STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT	:	
STANDARD OFFER SERVICE CHARGE,	:	DOCKET NO. 2861
TRANSITION CHARGE AND TRANSMISSION	:	
CHARGE FILING	:	

REPORT AND ORDER

Introduction

On January 6, 2003, the Pascoag Utility District ("Pascoag") filed proposed changes to Pascoag's Standard Offer Service Charge, Transmission Charge and Transition Charge with the Rhode Island Public Utilities Commission ("Commission"). The proposed changes were to take effect on February 6, 2003 pursuant to a semi-annual purchased power reconciliation plan.[1] On January 28, 2003, Pascoag revised its Pre-filed Testimony and Supporting Schedules.[2] In its filing, Pascoag proposes two alternatives.

The first option would decrease its Standard Offer Charge from the current 4.514 cents per kilowatt-hour (kWh) to 3.431 cents per kWh; and increase the Transmission Charge from the current .487 cents per kWh to .701 cents per kWh. Under this scenario, Pascoag would re-establish a Rate Stabilization Fund ("RSF") in the amount of $75,000 and, therefore, the Transition Charge would increase from the current .641 cents per kWh to 2.223 cents per kWh. The cumulative effect of these changes would be to increase the monthly electric bill of a typical

[1] Pascoag Ex. 03-1.

residential customer using 500 kWh per month by $3.56, from $48.32 to $51.88, an increase of 7.4%.[3]

The second option would similarly decrease Pascoag's Standard Offer Charge from the current 4.514 cents per kilowatt-hour (kWh) to 3.431 cents per kWh; and increase the Transmission Charge from the current .487 cents per kWh to .701 cents per kWh. Under this scenario, however, Pascoag would not re-establish a Rate Stabilization Fund in the amount of $75,000, and therefore, the Transition Charge would increase from the current .641 cents per kWh to 1.892 cents per kWh. The cumulative effect of these changes would be to increase the monthly electric bill of a typical residential customer using 500 kWh per month by $1.91, from $48.32 to $50.23, an increase of 3.9%.[4]

Standard Offer Service Charge

Electric distribution companies are required by R.I.G.L. § 39-1-27.3 to provide Standard Offer Service ("SOS") to retail customers who choose not to purchase power through the retail access market from non-regulated power producers. Pascoag offers SOS to any customer not otherwise served by a non-regulated power producer even if the customer has previously left the system and wishes to return to having Pascoag supply its energy needs.

[2] Pascoag Ex. 03-2.
[3] Id.
[4] Id.

The proposed decrease in Pascoag's SOS rate is based upon Pascoag's estimated purchased power costs for the upcoming six-month period. These estimates are based upon projections supplied by Energy New England ("ENE") for the period of February 2003 through July 2003, as well as assumptions regarding the market cost of power. The proposed SOS also includes any reconciling balance for the prior six-month period.

The substantial reduction in the SOS rate is due to the correction of an error that had occurred in January 2001 when Pascoag carried forward the previous month's difference. The amount carried forward was correct in total, but not in rate component. According to Pascoag, the cause was a worksheet error that resulted in a recordation of a large over-recovery in the transition charge and a large under-recovery in the SOS rate. Therefore, although the total rate for SOS, transition and transmission was correct, the SOS rate was artificially high and the transition rate artificially low. Since January 2001, however, Pascoag has not had any customers leave SOS to purchase energy from another supplier. Therefore, according to Pascoag, no customers were harmed as a result of the error.[5]

The revised filing proposes a decrease in the SOS rate from 4.514 cents per kWh to 3.431 cents per kWh for the period beginning February 6, 2003. This factor was determined as follows:

Forecast Standard Offer cost (February 2003 through July 2003)	$ 1,077,119
Reconciling period cost (June 2002 through November 2002)	$ 1,116,626
Reconciling period revenues	($ 1,113,504)
Overcollection from May 2002	($ 303,098)
Total Standard Offer costs to recover	$ 777,143
Forecast MWH sales for the period	22,652
Standard Offer factor ($777,143/22,652,000)/kWh	$ 0.03431[6]

Transition Charge

Electric distribution companies are authorized by R.I.G.L. § 39-1-27.4 to collect a non-bypasssable transition charge from all customers of the electric distribution company. The Transition Charge includes the above-market cost of energy associated with Pascoag's purchases under the Seabrook Project Six Contract and its contract termination costs related to a Montaup Electric Company contract, net of transmission costs and any savings from re-marketing Seabrook energy. This netted cost is offset by the market value associated with Seabrook energy purchases. The market value used in this filing is 5.052 cents per kWh.[7]

In this filing, Pascoag's Transition Charge is based upon the forecast transition costs, as determined above, the reconciliation of past period costs, and from a refund of Project Six charges in a prior period.[8]

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[5] Id. at 1-2. Accordingly, the increase in the transition charge is the corollary of this explanation with regard to the SOS rate.

[6] Pascoag Ex. 03-2, Schedule H-1.

[7] Pascoag Ex. 03-2, (Pre-filed Testimony of Theodore Garille), pp. 9-10. In response to Order No. 17120 (issued September 5, 2002), Pascoag did not utilize the Narragansett Electric SOS contract rate as a proxy for the market rate. Instead, it studied a Base Load Market Rate Option (the value of base loaded, 100% capacity factor power in the market) and a Requirements Market Rate Option (the market rate at which a supplier would competitively serve a customer) and, after consultation with the Division, opted to use the latter for purposes of determining the market rate in this filing. Id.

[8] Pascoag Ex. 03-2 (Garille pre-filed testimony), p. 6.

Pascoag's filing proposes two alternative Transition Charge factors: the first, including the re-establishment of a rate stabilization fund,[9] sets the transition rate at 2.223 cents per kWh for the period beginning February 6, 2003. This factor was determined as follows:

Forecast Transition Cost (February 2003 through July 2003)	$ 323,877
Reconciling period cost (June 2002 through November 2002)	$ 393,082
Reconciling period revenue	($ 239,777)
Refund of Decommissioning Funds	($ 82,677)
Under Collection from May 2002	$ 34,023
Re-establishment of Project 6 Rate Stabilization Fund	$ 75,000
Total Transition Charge costs to recover	$ 503,528
Forecast MWH sales for the period	22,652
Transition Charge factor ($503,528/22,652,000)/kWh	$ 0.02223[10]

The second option, not including the re-establishment of the rate stabilization fund, sets the transition rate at 1.892 cents per kWh for the period beginning February 6, 2003. This factor was determined as follows:

Forecast Transition Cost (February 2003 through July 2003)	$ 323,877
Reconciling period cost (June 2002 through November 2002)	$ 393,082
Reconciling period revenue	($ 239,777)
Refund of Decommissioning Funds	($ 82,677)
Under Collection from May 2002	$ 34,023
Total Transition Charge costs to recover	$ 428,528
Forecast MWH sales for the period	22,652
Transition Charge factor ($428,528/22,652,000)/kWh	$ 0.01892[11]

Due to the fact that the Pascoag is requesting an overall rate increase even without the re-establishment of an RSF, it suggested the Commission order option two.[12]

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[9] The RSF was first established in Docket No. 1675 to afford ratepayers a level of rate stability at a time when Pascoag was filing for fuel adjustment factors. See Order No. 15206 (issued February 5, 1997). It was re-established in this Docket in 1999 to help mitigate unforeseen increases in expenses associated with the District's Project Six (Seabrook) ownership interest. See Order No. 15936 (issued August 30, 1999).
[10] Pascoag Ex. 03-2, Schedule H-1.
[11] Pascoag Ex. 03-2, Schedule H-2.
[12] Pascoag Ex. 03-2, (Pre-filed testimony of Theodore Garille), p. 13.

Transmission Charge

Pascoag also has a six-month reconciling Transmission Charge factor to recover the cost of transmitting energy from Pascoag's power supply sources to its distribution substation. The Transmission Charge applies only if a customer elects to have Pascoag provide transmission service to its distribution substation; otherwise the customer has the option of obtaining transmission service from its own suppliers.

Pascoag proposes to increase its Transmission Charge factor from .487 cents per kWh to .701 cents per kWh, based upon a reconciliation of Pascoag's actual transmission costs for the prior six-month period, as well as ENE's projection of transmission costs for the ensuing six months.[13]

The filing proposes a Transmission Charge factor of .701 cents per kWh for the period commencing February 6, 2003. This factor was determined as follows:

Forecast Transmission cost (February 2003 through July 2003)	$ 172,731
Reconciling period cost (June 2002 through November 2002)	$ 159,552
Reconciling period revenue	($ 134,701)
Overcollection from May 2002	($ 38,785)
Total Transmission costs to recover	$ 158,796
Forecast MWH sales for the period	$ 22,652
Transmission factor ($158,796/22,652,000)/kWh	$ 0.00701[14]

Market Environment

Pascoag noted that the market is different than it was in January 2002 due to increased commodity prices for oil and natural gas, global

[13] Pascoag Ex. 03-2 (Garille's pre-filed testimony) p. 6.
[14] Pascoag Ex. 03-2 Schedule H-1.

influences and the upcoming implementation of Standard Market Design ("SMD") in New England. In an attempt to stabilize energy costs for its customers, Pascoag is in the process of working with Massachusetts Municipal Wholesale Electric Company ("MMWEC") to obtain a credit rating. According to Pascoag, as it seeks contracts from the power market, the credit rating becomes increasingly important. Pascoag expects the cost of obtaining a rating to be approximately $10,000. Although the credit rating will not impact the cost of energy in the future, Pascoag notes that it will be useful to Pascoag to satisfy the financial assurance requirements imposed by energy suppliers.[15]

<u>Standard Market Design</u>

As part of its filing, Pascoag discussed the anticipated impact of SMD, scheduled to be implemented on March 1, 2003. At the outset, Pascoag noted that the uncertainty of the impact on energy suppliers was given as a primary reason for high energy contract prices.[16] It was Pascoag's position that although Rhode Island is seen as a low risk for congestion costs, suppliers may be responsible for congestion costs at hubs prior to making delivery to Pascoag. Therefore, the risk has been rolled into contract prices. Furthermore, there is concern that Pascoag's long term supply contracts that did not anticipate "locational" pricing may not be construed to require actual delivery to Pascoag at the closest

[15] Pascoag Ex. 03-2 (Pre-filed Testimony of Theodore Garille), pp. 3-4.

node in Rhode Island, but to another node or hub location that could require the payment of congestion costs. Therefore, Pascoag has taken steps to mitigate the impact to customers.

First, Pascoag has only entered into power supply contracts through May 2003 with the hope that the energy market will quickly adjust to SMD in practice and that the oil and natural gas commodity prices will stabilize somewhat. Second, Pascoag has been working with ENE to take part in Market Trials to bid on Financial Transmission Rights ("FTR"), a part of SMD that allows for hedging against high congestion costs through the receipt of offsetting income through Auction Revenue Rights.[17]

<u>Division's Position</u>

In a memorandum dated February 3, 2003, the Division of Public Utilities and Carriers ("Division") reviewed Pascoag's filing. The Division supported Pascoag's revisions to its SOS, Transition and Transmission Charges, noting that due to the increase in rates, the Division was also recommending that the Commission not allow the funding of the rate stabilization fund. However, because Pascoag's power supply contracts only extend through May 2003, the Division recommended that:

> when contracts become available for June and beyond, Pasocag review the rates in effect. If it is anticipated that the rates in effect would result in a combined over recovery or under recovery

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[16] Additionally, at the time Pascoag was seeking energy contracts, there was an oil worker labor dispute in Venezuela and a threat of war in the Middle East in the near future.

[17] Pascoag Ex. 03-2 (Pre-filed Testimony of Theodore Garille), pp. 4-6.

> balance at the end of July in excess of $250,000...Pascoag [should] file with the Commission a request to modify those rates.[18]

Public Hearing

Following due notice, a public evidentiary hearing was conducted at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island on February 5, 2003. The following appearances were entered:

FOR PASCOAG:	William L. Bernstein, Esq.
FOR DIVISION:	Leo Wold, Esq. Special Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson, Esq. Senior Legal Counsel

Theodore G. Garille, Pascoag's General Manager, Judith Allaire, Accounts and Customer Service Manager for Pascoag, and Timothy Hebert of ENE, a consultant retained by Pascoag, testified in support of the filing. No members of the public appeared to offer any comment regarding Pascoag's filing.

Power Supply Contracts

Addressing the shorter than normal contract period, Mr. Garille testified that the main driver was price. Normally, Pascoag attempts to enter into contracts with minimum terms of at least 12 months and in fact, in the past few years, has attempted to negotiate for terms as long as three years. However, in view of the current market volatility, Pascoag decided to enter into supply short-term contracts for January and February 2003, followed by new contracts for the period March through

[18] Division Ex. 03-1.

May 2003. Mr. Garille stated that generating facilities have been selling their supplies of natural gas on the open market rather than utilizing their supplies to generate electricity. It was his hope that as the weather becomes warmer and the company enters the "shoulder months," prices will stabilize and Pascoag will be able to enter into power supply contracts for at least the remainder of the year.[19] Ms. Allaire testified that she agreed with the Division's recommendation that Pascoag should make a reconciliation filing in May 2003 if the new contracts for May 2003 through January 2004 will cause an overall over-recovery or under-recovery of $250,000 or more by the end of July 2003.[20]

Given the short-term contracts and volatile market prices, Pascoag's contracts through May 2003 are fixed price contracts for blocks of energy sized to Pascoag's needs on a day-to-day, week-to-week and month-to-month basis. Specifically, the contracts for standard blocks of energy are for off-peak and on-peak load requirements. Additionally, Pascoag has purchased capacity, an ISO-NE requirement. As a result, Pascoag's energy supply portfolio consists of approximately 20% from Seabrook (absent an unexpected outage), 20-25% from New York Power Authority ("NYPA"), with the remaining energy, as well as capacity, being supplied under the Braintree all-requirements

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[19] Tr. 2/5/03, pp. 47-51. A shoulder month is one in which demand is not high either because of cold weather or because of warm weather.

[20] Id. at 82-84. Mr. Hebert testified that ENE is constantly monitoring market prices, which, at the time of the hearing, were forecast at approximately 5.23 cents per kWh for the period June through December 2003, and has a target price of under 5 cents per kWh. Id. at 51-53, 81-82.

contracts.[21] Mr. Hebert testified that the cost for power from Braintree includes Rhode Island-specific delivery to address the SMD concerns and responsibility for congestion costs.[22]

NYPA Power Update

Pascoag receives approximately 20-25% of its power supply from NYPA's St. Lawrence-FDR Plant and Niagara Plant. Pascoag receives a total of 2.4 megawatts from both plants: 1.6 megawatts from the St. Lawrence-FDR plant and .8 megawatts from the Niagara plant. Both plants are the subject of ongoing relicensing proceedings. If the St. Lawrence-FDR plant is relicensed without the requirement that the plant must allocate power to neighboring states, Pascoag would lose its ability to obtain the Niagara Plant power due to a North American Electric Reliability Council ("NERC") rule that does not allow an importation of power into the New England Power Pool from an out-of-state source if it is less than 1 megawatt. The delivered cost for this power is approximately 2.1 cents per kWh.[23]

Mr. Garille updated the Commission as to the status of the relicensing proceedings for both plants. He testified that he has been involved in the St. Lawrence-FDR Plant relicensing process since the beginning with the other six out of state allotees. Additionally, he has

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[21] Id. at 67-69, 72-73. "All requirements" refers to buying exactly what is needed each hour; no more or less. Id. at 73-74.
[22] Id. at 77-78. Pascoag may be responsible for congestion charges relating to its acquisition of Seabrook power; whether there would also be congestion costs relative to the NYPA power contract was uncertain at the time of the hearing. Id. at 78.
[23] Id. at 37-41.

attended meetings for the recently commenced Niagara Plant relicensing process. The St. Lawrence-FDR Plant relicensing process had become contentious with regard to continuation of out-of-state power allocations, but Mr. Garille is hopeful that the parties will be able to work out, at the very least, an extension through 2007, to obtain the same amount of power.[24] He will continue to keep the Commission apprised of developments in both relicensing processes.[25]

Rate Stabilization Fund

With regard to funding the RSF Mr. Garille testified that Pascoag would be able to again fund the RSF without utilizing the refund for "unnecessary decommissioning funds" that it had received from MMWEC in late 2002. Rather, Pascoag anticipates receiving a refund of some $75,000 to $100,000 of its deposit with MMWEC with regard to the working capital fund.[26] Therefore, because the RSF could be funded with only a 3.9% increase in rates, he proposed to fund the RSF with $75,000 of the anticipated working capital refund from MMWEC.[27]

According to Mr. Garille, the funding of the RSF would be viewed as cash on hand when Pascoag is reviewed for its credit rating.[28] He stated that the RSF would not be used to offset expenses without

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[24] Id. at 35-41.
[25] Id. at 41.
[26] In 2002, in order to meet certain ISO-NE financial requirements, Pascoag entered into a contract with MMWEC to establish a working capital fund. ISO-NE was seeking a $700,000 deposit and MMWEC only required a $200,000 deposit by Pascoag to the fund. See Order No. 17055 (issued July 11, 2002).
[27] Tr. 2/5/03, pp. 15-17, 92-94, 121.
[28] Id. at 19.

consultation with the Division. He expected the RSF could be used to offset an unexpected event, such as a long term unscheduled outage at the Seabrook plant or a sharp increase in spot market prices at a time when Pascoag required more electricity to satisfy its load, in the middle of a reconciliation period or to reduce a substantial rate increase when making a reconciliation filing.[29]

Speaking on behalf of the Division, Mr. Wold stated that the Division did not have a position on the new proposal for funding the RSF.[30]

Miscellaneous Items

In response to whether an effective date later in the month would assist Pascoag in the accuracy of its filings, Ms. Allaire agreed to use her best efforts to provide the Division with a draft reconciliation filing at least one week prior to filing with the Commission.[31]

Mr. Garille raised the issue of whether ISO-NY charges should be part of the SOS rate, as they are now, or may be more appropriately allocated to the transmission rate. There was discussion as to the effects on customers or reallocating these charges, depending on whether they take SOS or they purchase power from independent sources.[32]

In response to questions about the transition charges, Ms. Allaire testified that a $23,000 monthly contract termination charge will be fully

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[29] Id. at 96-99.
[30] Id. at 104.
[31] Id. at 84-86.

satisfied in October 2003. Therefore, Ms. Allaire expects the transition charge to be reduced in the next reconciliation filing. Additionally, Ms. Allaire expressed hope for the continuation of the refund as a result of the annual Project Six true-up.[33]

COMMISSION FINDINGS

After considering all of the evidence presented, the Commission rendered a decision from the Bench. The Commission found Pascoag's proposed revisions to its Standard Offer Charge, Transition Charge and Transmission Charge, resulting in a 3.9% increase, to be just and reasonable, supported by the evidence, and in the best interest of the ratepayers, and approved the proposed rate changes effective for bills rendered on and after February 6, 2003.

Because Pascoag's power supply contracts with Braintree only extend through May 2003, the Commission finds the Division's recommendation to be reasonable with regard to the date Pascoag must make its next reconciliation filing. If Pascoag anticipates that its new contracts will cause an over recovery or under recovery of $250,000 or more, Pascoag shall file with the Commission for new rates effective in June. Otherwise, Pascoag may wait until its customary six months to file. Regardless, the Commission encourages Pascoag to continue working with the Division prior to making its reconciliation filings.

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[32] Id. at 21-35.
[33] Id. at 115-117.

The Commission supports funding the RSF, finding that in the past, it has provided ratepayers with a cushion against unexpected occurrences associated with Pascoag's power supply contracts, such as extended unscheduled outages or sharp increases in spot market prices at a time when Pascoag may need to purchase more to meet its load. Accordingly, at such time as Pascoag receives the anticipated working capital refund from MMWEC, Pascoag shall provide notice to the Division and the Commission together with a proposal to fund the RSF. The Division shall then provide the Commission with a recommendation regarding the funding of the RSF. Unless there is a dispute between the parties or a request for a hearing, the Commission will decide the issue at an open meeting.

With regard to the issue of the appropriate allocation of ISO-NY charges, Pascoag and the Division shall examine this issue and make a recommendation in the next reconciliation filing.

The Commission is still concerned regarding the potential impact on Pascoag's rates of a loss of the NYPA power allocation. The Commission, as the bargaining agent for the State of Rhode Island, will continue to be involved in the relicensing process of the Niagara Plant with Pascoag.

Accordingly, it is

(17436) ORDERED:

1. Pascoag's proposed Standard Offer Charge of $0.03431 per kWh is hereby approved to be effective for bills rendered on and after February 6, 2003.
2. Pascoag's proposed Transmission Charge of $0.00701 per kWh is hereby approved to be effective for bills rendered on and after February 6, 2003.
3. Pascoag's proposed Transition Charge of $0.01892 per kWh is hereby approved to be effective for bills rendered on and after February 6, 2003.
4. Pascoag's shall file compliance tariffs in conformance with this Report and Order.
5. At such time as Pascoag receives the anticipated working capital refund from MMWEC, Pascoag shall provide notice to the Division and the Commission together with a proposal to fund the Rate Stabilization Fund.
6. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON FEBRUARY 6, 2003, PURSUANT TO A BENCH DECISION ON FEBRUARY 5, 2003. WRITTEN ORDER ISSUED ON APRIL 22, 2003.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Kate F. Racine, Commissioner

Brenda K. Gaynor, Commissioner