

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

**IN RE: PASCOAG UTILITIES DISTRICT :
ANNUAL RATE RECONCILIATION : DOCKET NO. 22-41-EL**

REPORT AND ORDER

I. Introduction

On November 7, 2022, Pascoag Utility District (Pascoag or District) submitted an annual reconciliation of its Power Supply Service¹ and Transmission² Rates for effect January 1, 2023.³ On December 1, 2022, Pascoag filed updated schedules to reflect actual October expenses and revenues and actual November revenues, leaving only November expenses and December expenses and revenues to be estimated. In this updated filing, Pascoag requested approval of an increase of its Power Supply Service charge from \$0.064513 per kWh to \$0.068549 per kWh, an increase in the Transmission charge from \$0.039147 per kWh to \$0.048506 per kWh, and asked that the Purchase Power Reserve Fund (PPRF) credit be suspended. The impact for residential customers using 500 kilowatts (kW) of electricity a month was an overall increase in rates of \$7.77 per month which when combined with the proposed \$0.50 per month proposed increase in Docket No. 22-40-EE, amounts to a 10.2% increase or \$8.27 per month from \$80.70 to \$88.97.⁴

On December 9, 2022, the Division of Public Utilities and Carriers (Division), filed a Memorandum recommending that the PUC approve Pascoag's requested Power Supply and Transmission rates and recommending that the Commission suspend the Power Purchase Restricted Fund credit. After a hearing and at an Open Meeting on December 20,

¹ Pascoag's tariff defines its Power Supply 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 substation.

³ Filings made in the instant matter are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <https://ripuc.ri.gov/Docket-22-41-EL>.

⁴ Young Addendum Test. at 2-3 (Dec. 1, 2022).

2022, the PUC unanimously approved the rates set forth in Pascoag’s amended filing and authorized termination of the PPRF credit factor.

II. Pascoag’s Filing

In support of its filing, Pascoag presented pre-filed testimony from Michael R. Kirkwood, Pascoag’s General Manager, and Harle J. Young, Pascoag’s Finance and Customer Service Manager. 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’s Testimony

Mr. Kirkwood described Pascoag’s supply portfolio as including 27% “sustainable power”⁵, with 22% from hydro and 5% from wind. Pascoag’s power entitlement from nuclear is 24%. The balance of Pascoag’s energy requirements is from fossil fuel sources, including a three-year contract with BP Energy Company, a three-year contract with Shell Energy beginning in 2022, and a virtual gas-fired unit transaction with NextEra Energy Marketing, LLC. Mr. Kirkwood stated that Pascoag is allotted 82% of Rhode Island’s allocation of New York Power Authority (NYPA) entitlements with the remainder going to Block Island Utility District (BIUD).⁶

Mr. Kirkwood explained that to fill out its remaining energy needs each hour Pascoag was successful in obtaining two competitive supply contracts with Shell Energy and one with BP Energy Company that will partially meet its energy needs for each hour in 2023 and beyond. These deals end between the end of 2023 and 2027 and are in addition to an existing virtual gas-fired unit transaction that ends the end of May 2023.⁷

⁵ “Sustainable power” is a term used By Pascoag.

⁶ Test. of Michael R. Kirkwood at 1-2 (Nov. 7, 2022).

⁷ *Id.* at 2.

Although Pascoag was able to secure an agreement to purchase up to 400 kW of solar energy and environmental attributes through Rhode Island's second renewable energy solicitation, the project entity, Gravel Pit Solar II was unable to meet one or more of its critical milestones and went into default. Through the terms of the Termination Agreement entered into with Gravel Pit Solar II, Pascoag was able to retain the \$8,000 cash Development Security Deposit that had been held in account under Pascoag's ownership. This amount plus interest was credited to customers.⁸

Subsequent to the signing the Gravel Pit Solar II agreement, Pascoag secured a second allocation of solar energy from Gravel Pit Solar III, LLC for up to 670 kW of energy and environmental attributes under a solicitation run by Energy New England (ENE). After ENE was notified that this project was in jeopardy, it negotiated new terms including an increase in project security and a price adjustment provision. Although the price adjustment provision allowed for upward movement, Pascoag entered into the agreement because the price adjustment provision was capped at \$6/MWh, the security deposit was almost doubled, and the project would contribute toward Pascoag meeting its decarbonization goals.⁹

Mr. Kirkwood noted that Pascoag's portfolio is also supplemented with a ten-year renewable hydropower contract which began in 2021 and was structured and negotiated between FirstLight Power and ENE on behalf of 20 consumer owned entities in Rhode Island and Massachusetts in which Pascoag is included. Mr. Kirkwood stated that Pascoag negotiated several Edison Electric Institute (EEI) Master Power Purchase and Sales Agreements. He explained that these agreements streamline negotiations, improve Pascoag's position in contract negotiations, and allow for quick transactions based on market conditions at the time the transactions are priced. He emphasized

⁸ *Id.* at 2-3.

⁹ *Id.* at 3.

Pascoag's Standard & Poor rating which had improved from "A-" to "A." in January 2019, and since 2008 remained at an "A" or "A-".¹⁰

Mr. Kirkwood stated that Pascoag receives \$3,300 per month from ISM Solar as payment to Pascoag for allowing ISM Solar, which is located on the border of Pascoag's service territory, to sell energy directly to The Narragansett Electric Company (TNEC).¹¹ The monthly payments Pascoag receives are credited to customers in the Power Supply Service reconciliation. Pascoag signed an energy services agreement with Ocean State BTM, LLC for a battery storage device to help manage Pascoag's peaks for transmission forward capacity market purposes. Mr. Kirkwood identified this as part of the non-wires alternative solution for the need to enhance its connection to TNEC and through TNEC to the rest of the New England network. Because Pascoag sometimes approaches and exceeds the thermal limits on feeder lines that connect it to the outside world, it implemented this cost-effective alternative which included expanding its substation capacity, moderate changes to the TNEC system, and implementation of a 3 MW/9 MWh battery storage DG unit when one of the feeder lines is out of service. Because the substation work had the implementation of battery storage as part of the solution, Pascoag was eligible for financing through the Rhode Island Infrastructure Bank and for a \$250,000 grant from the Office of Energy Resources. Mr. Kirkwood noted that this project became operational in July 2022, and contributes greatly to reliability.¹²

Ms. Young's Testimony

¹⁰ *Id.* at 3-4.

¹¹ Prior to May 25, 2022, The Narragansett Electric Company was doing business as National Grid. Subsequently, it was acquired by PPL and is presently doing business as Rhode Island Energy.

¹² *Id.* at 4-5. See PUC order No. 22876 in Docket No. 4636 for the PUC's approval of the ISM Solar Facility Agreement.

Ms. Young filed testimony on November 7, 2022 and later amended it on December 1, 2022. Her testimony summarized the reconciliation of the factors and estimated a year-end under-collection of \$134,097. She stated that the District's cash flow in 2022 was tight in September in part from record high power bills for July and August. She noted that although Pascoag did not have to use any funding from the PPRF, it provides a safety net should it become necessary for Pascoag to pay its power bills in a timely manner.¹³ The expected balance in the PPRF after reconciliation will be less than \$500,000. Pascoag requested that the credit ordered in Docket No. 5194 be suspended.¹⁴

Ms. Young reported that the Restricted Fund for Capital and Debt Service, which provides for withdrawals and deposits as necessary for capital projects and purchases, was fully funded and had a balance as of the filing of \$750,777.03. She noted that the District met its Storm Fund funding goal of \$12,000 for 2022, with a \$12,000 annual payment made in quarterly increments of \$3,000. As of November 2022, the Storm Fund balance was \$127,900.¹⁵

The reasons for the under-collection in 2022 identified by Ms. Young were because of the number of months where Pascoag had under-collections which exceeded the four months of over-collections. Pascoag received Forward Capacity Market credits, Use Right credits from Hydro Quebec, a default credit from Gravel Pit Solar II, REC sales credits, ISM Solar revenue totaling \$316,341.24. It projected the cumulative under-collection for year-end 2022 to be (\$134,097)

¹³ Young Test. at 2 (Nov. 7, 2022). The PPRF is a reserve account that Pascoag uses when power costs rise significantly. The goal of the fund is to ensure that Pascoag has sufficient revenues to meet one month of its power bills. The PPRF provides for a safety net equal to one month of the District's highest month of power bills, on average. In Docket 4341 (2012), upon concerns that the District's largest industrial customer, Danielle Prosciutto International (DPI), might leave the service territory, the PUC approved transferring DPI's base rate revenues, (customer charges and demand charges) into the PPRF on a monthly basis. Additionally, due to continued uncertainty of DPI's future, base revenues from DPI are not included in the District's revenue requirement. In Docket 4584 (rates for 2016), the PUC increased the target funding for the PPRF to \$550,000. In Docket No. 5194, the Commission reduced funding of this account to \$500,00, the average of one month's power bill, and ordered Pascoag to credit customers with the amount of \$114,900.

¹⁴ Young Test. at 2-3 (Nov. 7, 2022).

¹⁵ *Id.* at 4.

which is the net of \$51,959 Power Supply Service and (\$186,057) Transmission. In all, total credits received were \$316,341.24.¹⁶

Ms. Young stated that the 2022 forecasted power and transmission expense of \$6,262,384 is \$563,434 more than the 2022 budget of \$5,698,950 to which Pascoag added \$10,000 in expected legal fees for 2023.¹⁷ She identified twelve adjustments used by Energy New England (ENE) in its 2022 Bulk Power Cost Projections for Pascoag: (1) adjustments for the Seabrook projections, including a fixed cost reduction; (2) NYPA projections that reflect a net decrease; (3) updated capacity projections; (4) updated NextEra Rise Call Options expiring in May 2023; (5) a net increase in bilateral transactions; (6) a change from resales to purchases with ISO-NE; (7) an increase in charges by ENE to regular and short supply; (8) an overall net increase to adjustments in estimated ISO-NE expenses; (9) the ISM Solar credit; (10) an increase in Network Transmission charges; (11) ENE adjustments to the sub-transmission charges; and (12) a net adjustment of \$6,694 for the Hydro Quebec Transmission Charges. The twelve adjustments resulted in a \$563,434 increase to the Pascoag 2023 budget.¹⁸

Ms. Young provided that the impact of Pascoag's proposed changes would result in a monthly increase of \$9.04 for a residential customer using 500 kWh. She noted that Pascoag did not use a growth factor in its assumptions due to very slow growth and the impact of energy efficiency measures upon consumptions levels. Finally, she indicated that Pascoag continues to experience difficulty in collecting from its protected and financial hardship customers and projected total uncollectibles in 2022 of \$25,144.¹⁹

¹⁶ *Id.* at 4-5.

¹⁷ *Id.* at 6-7.

¹⁸ *Id.* at 7-8.

¹⁹ *Id.* at 8-10.

As stated above, Pascoag filed supplemental testimony and exhibits on December 1, 2022, updating estimates in its original filing and revising its forecast using a three-year average for January through November 2020, 2021, and 2022 and a two-year average using consumption from 2020 and 2021 for December. The updated figures, which include actual power costs for October and November 2022, revealed an under-collection of \$43,613 as opposed to the \$134,097 under-collection in Pascoag's initial filing. It estimated 2023 sales to be 53,958 MWH. Pascoag amended the rates originally proposed in its November 7, 2022 filing. The impact of the amended proposed rates on a residential customer using 500 kWh per month would be an increase of \$8.27 from current rates, or a 10.2% increase.²⁰

III. The Division of Public Utilities and Carriers

The Division's memorandum reviewed the initial rates proposed by Pascoag in its November 7, 2022 filing as well as the updated rates in Pascoag's December 1, 2022 filing, which included actual October expenses. The Division noted that Pascoag's transmission expense was higher than forecasted and found Pascoag's explanation of increased NYPA costs related to congestion pricing and higher transmission charges causing the increase as reasonable. It supported Pascoag's use of a 3-year average to set its sales forecast and found that to be reasonable.²¹

The Division noted that Pascoag's power supply portfolio has mitigated price increases seen throughout the region and its proposed increase is considerably lower than other utilities in the area. Regarding the PPRF credit, the Division found that the request to suspend it is reasonable and that maintaining the \$500,000 balance is also reasonable considering the increase in power expense Pascoag experienced in 2022.²²

²⁰ Young Addendum at 2-3 (Dec. 1, 2022).

²¹ Bell Mem. at 2-3 (Dec. 13, 2022).

²² *Id.* at 4-5.

After review of Pascoag's testimony, calculations, and invoices, the Division concluded that the proposed rates were reasonable and accurately calculated, and recommended approval of the rates for usage on and after January 1, 2023.²³

The Commission held an evidentiary hearing on December 19, 2022. At the hearing, Mr. Kirkwood provided testimony about Pascoag's power supply portfolio which is made up of both long and intermediate-term contracts aimed at minimizing open market purchases. He testified that although transmission costs are increasing this is evidence of the buildout occurring to move around the power supply that is critical to decarbonization. He opined that although the cost of power in New England will increase due to resources in the region getting tighter, there should be moderation of the costs over time. He explained that the reason he keeps a portion of Pascoag's portfolio open, is because the markets tend to react and then stabilize.²⁴

Mr. Kirkwood testified that the reasons for under-forecasting 2022 transmission expense was because regional network service expenses have been increasing and the direct assignment facility charge has increased. He stated that even though not required by law, Pascoag has been selling Renewable Energy certificates (RECs) that it buys from some of its renewable resources. He noted Pascoag will move to sell less of its RECs as it moves toward 2033 and having a completely sustainable portfolio. However, because energy prices have increased, Mr. Kirkwood stated that he is trying to sell all of the RECs now to minimize the cost of Pascoag's power supply.²⁵

At an Open Meeting held on December 20, 2022, the Commission unanimously voted to approve Pascoag's updated proposed rates effective for usage on and after January 1, 2023. As in previous years, the evidence provided by Pascoag demonstrated its continued efforts to operate in

²³ *Id* at 4.

²⁴ Hr'g Tr. at 10-11 (Dec. 19, 2022).

²⁵ *Id.* at 12-15.

a superb and efficient manner, providing high quality and committed service to its customers. The Commission 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. Regarding Pascoag's request and with the Division's recommendation, the Commission found that terminating the Power Purchase Restricted Fund Credit is reasonable as there are no longer funds in excess of \$500,000 in the PPRF to be returned to ratepayers. The Commission agrees with Pascoag and the Division that continuation of the PPRF is reasonable to ensure Pascoag is able to pay its power invoices in a timely manner especially in light of price increases in the region. The Commission recognizes Pascoag's efforts to contribute to the state's energy goals even though not mandated by statute. Additionally, the Commission approved Pascoag's supply portfolio pursuant to R.I. Gen. Laws § 39-1-27.8.

ACCORDINGLY, it is hereby

(24646) ORDERED:

1. Pascoag Utility District's Power Supply Service Charge of \$0.068549 per kWh is approved for usage on and after January 1, 2023.
2. Pascoag Utility District's Transmission Charge of \$0.048506 per kWh is approved for usage on and after January 1, 2023.
3. Pascoag Utility District's Purchase Power Restricted Fund credit is hereby terminated effective January 1, 2023.
4. Pascoag Utility District's supply procurement plan as required by R.I. Gen. Laws § 39-1-27.8 is approved.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JANUARY 1, 2023 PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 20, 2022. WRITTEN ORDER ISSUED APRIL 19, 2023.

PUBLIC UTILITIES COMMISSION



Ronald T. Gerwatowski

Ronald T. Gerwatowski, Chairman

Abigail Anthony

Abigail Anthony, Commissioner

John C. Revens, Jr.

John C. Revens, 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 seven 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.