



STATE OF RHODE ISLAND

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**To: Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission**

**From: John Bell, Chief Accountant
Division of Public Utilities & Carriers**

Date: December 13, 2022

**Re: R.I.P.U.C. Docket No. 22-41-EL
Pascoag Utility District's 2022 Annual Reconciliation Filing**

On November 7, 2022, Pascoag Utility District (“Pascoag” or “Company”) filed with the Commission its year end status report on Power Supply Service, Transmission and Purchase Power Restricted Fund Credit (“PPRFC”), which included nine months of actual data for January through September of 2022. Included in the filing was testimony of Mike Kirkwood, the General Manager and Harle Young, Manager of Finance & Customer Service. The filing was made in accordance with Pascoag’s tariff which requires the Power Supply Service and Transmission adjustments to be calculated every 12 months and submitted to the Public Utilities Commission for approval. The calculations are based on estimated total costs of each component of purchased power expense for the upcoming year and a reconciliation of any over or under collection from previously approved rates. On December 1, 2022, Pascoag supplemented its filing with actual information for the month of October 2022 and provided the following chart summarizing the current and proposed power supply, transmission and PPRC factors.

Table 1

Factor	Current (2022)	Proposed (2023)	Difference	500 kWh Impact
Power Supply	\$0.064513	\$0.06855	\$0.004036	\$2.02
Transmission	\$0.039147	\$0.04851	\$0.009359	\$4.68
PPRFC	(\$0.002140)	\$0.00000	\$0.002140	\$1.07
Total	\$0.101520	\$0.11705	\$0.015534	\$7.77

Based on the above proposed rates, along with the 1 mil increase in the Demand Side Management charge proposed in Docket 22-40-EE, a residential customer using 500 kWh per month would see an \$8.27 or 10.2% increase in their bill from \$80.70 to \$88.97 effective January 1, 2023. A portion of the increase relates to the expiration of the PPRF credit which is effectively a refund to customers. Excluding the PPRF credit, the bill increase is \$7.20/month or 8.9%.

Review of 2022 Reconciliation

Pascoag’s filing included a reconciliation of the 2022 estimated revenue and expenses that were presented in the 2021 reconciliation filing with updated information that included actuals through October 2022 and updated estimates for November and December 2022. The below table provides summary comparison of the original and updated estimates.

Table 2

	2022 Forecast (1)	2022 Updated (2)	Difference	% Difference
Sales (MWH)	53,774	54,759	985	1.8%
Expenses:				
Power Supply	\$3,486,640	\$3,494,306	\$7,666	0.2%
Transmission	\$2,212,309	\$2,370,160	\$157,851	7.1%
Total Expenses	\$5,698,949	\$5,864,466	\$165,517	2.9%

(1) Pascoag's 12-6-21 Addendum Filing, Pgs. 20.

(2) Pascoag's 12-1-22 Addendum Filing, Pgs. 8 & 9.

As can be seen from Table 1, Pascoag’s actuals for 2022 appear in-line with the estimates used to develop the 2022 Power Supply and Transmission factors. The most significant difference was a 7.1% increase between the estimated and updated transmission expenses. The Division discussed this variance with the Company and they explained that the increased NYPA amounts related to additional costs related to congestion pricing at the New York/New England interchange. The National Grid transmission charges came in higher than estimated due to higher Direct Assignment Facility (DAF) charges resulting from the bus-splitting project. The reasons Pascoag provided for the higher than forecasted 2022 transmission charges appear reasonable and it is understandable that the higher costs were not included in the forecast since they were not known at the time.

On a monthly basis, Pascoag submits informational updates that provide actual kWh sales, power supply and transmission expenses. The Division reviews the monthly filings and verifies the expenses and reviews for any unusual activity. Based on our review of the filings submitted in 2022 we did note not any irregularities. We also verified that amounts that should be credited to the reconciliation were actually credited. The credits included the amounts related to the ISM Solar project, Renewable Energy Credit (REC) revenues, and the default credit from the cancelled Gravel Pit Solar project.

Review of 2023 Projections

The following table provides a comparison of the updated 2022 sales, power supply and transmission expenses, compared to the 2023 estimates included in Pascoag’s filing.

Table 3

	2022 Updated (1)	2023 Estimates (2)	Difference	% Difference
Sales (MWH)	54,759	53,958	(801)	-1.5%
Expenses:				
Power Supply	\$3,494,306	\$3,778,573	\$ 284,267	8.1%
Transmission	\$2,370,160	\$2,493,811	\$ 123,651	5.2%
Total Expenses	\$5,864,466	\$6,272,384	\$ 407,918	7.0%

(1) Pascoag's 12-1-22 Addendum Filing, Pgs. 8 & 9.

(2) Pascoag's 12-1-22 Addendum Filing, Pgs. 19.

The 2023 sales forecast shows a decline of 801 MWH from 2022. This decline is due to the use of a 3-year average to set the sales forecast. Sales over the last several years have been relatively flat. The 2022 sales (based on 11 months of actual and 1 month estimated) were slightly higher than any of the past four years and this may have been due to the hotter than normal summer. It is too early to determine if the increase in 2022 is part of a long term trend or more weather driven. There are many variables that impact sales, such as economic and weather variations, and without a definite long-term trend, the Division believes a multi-year average is a reasonable method of setting sales forecast and that Pascoag's use of a straight 3-year average without a growth factor is reasonable.

For 2023, Pascoag is forecasting a \$284,267 or 8.1% increase in power supply expenses from 2022. This increase is due to a general trend of increasing power supply costs under existing contracts. Following is a comparison of 2022 and 2023 prices.

Table 4

Source	2022 \$/kWh (1)	2023 \$/kWh (2)	% Change
Brown Bear Hydro	\$0.04841	\$0.04938	2.0%
Cabot/Turn. Hydro	\$0.03521	\$0.03751	6.5%
Spruce Mountain	\$0.07425	\$0.07425	0.0%
Canton Wind	\$0.08080	\$0.08190	1.4%
NYPA	\$0.03347	\$0.06988	108.8%
Seabrook	\$0.02661	\$0.02933	10.2%
NextEra Seabrook	\$0.04294	\$0.04401	2.5%
NextEra Virtual Rise	\$0.06334	\$0.05918	-6.6%
BP Energy	\$0.03685	\$0.03685	0.0%
Shell Energy	\$0.05940	\$0.07393	24.5%

(1) Table 1-MRK, 2021 Reconciliation Filing.

(2) Table 1-MRK, 2022 Reconciliation Filing.

As mentioned in Pascoag's filing, Energy New England ("ENE") developed the 2023 bulk power cost projections which were based on the above prices and included in the filing as Exhibit HJY-

9.1. The Division reviewed the exhibits and did not note anything unusual. Though prices are increasing under most contracts, Pascoag's power supply portfolio has mitigated the higher prices that have been seen in the overall New England energy market, especially for the upcoming winter. It is widely known that this winter's energy prices in the region have increased significantly over past years and though Pascoag is projecting an 8.1% increase in power costs, the proposed increase is much lower than many other utilities in the region.

Purchased Power Restricted Fund Credit

The Purchased Power Restricted Fund Credit Factor is designed to flow back funds to ratepayers that are above the target level of the Purchased Power Restricted Fund (PPRF). The PPRF was established to provide the necessary funds to cover one month of power supply and transmission expenses in case of cash flow issues and for several years had a target level of \$550,000. In Pascoag's 2021 Annual Reconciliation (Docket No. 5094), the Division recommended the target balance of the PPRF be reduced from \$550,000 to \$500,000 in order to bring the balance more in line with the largest draw from the fund over the most recent 10-year period, which was \$485,000. Pascoag agreed with the Division's recommendation and the Commission approved the new target balance.

The funds above the new target level were returned to customers in 2022 through the PPRFC mechanism. According to Pascoag's filing, they expect the balance in the fund to be below \$500,000 at year-end. Since the new target level has been met and the only additions to the fund going forward will be interest, Pascoag requested that the PPRFC be suspended in 2023. The Division agrees with Pascoag's request and further believes that maintaining an approximate \$500,000 balance in the fund is reasonable especially with the higher power bills Pascoag experienced in 2022.

Conclusion

The Division has reviewed Pascoag's filing, which included testimony, calculations, and monthly invoices submitted in this docket. Based on the review, the Division concludes that the proposed Power Supply Service and Transmission rates requested in the filing are reasonable and accurately calculated. The Division recommends the Commission approve the rates included in Pascoag's December 1, 2022 addendum filing submitted in this docket.