

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

IN RE: PASCOAG UTILITIES DISTRICT :
ANNUAL RECONCILIATION OF STANDARD : **DOCKET NO. 4584**
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 6, 2015, Pascoag Utility District (Pascoag) submitted an annual reconciliation of its Standard Offer Service,¹ Transmission,² and Transition³ Rates for effect January 1, 2016.⁴ Responding to a \$557,166 anticipated over-collection at December 31, 2015, Pascoag requested that the Public Utilities Commission (PUC) approve a reduction in rates which would amount to an annual reduction of \$9.47 for a residential customer using 500 kilowatts (kW) of electricity a month. On November 25, 2015, 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 \$0.06733 per kWh to \$0.05401 per kWh, a decrease in the Transmission charge from \$0.03313 per kWh to \$0.03081 per kWh, a decrease in the Transition Charge from \$0.01141 per kWh to

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.

⁴ 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/4584page.html>.

\$0.03081 per kWh, and a Purchase Power Reserve Fund Credit of (\$0.00222). The updated schedules would result in a 13.52% decrease in rates or a monthly decrease for a residential customer using 500 kW of electricity of \$9.85.⁵

I. Pascoag's November 5, 2015 Filing

In support of its filing, Pascoag presented prefiled testimony of Michael Kirkwood, Pascoag's General Manager, and Harle J. Round, Manager, Finance and Customer Service. 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 19% nuclear power and 29% renewable/sustainable power, consisting of wind and hydro power.⁶

Mr. Kirkwood described the 2013-2014 extreme 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 complete 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 per kWh.⁷

⁵ Pascoag Addendum (Nov. 21, 2014).

⁶ Kirkwood Direct at 1 (Nov. 5, 2015).

⁷ *Id.* at 1-2.

Regarding the Company's power agreements, Mr. Kirkwood noted that Pascoag extended the EEI Master Agreements, which 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 beneficial 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 2008.⁸

Finally, Mr. Kirkwood discussed the \$800,000 balance in the Purchased Power Reserve Fund, which was originally established with a \$500,000 target level of funding. He requested authority to establish a \$550,000 target for that fund and to return \$250,000 to customers over a two-year period through a bill credit. He proposed that Pascoag be given the authority to petition the Commission to suspend such credit in the event it were to experience unexpected high power costs as it did during the 2013-2014 winter season.⁹

Ms. Round summarized the reconciliation of the factors and estimated an over-collection of \$557,166. Like Mr. Kirkwood, she requested authorization to increase the level of funding in the Purchase Power Reserve Fund from \$500,000 to \$550,000. She provided that the expected balance in this account by the end of the year is \$780,924. She requested authority to flow back the balance of \$230,924 to customers, \$125,000 in 2016 and \$105,924 in 2017. She also discussed the Restricted Fund for Capital and Debt Service. She noted that as of the date of this filing, that account with Freedom Bank had a balance of \$604,077. The account allows for withdrawals and deposits as necessary for

⁸ *Id.* at 2-3.

⁹ *Id.* at 3.

capital projects and purchases, such as vehicles. Finally, based on the Settlement Agreement in Docket No. 4341, Pascoag created a Storm Fund, into which \$20,000 will be deposited annually up to \$100,000.¹⁰

Ms. Round provided a monthly break out of revenues and expenses and noted that from January through September with the exception of April, revenues had exceeded expenses. She identified the primary reasons for the over-collection: (1) the low-cost interruptible power from the Niagara and St. Lawrence plants; (2) the hedging of Pascoag's open position; (3) an increase in sales during the months of August and September; and (4) a flowback of surplus funds from Massachusetts Municipal Wholesale Electric Company.¹¹

Ms. Round noted that the 2016 forecasted power and transmission expense of \$5,916,965 is \$49,477 more than the 2015 budget forecast. She identified five adjustments used by ENE in its 2016 Bulk Power Cost Projections for Pascoag: (1) the Danielle Prosciutto International reduction in power consumption; (2) the expiration of the Dominion Capacity Transactions; (3) the expiration of the Miller Hydro contract on May 31, 2016; (4) the Seabrook outages scheduled for the spring of 2017; and (5) the assumptions of a decrease of \$117,653 in the NextEra Rise Call Option that will be offset by an increase in National Grid's Transmission charges of \$96,000. She noted that Pascoag did not use a growth factor in its assumptions due to the sluggish economy and the closing of several businesses in their service area. Finally, she provided that Pascoag continues to experience difficulty in collecting from its protected and financial hardship customers.¹²

¹⁰ Round Direct at 1-4 (Nov. 5, 2015).

¹¹ *Id.* at 5-6.

¹² *Id.* at 6-8.

Pascoag's November 25, 2015 Filing

Pascoag filed supplemental testimony and exhibits to update estimates in its original filing. The updated figures, which include actual power costs for October 2015, revealed an over-collection of \$592,384 as opposed to the \$534,677 over-collection in Pascoag's November 5, 2015 filing. Pascoag proposed a Standard Offer Service rate of \$0.05401 per kWh, a Transition rate of \$0.00957 per kWh, a Transmission rate of \$0.03081 per kWh, and a Purchase Power Restricted Fund credit of (\$0.00222) per kWh. The impact of the proposed rates reflecting this over-collection on a residential customer using 500 kWh per month would be a decrease of \$9.85 from current rates.¹³

II. The Division of Public Utilities and Carriers' Position

On December 9, 2015, Alberico Mancini filed a Memorandum on behalf of the Division with the Commission recommending that the Commission approve the rates proposed by Pascoag. Mr. Mancini's Memorandum set forth the rates proposed by Pascoag on November 5, 2015 and those updated on November 25, 2015 to include actual October expenses. Mr. Mancini noted that New England will continue to be faced with high daily spot prices due to natural gas pipeline constraints. He noted that Pascoag's three-year contract with TransCanada will help protect against spot market price spikes. He provided that the proposed charges are reasonable and correctly calculated. He identified a monthly decrease of \$9.85 for a 500 kWh residential customer and recommended the Commission approve those rates for usage on and after January 1, 2016.¹⁴

¹³ Round Supplemental at 1-2 (Nov. 25, 2015).

¹⁴ Mancini Memorandum at 1-2 (Dec. 9, 2015).

Hearing

On December 17, 2015, following public notice, the Commission conducted an evidentiary hearing. Counsel for Pascoag, William Bernstein, provided opening comments noting the 12% decrease that was proposed. He also recognized Judith Allaire, Pascoag's Assistant General Manager, who was retiring after thirty years of service, the majority of which has been spent as a witness for Pascoag's rate cases before the Commission. He noted that she was the most prepared and thorough of any witnesses he has ever examined in his twenty-six years of prosecuting cases and publicly thanked her for her dedicated service.¹⁵

Mr. Kirkwood testified that Pascoag's proposed reduction was the result of a number of factors including its NYPA contract and its other purchase power contracts.¹⁶ He noted that he anticipates Pascoag will be requesting the elimination of the transition charge in a few years once payment of the Seabrook contract is fully satisfied.¹⁷ With regard to the transmission cost, he opined that because of transmission construction throughout New England and in Rhode Island, he expects that cost to rise in the future.¹⁸ He also discussed Pascoag's \$500,000 purchased power restricted fund which it uses when power costs rise significantly in order to pay its power costs. He noted that although Pascoag used a significant amount from this fund during the winter of 2013/14, it was able to more than replenish the amount and further, this year he is proposing to increase the fund to \$550,000 and crediting ratepayers with the rest over a two-year period.¹⁹

¹⁵ Hr'g Tr. at 4-5.

¹⁶ *Id.* at 9-10.

¹⁷ *Id.* at 10-11.

¹⁸ *Id.* at 11.

¹⁹ *Id.* at 11-12.

When questioned about its anticipated future revenue from its largest customer, Danielle Prosciutto Incorporated, and the company's plans to leave Pascoag's service area, Mr. Kirkwood relayed that the company had not yet provided Pascoag with that information.²⁰ He testified that as of the present time, the warm weather currently being experienced did not affect Pascoag's projections. However, if the warm weather continues for a significant period of time, it could result in an under-collection.²¹ Mr. Kirkwood described the long-term arrangement that Pascoag has with NYPA which he expects will be continued with similar terms after its expiration.²²

III. PUC Findings

Immediately following the evidentiary hearing on December 17, 2015, the PUC voted to approve Pascoag's proposed rates effective for usage on and after January 1, 2016. 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 requested decrease reflects the same. 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. Finally, the PUC recognizes the long and committed service provided by Ms. Allaire. She was truly an asset to Pascoag's operations and particularly to its filings and appearances before the PUC. She will be sorely missed.

²⁰ *Id.* at 13-15.

²¹ *Id.* at 15-16.

²² *Id.* at 20-21.

ACCORDINGLY, it is

(22305) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.05401 per kWh is hereby approved to be effective for usage on and after January 1, 2016.
2. Pascoag's Transmission Charge of \$0.03081 per kWh is hereby approved to be effective for usage on and after January 1, 2016.
3. Pascoag's Transition Charge of \$0.00957 per kWh is hereby approved to be effective for usage on and after January 1, 2016.
4. Pascoag's Purchase Power Restricted Fund credit of (\$0.00222)²³ per kWh is hereby approved to be effective for usage on and after January 1, 2016.
5. Pascoag's supply procurement plan as required by R.I. Gen. Laws §39-1-27.8 is hereby approved.
6. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON JANUARY 1, 2016
PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 17, 2015.
WRITTEN ORDER ISSUED ON JANUARY 19, 2016.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran, Chairperson

Paul J. Roberti, Commissioner

Herbert F. DeSimone, Jr., Commissioner

²³ Dollar amounts in parentheses denote decreases.

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.