

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

**IN RE: PASCOAG UTILITIES DISTRICT** :  
**ANNUAL RECONCILIATION OF STANDARD** : **DOCKET NO. 4529**  
**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 5, 2014, Pascoag Utility District (Pascoag) submitted an annual reconciliation of its Standard Offer Service,<sup>1</sup> Transmission,<sup>2</sup> and Transition<sup>3</sup> Rates for effect January 1, 2015.<sup>4</sup> Responding to a \$293,399 under-collection, Pascoag requested that the Public Utilities Commission (PUC) allow a slight increase in rates which would amount to a \$0.02 monthly increase for a residential customer using 500 kilowatt hours (kWh) of electricity a month. On November 21, 2014, Pascoag filed updated schedules to reflect actual October expenses and revenues, leaving only November and December expenses and revenues to be estimated. Pascoag requested approval of a decrease of the Standard Offer Service charge from \$0.07736 per kWh to \$0.06733 per kWh, an increase in the Transmission charge from \$0.02913 per kWh to \$0.03313 per kWh, and an increase in the Transition Charge from \$0.00611 per kWh to \$0.01141 per kWh. The updated

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<sup>1</sup> Pascoag's tariff defines Standard Offer Service charge as the charge for Pascoag to provide energy to its customers.

<sup>2</sup> The Transmission Charge recovers Pascoag's costs of getting electricity from the generating stations to Pascoag's sub-station.

<sup>3</sup> The Transition Charge is a surcharge representative of a transition cost paid by Pascoag to other utilities and suppliers.

<sup>4</sup> Filings made in the instant matter are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <http://www.ripuc.org/eventsactions/docket/4529page.html>.

schedules would result in a 0.4% decrease in rates or a monthly decrease for a residential customer using 500 kWh of electricity of \$0.37.<sup>5</sup>

### **I. Pascoag's Filing**

In support of its filing, Pascoag presented prefiled testimony of Michael Kirkwood, Pascoag's General Manager, and Judith Allaire, Assistant General Manager. Mr. Kirkwood provided prefiled 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 52% of Pascoag's portfolio consists of fossil-fuel based energy provided through its three-year contract with TransCanada Power Marketing LTD and a virtual gas-fired transaction reached with NextEra Energy Power Marketing. The remaining 48% of the power entitlements are a combination of 18% nuclear power and 30% renewable/sustainable power, consisting of wind and hydro power.<sup>6</sup>

Mr. Kirkwood described last year's winter experience and the high spot-market pricing caused in large part by the lack of adequate natural gas pipeline capacity. He noted that since major improvements to the natural gas pipeline will not be completed until late 2017 at the earliest, Pascoag, after consultation with its power supply advisor, Energy New England (ENE), entered into a 100% load-following contract for the 2015-2017 term at a fixed price of 7.03 cents per kWh.<sup>7</sup>

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<sup>5</sup> Pascoag Addendum (Nov. 21, 2014).

<sup>6</sup> Kirkwood Direct at 1 (Nov. 4, 2014).

<sup>7</sup> *Id.* at 1-2.

Regarding the Company's power agreements, Mr. Kirkwood noted that Pascoag extended the EEI Master Agreements that it has in place with TransCanada, NextEra Energy, Constellation Energy, and Macquarie Energy and supplemented those agreements with PSEG Energy Resources and Trade LLC and Shell Energy North America L.P. This improved Pascoag's bargaining power and resulted in the beneficial forward-looking, Load-Following Energy deal with TransCanada and Pascoag's previous Load-Following Energy deals with Exelon/Constellation and Shell Energy. Regarding the utility's financial state, he related that Pascoag has maintained an A- credit rating with Standard and Poor's since 2008.<sup>8</sup>

Ms. Allaire summarized the reconciliation of the factors and estimated an under-collection of \$293,399. She noted that in April of 2014, Pascoag filed for a mid-year rate adjustment to address a \$756,208 under-collection resulting from volatile and high prices in the spot market caused by high natural gas prices, extreme winter weather, and large transmission costs during the winter months. She explained that Pascoag withdrew \$335,000 from its Purchase Power Restricted Fund ("PPRF") to pay the higher-than-forecasted expenses. She proposed rates of \$0.06835 per kWh for SOS, \$0.01146 per kWh for a Transition charge, and \$0.03283 per kWh for a Transmission charge. She provided that Pascoag, in coordination with ENE, submitted its 2015 forecast, an increase of \$541,768 over last year's original forecast.<sup>9</sup>

In addition to having used funds from its PPRF, Ms. Allaire noted that Pascoag was unable to fully fund its Restricted Fund for Capital and Debt Service which allows it to meet capital needs without incurring debt. She stated that since the PUC-approved

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<sup>8</sup> *Id.* at 2-3.

<sup>9</sup> Allaire Direct at 1-4 (Nov.4, 2014).

increase, which was effective July 1, 2014, Pascoag was able to reimburse that account to 89% of its approved annual requirement of \$306,000. Additionally, she reiterated Mr. Kirkwood's testimony that Pascoag has an A- Standard and Poors rating.<sup>10</sup>

Ms. Allarie described the impact of the current filing as an increase of \$0.02 per month to a residential customer using 500 kilowatt-hours of electricity. She used a 1% growth factor in this filing to account for some active residential construction projects in the service area. She identified high annual right-offs as impacting Pascoag's financial position. Finally, she described the implementation of the new accounting and customer care software.<sup>11</sup>

On November 21, 2014, Pascoag filed an addendum to its year-end status report. After receiving October's power invoices and actual sales, Ms. Allaire recalculated the under-collection from \$261,245 to \$293,399. She amended the rates to \$0.06733 per kWh for SOS, \$0.01141 per kWh for a Transition charge, and \$0.03313 per kWh for a Transmission charge, totaling \$0.11187 per kWh or a \$0.00073 reduction over current rates. The impact on a residential customer using 500 kWh of electricity per month is a 0.4% or \$0.37 decrease from rates currently in effect.<sup>12</sup>

## **II. The Division of Public Utilities and Carriers' Filing**

On December 5, 2017, Stephen Scialabba, Division Chief Accountant, filed a Memorandum with the Commission recommending that the Commission approve the rates proposed by Pascoag. Mr. Scialabba highlighted Pascoag's proposed factors. He detailed the effects of the power price increases Pascoag experienced last winter, noting its under-recovery and that it had to withdraw a significant amount from its PPRF to pay

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<sup>10</sup> *Id.* at 4.

<sup>11</sup> *Id.* at 5-7.

<sup>12</sup> Allaire Addendum at 1 (Nov. 21, 2014).

bills in January and February 2014. He detailed Pascoag's power supply contracts and costs resulting in a weighted average rate of \$0.0647 per kWh. Based on his conclusion that the calculations provided by Pascoag were correct and reasonable, he recommended approval of the proposed rates.<sup>13</sup>

### **III. Hearing**

On December 15, 2014, following public notice, the Commission conducted an evidentiary hearing. Counsel for Pascoag, William Bernstein, noted that the Commission's approval of a mid-year increase resulted in Pascoag not having to request a rate increase at this time. Explaining why Pascoag was able to decrease rates when it still had an under-collection, Mr. Kirkwood further discussed how the mid-year increase allowed Pascoag to pay down its under-collection. Ms. Allaire elaborated on the 1% growth rate discussed in her prefiled testimony. She provided that Pascoag factored into its analysis a 10% decrease in sales commencing July 2015 followed by a 1% decrease in the remaining months of the year attributable to Danielle Prosciutto, Inc. (DPI), Pascoag's largest customer, leaving the service area. Mr. Kirkwood interjected that he has received communication that DPI may continue some operations within the Pascoag service area for some period of time.<sup>14</sup>

Ms. Allaire noted that there are a number of protected Pascoag customers that are on payment plans. She explained that some of those customers have balances that are so high, it is almost impossible --even with assistance-- for customers to catch up and stay current. In order to collect money owed, Pascoag sends letters, automatic notification,

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<sup>13</sup> Scialabba Memorandum at 1-2 (Dec. 5, 2014).

<sup>14</sup> Hr'g Tr. 4-10 (Dec. 15, 2014).

and visits the customer. Ms. Allaire testified that currently, Pascoag has approximately 4,800 customers, most of whom are residential.<sup>15</sup>

Mr. Kirkwood testified that Pascoag is subject to the Restructuring Act<sup>16</sup> but is contemplating seeking an exemption which would better align Pascoag with other public power entities in New England. He expressed that since the passage of the Act, not one Pascoag customer has chosen competitive supply. He noted that in Massachusetts public power entities are fully integrated, and that the same is true in Connecticut unless the public power producer chooses to sell power outside of its service territory. Currently, Pascoag's NYPA power costs approximately \$0.025. Unlike last year, where a portion of the load was unhedged, Mr. Kirkwood explained that he thought it wise to hedge 100% this year. Although Pascoag is 100% hedged and hoping not to have to purchase on the spot market, Mr. Kirkwood noted there may be small purchases and sales in real time.<sup>17</sup>

Because the TransCanada contract is for a period of three years and Pascoag is 100% hedged, Mr. Kirkwood testified that Pascoag would not have to solicit any power in 2015. Finally, Mr. Kirkwood explained that the increase in transmission costs for NYPA power resulted from congestion cause by extremely cold weather and insufficient pipeline capacity.

The Division presented the testimony of Mr. Scialabba. He adopted his prefiled comments and reiterated a couple of points Pascoag had previously provided.<sup>18</sup>

### **PUC Findings**

Immediately following the evidentiary hearing on December 15, 2014, the PUC voted to approve Pascoag's proposed rates effective for usage on and after January 1, 2015. As

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<sup>15</sup> *Id.* at 10-12.

<sup>16</sup> R.I. Gen. Laws § 39-1-27.3.

<sup>17</sup> Hr'g Tr. 13-26 (Dec. 15, 2014).

<sup>18</sup> *Id.* at 44-52.

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 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. The PUC found the rate proposed by Pascoag to be fair, reasonable, and in the best interests of its customers. Additionally, the Commission approved Pascoag's supply portfolio pursuant to R.I. Gen. Laws §39-1-27.8.

ACCORDINGLY, it is

(21866) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.06733 per kWh is hereby approved to be effective for usage on and after January 1, 2015.
2. Pascoag's Transmission Charge of \$0.03313 per kWh is hereby approved to be effective for usage on and after January 1, 2015.
3. Pascoag's Transition Charge of \$0.01141 per kWh is hereby approved to be effective for usage on and after January 1, 2015.
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, 2015  
PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 15, 2014.  
WRITTEN ORDER ISSUED ON APRIL 1, 2015.

PUBLIC UTILITIES COMMISSION

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Margaret E. Curran, Chairperson

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Paul J. Roberti, Commissioner

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Herbert F. DeSimone, Jr., Commissioner

**Notice of Right of Appeal:** Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within 7 days from the date of the Order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or Order.