Memorandum

To: **L. Massaro**

Commission Clerk

From: D. R. Stearns

Rate Analyst, Division of Public Utilities & Carriers

Date: **January 19, 2005**

Re: Pascoag Utility District Transition, Transmission, and Standard Offer Charges, RIPUC Docket 3657

On December 30, 2004 Pascoag Utility District ("Pascoag", or "Company") submitted to the Commission a semi-annual reconciliation of Pascoag's tariff adjustment provisions.

The semi-annual filings are intended to reconcile revenue and costs associated with Pascoag's Standard Offer, Transmission, and Transition accounts, and to set rates to recover forecast costs associated with these accounts, on an ongoing basis.

Pascoag's proposed change in rates is primarily the result of a projected net over- recovery of costs totaling approximately $392,074 at the end of the January 2005, with actual amounts through November 2004 and estimates for December 2004 and January 2005.

This over-recovery is comprised of:

- Standard Offer: over-recovery of approximately $242,500
- Transmission: under-recovery of approximately $11,427
- Transition: over-recovery of approximately $161,000.

An over recovery for this period had been anticipated. When Pascoag filed its semi-annual reconciliation in July 2004 the Commission maintained the rates at the then-current level. This was done in anticipation of Pascoag negotiating new power supply contracts for 2005 at a higher cost than the contracts in effect for 2004. In fact, the 2005 forecast total power costs are $72.21 per MWh, an increase of 23% compared with February 2004 through January 2005 (December and January Estimated) cost of $58.89 per MWh.

A similar comparison of the Standard Offer portion of power costs for the same periods indicates an increased Standard Offer cost to customers of $0.01285 per kWh (27.6%), from $0.04652 to $0.05938 per kWh.

The over recovery negates the effect of the higher costs.

The over recovery at January 2005, with two months estimated, is higher than the Company had anticipated in its July 2004 filing. Pascoag's discussion of the reasons for the difference are explained in detail on pages 1, 4 and 5 of the direct testimony of Judith R. Allaire, Customer Service and Accounting Manager for Pascoag.

In the filing the Company presents two sets of rate calculations: "Scenario I" and "Scenario II".

The first, "Proposed Scenario I", would refund the forecast over recovery within the six month period February through July, 2005 and allow Pascoag to recover forecast energy costs incurred during that period. The result is a decrease of $5.52, or 9.8% in the typical monthly 500 kWh bill of a residential customer. Under this scenario, presumably there would be an increase anticipated in August of 2005, as there would be no remaining over recovery to apply against the higher power supply costs of the new contracts.

The second, "Proposed Scenario II", calculates rates that would refund the over recovery over the twelve month period February 2005 through January 2006 and allow Pascoag to recover forecast energy costs incurred during that period. The result is a decrease of $0.23, or 0.4% in that same typical bill. Under this scenario, the expectation is that stable rates would be in effect for the twelve month period beginning in February 2005, as the over recovery would offset higher contract supply costs through January 2006.

After review, the Division recommends approval of the Standard Offer, Transition and Transmission rates proposed by Pascoag in the Company's "Proposed Scenario II" described above. This scenario, resulting in a modest typical bill reduction of $0.23, or 0.4%, during a twelve-month period, provides a continuation of the stability enjoyed by Pascoag's customers and avoids sending a misleading price signal to customers as a large decrease would. Additionally, the over collection was accumulated over the twelve-month period February 2004 through January 2005. Considering individual electricity usage patterns, refunding the over collection over a similar twelve-month period, February 2005 through January 2006, should make it more likely that those customers responsible for the over recovery receive the proper level of refund. The following is a comparison of "Proposed Scenario II" rates with current rates:

$ Per kWh

	Current	Proposed	Increase/(Decrease)
Transition	$0.00701	$0.00234	$(0.00467)
Transmission	$0.00937	$0.01043	$ 0.00106
Standard Offer	$0.05167	$0.05482	$ 0.00315
Total	$0.06805	$0.06759	$(0.00046)

As stated, the net effect of the rates above would decrease the bill of a typical residential customer using 500 kWh by $0.23, from $56.49 to $56.26. This represents a decrease of about 0.4 percent.

The Division also recommends that Pascoag be required to file with the Commission a status report by June 30, 2005. This status report should include the actual level of over recovery or under recovery as of May 31, 2005 and projection of the level of over recovery or under recovery expected at July 31, 2005 and at January 31, 2006. A determination should then be made by the Commission as to whether the approved rates should remain in effect through January 2006 or be adjusted for the six-months August 2005 through January 2006.

The Division further recommends that the proposed rates become effective for consumption on and after February 1, 2005.

Cc: Thomas Ahern,

Administrator, Division of Public Utilities and Carriers