she indicated that Pascoag had also experienced difficulty in paying its non-power vendors. She expressed concern that failure to address these financial obligations in a timely manner could ultimately affect Pascoag's credit rating.⁸

Finally, Ms. Allaire related that if the Commission approved Pascoag's mid-year request, a typical residential customer using 500 kWh would experience a monthly increase of \$6.27 or 8.1%. She provided the requested rates, Standard Offer Service at \$0.08056, Transition at \$0.00613, and Transmission at \$0.02679 result in a kWh rate of \$0.11348.⁹

Subsequent to the initial filing, Pascoag provided the Commission with an Addendum to address updated actual costs and measures taken to protect its ratepayers from continuing price volatility. Mr. Kirkwood related that Pascoag had been working with ENE to hedge the remainder of its portfolio through 2017 because improvements to pipeline capacity aren't expected to be in place until late 2017. He noted that he fears

⁷ Allarie Direct at 1, (April 25, 2014); http://www.ripuc.org/eventsactions/docket/4454-Pascoag-Book1-Testimony_4-25-14.pdf.

⁸ *Id.* at 2-3.

⁹ *Id.* at 4.

other marketer participants may drive up prices as they attempt to fully hedge their portfolios. He then described the various contracts that he had entered into on behalf of Pascoag's ratepayers ranging in price from approximately \$0.07 per kWh to \$0.0665 per kWh.¹⁰

Ms. Allaire provided an addendum to her testimony setting forth most of April's actual power expense. Although the addendum did not include National Grid's LNS Transmission charge or the MMWEC Administrative Fee for March, neither of which had been received yet, the actuals reported were less than originally forecast. She also provided that the Company's NYPA charges were lower than had previously been experienced and that there was a reduction in the Project Six – Seabrook – invoice due to a credit received as the result of the United States Department of Energy reimbursements. With the adjustments made for actual costs, Ms. Allaire related that an average residential customer using 500 kWh of electricity would experience a 7.6% or \$5.83 per month increase.¹¹

On or about June 20, 2014, the Division of Public Utilities and Carriers (Division) filed a memorandum supporting Pascoag's request. Specifically, the Division cautioned that delaying the requested adjustment would risk a further reduction in the Purchased Power Restricted Fund, in turn, that could result in Pascoag having inadequate capital to pay its power bills in a timely fashion which could jeopardize its credit rating and make future procurements more difficult.¹²

¹⁰ Kirkwood Addendum at 1-2, (May 28, 2014); http://www.ripuc.org/eventsactions/docket/4454-Pascoag-Book1-Testimony_4-25-14.pdf.

¹¹ Allaire Addendum at 1-3, (May 28, 2014); http://www.ripuc.org/eventsactions/docket/4454-Pascoag-Book1-Testimony_4-25-14.pdf.

¹² Division Memorandum at 1-2, (June 10, 2014); http://www.ripuc.org/eventsactions/docket/4454-DPU-memo_6_10_14.pdf.

On June 10, 2014, the PUC held a hearing to review and explore any and all remaining questions about Pascoag's requested rate increase. During the hearing, Mr. Kirkwood and Ms. Allaire testified on behalf of Pascoag. Mr. Kirkwood discussed hedging and how Pascoag will hedge more of its total portfolio over the course of the next few years to avoid the high spot market prices it experienced this year resulting from insufficient pipeline capacity needed for electric generation in the region. Ms. Allaire described how Pascoag needed to withdraw a significant amount of money from its Purchased Power Fund to pay power bills in a timely manner and avoid late charges. She testified that the price of power supplied by NYPA had fallen back to the \$0.025 per kWh range which Pascoag was familiar with from the \$0.10 range it had risen to at one point during the winter. Mr. Kirkwood noted that the transmission component of the NYPA was high because of congestion which contributed to the \$0.10 per kWh NYPA price.¹³

Mr. Kirkwood further explained how he had changed Pascoag's strategy for the next three years by soliciting contracts for 2015 through 2017 as he doesn't foresee any significant expansion of pipeline capacity being complete within the next three years. Additionally, because in January approximately 40% of Pascoag's load will be unhedged, he contracted with TransCanada for a load following contract for that full 40%. He testified that for the remainder of this calendar year, Pascoag is almost completely hedged.¹⁴

Mr. Stephen Scialabba, the Division's representative, testified that he suggested Pascoag make this filing requesting an increase in rates because of his concern that defaulting on or being late paying their power bills could hurt its credit rating and impede

¹³Hr'g, Tr. at 5-13 June 12, 2014.

¹⁴ *Id.* at 17-23.

its contracting ability in the future. He commented that he was surprised to see the attractive prices Pascoag had secured for the future. He noted that Pascoag has always kept the Division updated on all aspects of its business.¹⁵

At the conclusion of the hearing, the Commission voted unanimously to approve Pascoag's request. The Commission finds that the significant increases experienced in fuel prices were beyond the control of Pascoag and that delaying an increase could compromise Pascoag's excellent credit rating and its ability to successfully secure positive term contracts in the future. The Commission is reassured by the expertise of Mr. Kirkwood and Ms. Allaire and their ability to constantly adjust and modify their practices to meet their customers' needs. It is impressive to the Commission that this small utility is able to secure contracts at such low prices especially during these economic times and in light of the significant pipeline constraints that exist in this region of the country. The Commission believes the proposed rates were carefully vetted by the Division and are fair, reasonable, and in the best interest of Pascoag's ratepayers.

ACCORDINGLY, it is

(21612) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.07736 per kWh is hereby approved to be effective for usage on and after July 1, 2014.
2. Pascoag's Transmission Charge of \$0.02913 per kWh is hereby approved to be effective for usage on and after July 1, 2014.
3. Pascoag's Transition Charge of \$0.00611 per kWh is hereby approved to be effective for usage on and after July 1, 2014.

¹⁵ *Id.* at 28-30.

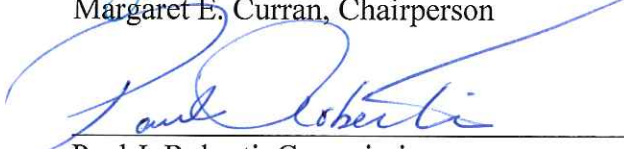
4. Pascoag shall comply with all other findings and directives contained in this Report and Order.

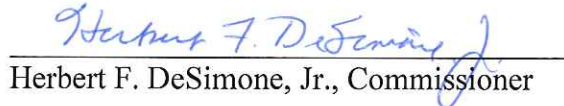
EFFECTIVE AT WARWICK, RHODE ISLAND, ON JULY 1, 2014
PURSUANT TO A BENCH DECISION ON JUNE 12, 2014. WRITTEN ORDER
ISSUED ON SEPTEMBER 9, 2014.

PUBLIC UTILITIES COMMISSION




Margaret E. Curran, Chairperson


Paul J. Roberti, Commissioner


Herbert F. DeSimone, Jr., Commissioner