

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

IN RE: PASCOAG UTILITIES DISTRICT :
ANNUAL RECONCILIATION OF STANDARD : **DOCKET NO. 4762**
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 3, 2017, Pascoag Utility District (Pascoag or District) submitted an annual reconciliation of its Standard Offer Service,¹ Transmission,² and Transition³ Rates for effect January 1, 2018.⁴

Although there was a \$173,365 anticipated over-collection as of December 31, 2017, Pascoag requested that the Public Utilities Commission (PUC) approve an increase in rates that would amount to an increase of \$0.94, or 1.3%, for a residential customer using 500 kilowatts (kW) of electricity a month. On December 1, 2017, Pascoag filed updated schedules to reflect actual October expenses and revenues, leaving only November and December expenses and revenues to be estimated. In this updated filing, Pascoag requested approval of an increase of the Standard Offer Service charge from \$0.05850 per kWh to \$0.07166 per kWh, a decrease in the Transmission charge from \$0.03200 per kWh to \$0.02973 per kWh, a decrease in the Transition Charge from \$0.01023 per kWh to \$0.00040

¹ Pascoag's tariff defines its 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/4762page.html>.

per kWh, and a Purchase Power Reserve Fund Credit of (\$0.00469).⁵ Based on the updated schedules, Pascoag's customers would experience a 2.1% increase in rates or a monthly increase for a residential customer using 500 kW of electricity of \$1.52.⁶

In support of its filing, Pascoag presented prefiled testimony from Michael Kirkwood, Pascoag's General Manager, and Harle J. Round, Finance and Customer Service Manager. Mr. Kirkwood's prefiled testimony discussed Pascoag's supply portfolio. As required by R.I. Gen. Laws § 39-1-27.8, each electric distribution company must submit annually 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 59% of Pascoag's portfolio consists of fossil-fuel based energy provided through its three-year contract with Public Service Electric and Gas (PSEG), which began in January 2018; a virtual, gas-fired unit transaction with NextEra Energy Power Marketing; and a two-year block energy deal with NextEra Energy Marketing, LLC to fill out Pascoag's energy needs in 2018 and 2019. According to Mr. Kirkwood, this latter contract, which provides 7% of Pascoag's energy needs, is intended to further protect customers from unanticipated price spikes caused by extreme weather or other unusual events in the wholesale market. The remaining 41% of Pascoag's power entitlements are a combination of 17% nuclear power and 24% renewable/sustainable energy, consisting of wind and hydro power.⁷

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. Mr. Kirkwood opined that over the next several years the main driver of volatile pricing, especially in the winter months, will be the lack of natural gas pipeline capacity. To address

⁵ Dollar amounts in parentheses denote negative amounts or decreases.

⁶ Pascoag Add. (Dec. 1, 2017).

⁷ Kirkwood Test. at 1 (Nov. 3, 2017).

this concern, Pascoag, after consultation with its power supply advisor, Energy New England, entered into a 100% load-following contract with TransCanada Power Marketing, LTD (TransCanada) for the period 2015-2017. At the conclusion of that term, Pascoag and Energy New England entered into another load-following contract with PSEG at a fixed rate of \$0.04575 kWh for the three-year period 2018-2020.⁸

Regarding the Company's power agreements, Mr. Kirkwood noted that Pascoag extended the EEI Master Agreements, which are currently in place with PSEG, TransCanada, NextEra Energy, Exelon/Constellation Energy, and Macquarie Energy. Pascoag supplemented those agreements with Dynegy Marketing and Trade, LLC. This improved Pascoag's bargaining power and resulted in the beneficial, forward-looking, load-following energy deals with TransCanada and now PSEG, as well as the recent two-year block energy contract with NextEra. Regarding the utility's financial state, he related that Pascoag has maintained an A credit rating with Standard and Poor's since 2008.⁹

Mr. Kirkwood stated that Pascoag entered into an agreement with ISM Solar Development LLC (ISM Solar) and National Grid¹⁰ that allows ISM Solar to interconnect and directly sell energy to National Grid. Pascoag receives \$3,300 monthly as compensation to its customers for lost benefits of the solar project.¹¹ Mr. Kirkwood reported that Pascoag continues to negotiate with other solar companies regarding possible agreements for solar development in other locations within its service territory.¹²

Ms. Round summarized the reconciliation of the factors and estimated an over-collection of \$173,365. She provided that the expected year-end balance in the Purchase Power Reserve Fund was \$650,469. She noted that while formal requests to Daniele Prosciutto

⁸ *Id.* at 3.

⁹ *Id.*

¹⁰ The Narragansett Electric Company d/b/a National Grid.

¹¹ *Id.* at 3-4. *See also* PUC Order 22876 (Sept. 22, 2017) and PUC Order 22902 (Oct. 4, 2017) (Docket 4636). The PUC waived certain requirements in National Grid's Renewable Energy Growth Tariff to allow the project to go forward.

¹² *Id.* at 4.

International (DPI) regarding its intentions to continue to operate in Pascoag's service territory have remained unanswered, DPI has retrofitted some lighting and has applied for DSM rebates, indications that the company may continue operations at its facility in Pascoag.

In Docket No. 4584, the District was authorized to increase the Power Purchase Reserve Fund funding level to \$550,000, which equals one month of the District's highest month of power bills on average. As of October 31, 2017, the District has returned \$306,071.25 to customers through a billing credit. Ms. Round indicated that the District proposes to decrease the flow back to customers to \$266,167 in 2018, through the Purchase Power Restricted Fund Credit, to bring the balance closer to the approved target level of \$550,000. According to Ms. Round, the credit would result in a \$0.00467 per kWh reduction in the proposed rates for 2018.

Ms. Round also discussed the Restricted Fund for Capital and Debt Service. She noted that as of October 2017, that account with Freedom Bank had a balance of \$606,591.06. The account allows for withdrawals and deposits as necessary for capital projects and purchases. The District plans to purchase a \$45,000 pickup truck and use \$75,000 to repave the parking lot, along with several smaller capital purchases in 2018. Finally, based on the Settlement Agreement in Docket No. 4341, Pascoag created a Storm Reserve Fund, into which \$20,000 is deposited annually, up to a cap of \$100,000. To date, the Storm Reserve Fund has a balance of \$85,495.¹³

Ms. Round provided a monthly break out of revenues and expenses. She noted that although Pascoag experienced an under-collection during six months in the January through July period, it is still estimating an over-collection of \$173,365 for the twelve-month period. She identified the primary reasons for the over-collection as: (1) the low-cost interruptible power from the Niagara and St. Lawrence plants; (2) the continued hedging of Pascoag's

¹³ Round Test. at 1-4 (Nov. 3, 2017).

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.¹⁴

Ms. Round noted that the 2018 forecasted power and transmission expense of \$5,905,647 is \$85,311 less than the 2017 budget forecast. She identified eight adjustments used by Energy New England in its 2018 Bulk Power Cost Projections for Pascoag: (1) adjustments for the Seabrook projections, including a fixed cost reduction and surplus funds being applied; (2) New York Power Authority projections that reflect a change in entitlements and a reduction to transmission due to the change in entitlement; (3) updated capacity projections; (4) updated NextEra Rise Call Options, including a price lock; and (5) inclusion of the Miller Hydro (now Brown Bear Hydro) contract extension, a place holder for REC sales on Spruce Mountain, a contract with Canton Wind which includes placeholders for REC sales, and a contract reduction for energy for PSEG; (6) a change from resales to purchases from ISO-NE Power; (7) adjustments made to ISO-NE expenses; and (8) adjustments to National Grid's transmission charges.¹⁵

Ms. Round provided that the impact of Pascoag's proposed changes would result in a monthly increase to a residential customer using 500 kWh of \$0.94. She noted that Pascoag used a growth factor of 0.75% in its assumptions as the District is experiencing modest growth in the village of Pascoag. Finally, she provided that Pascoag continues to experience difficulty in collecting from its protected and financial hardship customers.¹⁶

As stated above, on December 1, 2017, Pascoag filed supplemental testimony and exhibits to update estimates in its original filing. The updated figures, which included actual power costs for October 2017, revealed an over-collection of \$126,952 as opposed to the \$173,365 over-collection in Pascoag's November 3, 2017 filing. Pascoag proposed a

¹⁴ *Id.* at 5-7.

¹⁵ *Id.* at 8-9.

¹⁶ *Id.* at 9-10.

Standard Offer Service rate of \$0.07166 per kWh, a Transition rate of \$0.00040 per kWh, a Transmission rate of \$0.02973 per kWh, and a Purchase Power Restricted Fund credit of (\$0.00469) per kWh. The impact of the proposed rates reflecting this over-collection on a residential customer using 500 kWh per month would be an increase of \$1.52 or 2.1% from current rates.¹⁷

On December 12, 2017, Patricia Smith, a rate analyst with the Division of Public Utilities and Carriers (Division) filed a memorandum on behalf of the Division with the PUC recommending approval of the rates proposed by Pascoag. Ms. Smith's memorandum set forth the rates proposed by Pascoag on November 3, 2017 as well as those updated on December 1, 2017, which included actual October expenses.¹⁸

Ms. Smith also discussed Pascoag's supply portfolio and noted that its three-year contract with TransCanada for load-following service, which provides protection against spot market price spikes, has been replaced with a three-year contract (2018-2020) with PSEG. She found the proposed charges to be reasonable and correctly calculated. She identified a monthly increase of \$1.52 for a 500 kWh residential customer and recommended the Commission approve those rates for usage on and after January 1, 2018.¹⁹

On December 19, 2017, following public notice, the Commission conducted an evidentiary hearing. Counsel for Pascoag, William Bernstein, noted that the District sustained heavy tree damage during the storm event of October 2017, but within approximately 24 hours, all customers were back on-line.²⁰ Mr. Bernstein also noted that the District strives to maintain a significant portion of power supply that is non-fossilized.

Mr. Kirkwood, General Manager for the District, testified about negotiations with a solar developer who was seeking to locate in the District. Mr. Kirkwood explained that the District

¹⁷ Round Supplemental at 1 (Dec. 1, 2017).

¹⁸ Smith Mem. at 1-3 (Dec. 12, 2017).

¹⁹ *Id.* at 2-3.

²⁰ Hr'g Tr. at 7-8.

would consider a long-term contract of \$0.07 per kWh, but developers can do much better with National Grid.²¹ This particular developer, however, indicated that the District's price, with a small escalator on a twenty-year contract, may be possible. No contract has been signed to date. Mr. Kirkwood noted that as solar has become more cost effective, he will continue to pursue this option for his customers.²²

Mr. Kirkwood also discussed the load-following contract with PSEG for \$0.04575 cents per kW that expires in 2020. It replaces the load-following contract with TransCanada for \$0.07 kWh that expires in 2017.²³ Mr. Kirkwood stated that the benefit of this contract appears in this year's filing and has helped to offset the "extremely significant increase in the capacity cost."²⁴ In later testimony, Mr. Kirkwood explained that a load-following contract allows the District to calculate its load for each day, net of other resources, and purchase only the energy needed to meet that load.²⁵

Leo Wold, counsel for the Division, questioned Mr. Kirkwood regarding the NextEra contract, which has a very favorable price of about \$0.04 per kWh but represents only 7-8% of the District's portfolio. Mr. Kirkwood explained that the low price reflects a straight base load at a set price with no fluctuations and without risk to the bidder.²⁶ Mr. Wold stated that the Division rested on the memorandum it had filed. The memorandum, which supported Pascoag's proposed rates, was admitted as a full exhibit.²⁷

Immediately following the evidentiary hearing on December 19, 2017, the PUC voted to approve Pascoag's proposed rates effective for usage on and after January 1, 2018. As in previous years, the evidence provided by Pascoag demonstrated its continued efforts to

²¹ *Id.* at 24-25.

²² *Id.*

²³ *Id.* at 10-12.

²⁴ *Id.* at 12-13.

²⁵ *Id.* at 41.

²⁶ *Id.* at 17.

²⁷ *Id.* at 48.

provide high quality and committed service to its customers. The Commission also approved, as filed, Pascoag's supply portfolio pursuant to R.I. Gen. Laws § 39-1-27.8.

ACCORDINGLY, it is hereby

(23097) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.07166 per kWh is hereby approved to be effective for usage on and after January 1, 2018.
2. Pascoag's Transmission Charge of \$0.00040 per kWh is hereby approved to be effective for usage on and after January 1, 2018.
3. Pascoag's Transition Charge of \$0.02973 per kWh is hereby approved to be effective for usage on and after January 1, 2018.
4. Pascoag's Purchase Power Restricted Fund credit of (\$0.00469) per kWh is hereby approved to be effective for usage on and after January 1, 2018.
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, 2018 PURSUANT
TO AN OPEN MEETING DECISION ON DECEMBER 19, 2017. WRITTEN ORDER
ISSUED ON APRIL 5, 2018.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran

Margaret E. Curran, Chairperson

Marion S. Gold

Marion S. Gold, Commissioner

Abigail Anthony

Abigail Anthony, 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.