

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

**IN RE: PASCOAG UTILITIES DISTRICT** :  
**ANNUAL RECONCILIATION OF STANDARD** : **DOCKET NO. 4664**  
**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 4, 2016, Pascoag Utility District (Pascoag or District) submitted an annual reconciliation of its Standard Offer Service,<sup>1</sup> Transmission,<sup>2</sup> and Transition<sup>3</sup> Rates for effect January 1, 2017.<sup>4</sup>

Although there was a \$185,609 anticipated over-collection as of December 31, 2016, Pascoag requested that the Public Utilities Commission (PUC) approve an increase in rates that would amount to an increase of \$2.30, or 3.14%, for a residential customer using 500 kilowatts (kW) of electricity a month. On November 29, 2016, 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 \$0.05401 per kWh to \$0.05850 per kWh, an increase in the Transmission charge from

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<sup>1</sup> Pascoag's tariff defines its Standard Offer Service charge as the charge for Pascoag to provide energy to its customers.

<sup>2</sup> The Transmission Charge recovers Pascoag's costs of getting electricity from the generating station to Pascoag's sub-station.

<sup>3</sup> The Transition Charge is a surcharge representative of a transition cost paid by Pascoag to other utilities and suppliers.

<sup>4</sup> 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 to \$0.03200 per kWh, an increase in the Transition Charge from \$0.00957 per kWh to \$0.01023 per kWh, and a Purchase Power Reserve Fund Credit of (\$0.00445).<sup>5</sup> On December 8, 2016, it again modified its original filing to reflect its decision to increase the credit to its customers from \$250,000 to \$375,000 for an over-collection to its Purchase Power Restricted Fund. Based on the updated schedules, Pascoag's customers will experience a 1.3% increase in rates or a monthly increase for a residential customer using 500 kWh of electricity of \$0.94.<sup>6</sup>

In support of its filing, Pascoag presented the 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 56% 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 unit transaction with NextEra Energy Power Marketing. The remaining 44% of Pascoag's power entitlements are a combination of 18% nuclear power and 26% renewable/sustainable energy, consisting of wind and hydro power.<sup>7</sup>

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

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<sup>5</sup> Dollar amounts in parentheses denote negative amounts or decreases.

<sup>6</sup> Pascoag Add. (Nov. 29, 2016).

<sup>7</sup> Kirkwood Direct Test. at 1 (Nov. 4, 2016).

advisor, Energy New England (ENE), entered into a 100% load-following contract for the 2015-2017 term at a fixed price of \$0.0703 per kWh.<sup>8</sup>

Regarding the Company's power agreements, Mr. Kirkwood noted that Pascoag extended the EEI Master Agreements, which are currently in place with TransCanada, NextEra Energy, Constellation Energy, and Macquarie Energy. Pascoag supplemented those agreements with PSEG Energy Resources & 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.<sup>9</sup>

Mr. Kirkwood stated that Pascoag extended its renewable energy entitlement with Miller Hydro until 2021, allowing it to continue to have a portfolio that includes a high percentage of renewable power. It is also exploring solar development within its service territory and entered into a twenty-year contract for wind power from the Canton Mountain project, expected to be operational in late 2017.<sup>10</sup>

Ms. Round summarized the reconciliation of the factors and estimated an over-collection of \$185,609. She provided that the expected year-end balance in the Purchase Power Reserve Fund to be \$844,226.80. She noted that while formal requests to Daniele Prosciutto International (DPI) regarding its intentions to continue to operate in Pascoag's service territory have remained unanswered, the District has received information that DPI has upgraded some equipment and does not intend to cease operations in the near

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<sup>8</sup> *Id.* at 1-2.

<sup>9</sup> *Id.* at 2.

<sup>10</sup> *Id.* at 3-5. Canton Mountain is an eight turbine, 22.8 MW commercial scale wind project in Canton, Maine.

future. Last year, in Docket No. 4584, the District was authorized to flow back the balance of \$230,924 to customers, \$125,000 from 2016 and \$105,924 from 2017. Ms. Round represented that Pascoag was requesting to increase the 2017 amount to \$250,000. She also discussed the Restricted Fund for Capital and Debt Service. She noted that as of the date of the reconciliation, that account with Freedom Bank had a balance of \$636,553. The account allows for withdrawals and deposits as necessary for 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 a cap of \$100,000. To date, the Storm Fund has a balance of \$65,494.<sup>11</sup>

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 September period, it is still estimating an over-collection of \$185,609 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 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.<sup>12</sup>

Ms. Round noted that the 2017 forecasted power and transmission expense of \$5,871,171 is \$42,482 less than the 2016 budget forecast. She identified seven adjustments used by ENE in its 2016 Bulk Power Cost Projections for Pascoag: (1) adjustments for the Seabrook projections, including a fixed cost reduction and surplus funds being applied; (2) NYPA projections that reflect a change in entitlements and a reduction to transmission due to the change in entitlement; (3) updated capacity

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<sup>11</sup> Round Direct at 1-4 (Nov. 4, 2016).

<sup>12</sup> *Id.* at 5-7.

projections; (4) updated NextEra Rise Call Options including a price lock; and (5) inclusion of the Miller Hydro contract extension, a place holder for REC sales on Spruce Mountain, and a contract reduction for TransCanada; (6) a change from resales to purchases from ISO-NE Power; and (7) adjustments made to ISO-NE expenses.<sup>13</sup>

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 \$2.30. 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.<sup>14</sup>

As stated above, Pascoag filed supplemental testimony and exhibits to update estimates in its original filing on November 29, 2016. The updated figures, which include actual power costs for October 2016, revealed an over-collection of \$211,748 as opposed to the \$185,609 over-collection in Pascoag's November 4, 2016 filing. Pascoag proposed a Standard Offer Service rate of \$0.05850 per kWh, a Transition rate of \$0.01023 per kWh, a Transmission rate of \$0.03200 per kWh, and a Purchase Power Restricted Fund credit of (\$0.00445) per kWh. The impact of the proposed rates reflecting this over-collection on a residential customer using 500 kWh per month would be a increase of \$2.06 from current rates.<sup>15</sup> Pascoag filed one additional supplemental update on December 8, 2016. This update provided for an increase in the amount of

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<sup>13</sup> *Id.* at 7-8.

<sup>14</sup> *Id.* at 8-9.

<sup>15</sup> Round Supplemental at 1-2 (Nov. 29, 2016).

refund from the Purchase Power Restricted Fund from \$250,000 to \$375,000. This results in a factor of (\$0.00667).<sup>16</sup>

On December 8, 2016, 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 that the PUC approve the rates proposed by Pascoag. Ms. Smith's Memorandum set forth the rates proposed by Pascoag on November 4, 2016 as well as those updated on November 29, 2016 and December 8, 2016 which included actual October expenses and an adjustment to the Purchase Power Restricted Fund. She noted that Pascoag's original filing proposed flowing back \$250,000 of the Purchase Power Restricted Fund; however this still allowed for a balance in that account in excess of its \$550,000 target. She provided that after discussion with the Division, Pascoag agreed to increase the amount to be returned to customers to \$375,000.<sup>17</sup>

Ms. Smith also discussed Pascoag's supply portfolio and noted that its three-year contract with TransCanada for load-following service provides protection against spot market price spikes. She found the proposed charges to be reasonable and correctly calculated. She identified a monthly increase of \$0.94 for a 500 kWh residential customer and recommended the Commission approve those rates for usage on and after January 1, 2017.<sup>18</sup>

On December 12, 2016, following public notice, the Commission conducted an evidentiary hearing. Counsel for Pascoag, William Bernstein, provided opening comments reminding the Commission that Pascoag's 2016 filing provided a significant decrease to its ratepayers. He attributed the prior decrease to market conditions which he

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<sup>16</sup> Round Supplemental at 1 (Dec. 8, 2016).

<sup>17</sup> Smith Mem. at 1-2 (Dec. 8, 2016).

<sup>18</sup> *Id.* at 2-3 (Dec. 8, 2016).

noted were different this year. He stated that initially, Pascoag had requested a 2.3% increase in rates; however, after incorporating October's actual data and agreeing with the Division to increase the amount of flowback to customers from the PPRF, Pascoag was able to reduce the requested percentage increase to 1.3%.<sup>19</sup>

Mr. Kirkwood briefly explained how Pascoag had renegotiated its contract for St. Lawrence hydro power with NYPA at no increase in price and for a term of fifteen years. Currently, Pascoag is paying approximately \$0.025 per kW. He indicated that although Pascoag got its 1 MW direct allocation, it was not able to retain the additional 0.6 MW it had previously obtained from Allegheny. He noted that the 1 MW was in addition to 0.7 MW of Niagara power.<sup>20</sup>

Mr. Kirkwood also discussed the load-following deal it has with TransCanada for \$0.07 per kW that expires in 2017. He testified that Pascoag entered into a new load-following contract with Public Service Electric and Gas, a company with generation in New England, for \$0.04575 cents per kW which will help offset the increase in transmission and capacity costs. He stated that the benefit of this contract will appear in next year's filing.<sup>21</sup>

Leo Wold, counsel for the Division, 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.<sup>22</sup>

Immediately following the evidentiary hearing on December 12, 2016, the PUC voted to approve Pascoag's proposed rates effective for usage on and after January 1, 2017. As in previous years, the evidence provided by Pascoag demonstrated its continued efforts to

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<sup>19</sup> Hr'g Tr. at 4.

<sup>20</sup> *Id.* at 5-7.

<sup>21</sup> *Id.* at 7-9.

<sup>22</sup> *Id.* at 10.

operate in a superb and efficient manner, providing high quality and committed service to its customers. 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. Commissioner DeSimone made note of the Division's thorough review of Pascoag's filing and its well prepared and detailed memorandum. The Commission also approved Pascoag's supply portfolio pursuant to R.I. Gen. Laws § 39-1-27.8.

ACCORDINGLY, it is

(22762) ORDERED:

1. Pascoag's Standard Offer Charge of \$0.05850 per kWh is hereby approved to be effective for usage on and after January 1, 2017.
2. Pascoag's Transmission Charge of \$0.03200 per kWh is hereby approved to be effective for usage on and after January 1, 2017.
3. Pascoag's Transition Charge of \$0.01023 per kWh is hereby approved to be effective for usage on and after January 1, 2017.
4. Pascoag's Purchase Power Restricted Fund credit of (\$0.00667) per kWh is hereby approved to be effective for usage on and after January 1, 2017.
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, 2017  
PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 12, 2016.  
WRITTEN ORDER ISSUED ON APRIL 11, 2017.

PUBLIC UTILITIES COMMISSION



*Margaret E. Curran*  
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Margaret E. Curran, Chairperson

*Herbert F. DeSimone, Jr.*  
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Herbert F. DeSimone, Jr., Commissioner

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Marion S. Gold, Commissioner\*

\*Commissioner Gold did not participate in this hearing or decision.