STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT	:	
GENERAL RATE FILING	:	DOCKET NOS. 3546 & 3580
AND SEMI-ANNUAL STANDARD OFFER	:	
SERVICE CHARGE, TRANSITION CHARGE	:	
AND TRANSMISSION CHARGE FILING	:	

REPORT AND ORDER

I. SUMMARY OF PROCEEDINGS

On August 8, 2003, Pascoag Utility District ("Pascoag") filed with the Public Utilities Commission ("Commission") a request seeking to implement new rate schedules for effect September 8, 2003, designed to collect additional revenue in the amount of \$488,515, or an increase of 30.9% for a total revenue requirement of \$2,069,071, excluding purchased power expenses.[1] The Commission suspended Pascoag's filing on September 3, 2003. This represents Pascoag's first such rate filing since 1997, and second such filing since 1982.

Pascoag's filing included a cost of service analysis and related rate design. The Division of Public Utilities and Carriers ("Division") filed testimony in support of a reduced revenue requirement and an alternative rate design. The parties subsequently filed a Settlement on January 2, 2004, with an addendum on January 9, 2004. The Settlement accepted the Division's revenue requirement with the addition of rate case expense and further accepted the Division's rate design. The rates developed under the

[1] Pascoag Utility District is a quasi-municipal electric distribution company owning no generation of its own. Pascoag purchases power on behalf of its customers and passes through the cost to customers. Pascoag's purchases power costs are adjusted on a semi-annual basis through any necessary adjustments to the transmission and transition charges. See R.I.G.L. §§ 39-1-27(g) (allowing the recovery of transition charges), 39-1-27.3 (requiring each electric distribution company to offer retail access from nonregulated power producers), 39-1-27.4 (authorizing transition charges). The remainder of Pascoag's non-purchased power costs related to distributing electricity and providing customer service and billing are recovered through Pascoag's distribution and customer charges.

Settlement were designed to collect additional revenue in the amount of $163,039, for a total revenue requirement of $1,774,728. At a public hearing held on January 9, 2004, the Commission staff presented two alternative rate designs intended to better match the rates for each rate class with the cost of serving that rate class.

On January 9, 2004, following a hearing on the evidence presented by all parties, the Commission denied the rate filing as filed on August 8, 2003. The Commission approved in part and denied in part the Settlement and Addendum thereto filed on January 2nd and January 9, 2004, respectively. Specifically, the Commission approved the revenue requirement agreed to in the Settlement and approved the balance of the Settlement, including the Division's cost allocation methodology. However, with regard to the rate design, the Commission approved "Alternative Two" presented by Commission staff, finding it to more accurately reflect the true cost of serving each class of customers, while also combining the Housing and Industrial Classes for purposes of administrative efficiency, all without causing rate shock to any class of customers.

With the exception of the Street Lighting Class, which should have experienced a 61.35% increase, but only experienced a 46.14% increase (the same increase as the Commercial Class), all other classes are within 5.31% of their respective cost of service. Therefore, the rate design accepted by the Commission is very close to matching the cost of service. Under the new rate design and the new rates, the Residential, Commercial and Street Lighting Classes experience distribution rate increases while the Industrial and Housing Classes experience distribution rate decreases. The effect on the average residential customer would be an increase from $57.20 to $59.56 or $2.36 per month, or 4.13%. However, the rates were set to become effective on usage on and after February

1, 2004, the same date as a proposed decrease to Pascoag's Standard Offer Service ("SOS"), Transmission and Transition rates.

On December 30, 2003, Pascoag submitted its semi-annual reconciliation of its SOS, Transmission and Transition Rates for effect February 1, 2004. In that filing, under the status quo of allocation of charges, Pascoag sought a decrease to the SOS charge from 5.619 cents per kWh to 5.579 cents per kWh, an increase to the Transmission charge from .453 cents per kWh to .525 cents per kWh and a decrease to the Transition Charge from 1.345 cents per kWh to .701 cents per kWh. However, Pascoag also sought to allocate charges from the New York Power Authority ("NYPA") identifiable as transmission to the transmission charge. If allowed, SOS would decrease to 5.167 cents per kWh, Transmission would increase to 0.937 cents per kWh and Transition would increase to 0.701 cents per kWh.

On January 29, 2004, after reviewing a filing by the Division and Pascoag's request, at open meeting, the Commission approved Pascoag's rates as filed, including Pascoag's request to allocate charges from NYPA identifiable as transmission to the transmission charge, on an interim basis effective on usage on and after February 1, 2004. On February 19, 2004, following a hearing on the matter, the Commission voted to approve the interim rates as final rates, finding the rates to be accurately calculated and further finding that allocation of the NYPA-related transmission charges to the transmission charge from the SOS charge is consistent with the purpose of the Utility Restructuring Act ("URA") of 1996, as amended 2002. The effect on the average residential customer, when combined with the simultaneous increase to distribution rates, is a decrease to the monthly bill, from $57.20 per month to $56.49 per month, or $.70 per month, or a 1.2% decrease.

II. PASCOAG'S GENERAL RATE FILING

On August 8, 2003, Pascoag submitted pre-filed testimony of Theodore G. Garille, General Manager and Robert L. Anderson of Hudson River Economics Group, Pascoag's consultant, in support of its request for an increase in its distribution rates and customer charges designed to increase distribution revenues by $488,515, or 30.9%, for a total cost of service, excluding power costs, of $2,069,071.

Included with its filing, Pascoag filed a cost of service study and requested a change in rate design. Pascoag used a test year November 1, 2001 through October 31, 2002 and a rate year November 1, 2003 through October 31, 2004. No normalizing adjustments were made as Pascoag determined that Fiscal Year 2002 was an average year.[2] The methodology Pascoag used in developing its cost of service was to increase all test year and operating expenses by a factor of 2%. Further, Pascoag included increases in debt service to build a new garage and replace vehicles. Pascoag included a line item for capital expenditures to be recovered over a five year period.

Mr. Garille indicated that the projected five year capital plan was designed to address several areas critical to providing safe and dependable operation of the electric system, including recurring expenditures necessary to address system growth and reliability, continuing the installation of the E-Metcom meters, modifying the existing distribution capacitor banks, upgrading transportation, and building a new garage and remodeling the existing administration building. Finally, Mr. Garille listed several

---

[2] Pascoag Ex. 1B (Pre-filed Testimony of Robert L. Anderson), pp. 7-8.

proposed tariff changes with regard to reconnection fees and interest payments on customer deposits.[3]

Mr. Anderson submitted testimony to present an analysis of the cost of service, Pascoag's revenue requirement and the related need to increase rates.[4] According to Mr. Anderson, Pascoag's current rates are insufficient to meet operating and maintenance expenses or to provide a rate of return.[5] According to Mr. Anderson, Pascoag's revenue requirement is made up of distribution operating expenses and a return on rate base.[6] After explaining his methodology in arriving at the appropriate cost allocation, Mr. Anderson determined that, with the exception of the Industrial Class, every class of customers was producing a negative rate of return.[7]

According to Mr. Anderson, after including all of Pascoag's proposed increases to operations and maintenance costs and the establishment of a "special fund to cover unexpected expenses" plus inflationary increases, if Pascoag's rates were to remain unchanged, the utility would generate a cash shortfall of $488,515, or 30.9%.[8]

In developing his cost of service study, Mr. Anderson allocated costs based on the following factors: customer factor used for apportioning customer-related costs, administrative and general factors, energy factor per class on a monthly basis, demand factors derived based on each customer class' respective coincident peak, industrial billing demands, system peak demand allocators, system and class demand, and labor related expenses, which were aggregated prior to allocation. Plant-in-service account

[3] Pascoag Ex. 1A (Pre-filed Testimony of Theodore G. Garille), p. 1-3.
[4] Pascoag Ex. 1B, p. 5.
[5] Id. at 6.
[6] Id. at 7.
[7] Id. at 8-14.
[8] Id. at 14-18.

balances were organized by utility function and classified according to Distribution Access or Customer basis.[9] Based on his cost allocation methodology toward fully cost-based rates pertaining to the Distribution Charge and his calculated revenue requirement, the charge for each class should increase as follows: Residential, 27.2%, Commercial, 102%, Industrial 10.5%, Housing Authority, 4.8% and Street Lighting, 52.2%.[10]

In order to provide for administrative efficiency, Pascoag proposed combining the Housing Authority Rate, comprised of a single customer, with the Industrial Rate, maintaining that the Housing Authority is sufficiently similar to the Industrial customers. If allowed, the Housing Authority would be the only customer under Pascoag's proposal to receive a decrease in both the customer charge and distribution charge. However, the members of the Residential Class would experience a one dollar increase in their customer charge and a .799 cent per kWh increase in their distribution charge, for an increase to the average residential customer using 500 kWh per month, on the distribution portion of the bill, of $5.00 per month, or approximately 21% of the distribution portion of the bill. The members of the Commercial Class would experience a $3.80 increase in its customer charge, from $6.20 to $10.00 and a 2.979 cent per kWh increase in its distribution charge. Mr. Anderson maintained that members of the Commercial Class should actually be paying a customer charge of $33.72 per month. Addressing the Industrial Class, under Pascoag's proposal, members would experience a $17.00 increase in their customer charge, from $58.00 to $75.00 and a $1.36 per kW increase in their distribution access charge. Mr. Anderson maintained that the members of the Industrial Class should actually be paying a customer charge of $291.57 per month. Upon being

---

[9] Id. at 10-13.
[10] Id. at 18.

combined with the Industrial Class, the sole Housing Authority customer would experience a decrease of $40 in its customer charge and a decrease in the demand access charge of $0.91 from $9.90 to $8.99 per billed kW. The street light increase would average 52.2%.[11]

III. DIVISION'S DIRECT TESTIMONY

A. Mr. Catlin's Pre-Filed Testimony

On November 4, 2003, the Division submitted the pre-filed testimony of Thomas S. Catlin, addressing Pascoag's revenue requirements and Richard A. Galligan, addressing Pascoag's customer class cost allocation and rate design. Mr. Catlin maintained that Pascoag required an increase in its distribution rates and customer charges sufficient to increase revenues by an additional $156,948, or 9.7%, for a total cost of service, excluding power costs, of $1,768,637.[12]

In arriving at his revenue requirement calculation, Mr. Catlin made adjustments to Pascoag's claimed revenues, expenses and debt service costs in the amount of $331,567. Mr. Catlin noted that while Pascoag projected a growth rate of 1.5%, it did not recognize in its calculations the related increase in revenues at present rates. Therefore, Mr. Catlin adjusted the rate year revenues to reflect the anticipated sales growth. Additionally, according to Mr. Catlin, Pascoag did not calculate the effect on revenues of its proposed

---

[11] Id. at 20-22. Because there is no "average commercial or industrial customer," the increase cannot accurately be quantified by percentage for the class. The Street Lighting class does not have a customer charge or a power-related charge which means that the 52.2% is the kWh increase on the distribution portion of the bill. For the percentage increase on the overall bill, including the power costs that were in effect prior to February 1, 2004, see Pascoag Exhibit 1B, Schedules RLA 20-24.

[12] Division Exhibit 1 (Pre-filed Testimony of Thomas S. Catlin), p. 4. Mr. Catlin commented that the approach followed by Pascoag in projecting rate year revenues and operating expenses was not consistent with the more thorough approach incorporated into utility rate filings. Id. at 5.

late fee or new reconnection charges. The total of these adjustments resulted in an increase to revenues of $31,133.[13]

Mr. Catlin recommended the Commission deny Pascoag's request to establish a rate stabilization fund of $150,000 over five years, and instead recommended that the Commission allow Pascoag to collect a 1.5% operating reserve allowance through rates, similar to that allowed to municipal water utilities. The adjustment resulted in a $3,863 reduction to Pascoag's cost of service.[14] Mr. Catlin also recommended the Commission deny Pascoag's request for a return on investment, noting that Pascoag operates on a cash basis. This means that "under the cash basis, the cost of service includes O&M expenses and taxes, just as under the utility basis. However, in lieu of depreciation and return on investment, the cash basis revenue requirements include principal and interest payments on debt (i.e., debts service) plus cash capital outlays." Additionally, under the cash basis, debt service already includes a "return on investment in the form of the interest on the outstanding balance of debt." Therefore, Mr. Catlin maintained that to allow a return on investment would allow Pascoag double recovery by including a return on net plant which has already been paid for or is being paid for by Pascoag's customers.[15]

Addressing Debt Service, both existing and new, Mr. Catlin made several adjustments to Pascoag's calculations. He noted that Pascoag had not adjusted test year debt service to reflect the ongoing level of principal and interest payments, noting that the amount included for principal payments was adjusted up from the test year, but was not tied to the actual rate year amount. In order to reflect the ongoing level of debt service for existing debt, Mr. Catlin proposed utilization of the average principal and interest

[13] Id. at 5-7.
[14] Id. at 7-8.
[15] Id. at 13-14.

payments for the years 2004 through 2006. He indicated that this methodology is consistent with Pascoag's proposal to use an average of several years to establish the allowance for debt service on new debt. Mr. Catlin's methodology reduced rate year operating costs by $51,316. Next, Mr. Catlin accepted Pascoag's proposal to collect in rates debt service based on an average of several years, but adjusted the amount included for debt service on new debt to reflect a longer repayment period and to correct an interest calculation error.[16] Mr. Catlin's proposed average annual allowance for debt service on new debt of $62,748 resulted in a $21,398 reduction from Pascoag's claim.[17]

With regard to Pascoag's proposed allowance for capital outlays, Mr. Catlin used an average expense based on the period 2004 through 2007, one year less than Pascoag, noting that it would be inappropriate to include 2003 in the calculation where the expenses will not occur until 2004 and it would be inconsistent with the new debt service period. This adjustment reduced the rate year expenses by $9,300.[18] Addressing treatment of revenue, Mr. Catlin recommended the Commission require Pascoag to establish a separate restricted account for capital costs including debt service and cash capital outlays.[19]

Mr. Catlin also made adjustments to lease payments to reflect the fact that Pascoag chose to purchase a vehicle rather than to lease a new one. This adjustment reduced rate year expenses by $7,049. He increased the revenue requirement by $3,997 to reflect conversion costs for Pascoag's new computer system. Finally, he adjusted

[16] Id. at 9-10. Pascoag's response to Division Data Request 1-5 indicated that Pascoag had discussed a 7-10 year repayment period as being reasonable. Mr. Catlin based his debt service allowance on the midpoint, 8.5 years. Id. at 11.
[17] Id. at 11.
[18] Id. at 12.
[19] Id. at 12-13.

Pascoag's rate year expenses downward by $653 to reflect his recommendation that Pascoag set its annual percentage rate on customer deposits consistent with Narragansett Electric's methodology to reflect the previous year's average interest rate on 10-year constant maturity treasury bonds.[20]

B. Mr. Galligan's Pre-Filed Testimony

1. Cost Allocation

Mr. Galligan argued that Pascoag's filing contained several deficiencies with regard to its methodology of cost allocation and rate design.[21] He explained that "the allocation of fixed, or capacity related, costs is the most controversial aspect of performing an allocated cost of service study."[22] He further indicated that a failure to allocate costs consistent with the principle of cost causality results in a misallocation of costs. He explained that with regard to services, meter and installations on customers' premises are individual customer demands and are useful in providing service to that customer. Therefore, allocating these types of costs on a customer basis is consistent with the principle of cost causality. On the other hand, "allocating all other distribution plant on peak demands only or on a combination of peak demands and number of customers does not allocate these costs on the basis of service units which have caused the costs to be incurred in the first place." According to Mr. Galligan, Pascoag had failed to give sustained energy demands distribution cost responsibility in its cost of service studies.[23]

---

[20] Id. at 14-17.
[21] Division Exhibit 2 (Pre-filed Testimony of Richard A. Galligan), p. 3.
[22] Id. at 5.
[23] Id. at 6. He explained that without annual electricity usage over which to amortize the annual costs of providing service, there would be no electric distribution system. If demand for electricity only existed at the time of peak demand, there would be no electric distribution system. Id.

Mr. Galligan indicated that it is proper to allocate distribution investment on the basis of both annual and peak in order to be consistent with the principle of allocating costs on the basis of cost causality. He noted that Pascoag's system has been designed to provide service during the entire year, but also needs to provide power during times of peak demand. Because of this, delivery costs must be allocated on the basis of both annual and peak demands for costs to be allocated in accord with the principle of cost causality.[24]

Mr. Galligan explained that one cannot simply divide Pascoag's total power purchases during a year by the number of hours in the year to calculate the appropriate demand measure because each hour is different. Rather, he maintained that it has to be based on Pascoag's annual load factor, or a ratio of the average demand (5,826 kW) divided by the peak demand (11,056 kW), which equals 52.7%, or approximately one half of the maximum capacity needed to meet peak demand.[25] Therefore, Mr. Galligan allocated 50% of the total distribution system plant investment costs on average demand. The other 50% was allocated to Pascoag's distribution system plant costs on the basis of peak demands because the peak demand is twice as large as the average demand and, although during an average period, only 5,826 is needed to provide adequate distribution service, during that one hour when demand is 11,056, the system must be able to meet it.[26]

With regard to the costs allocated on peak demands, Mr. Galligan took issue with Pascoag's methodology of allocating demand related costs to each class on the basis of the class coincident peak demands. In other words, the costs were allocated on the basis

---

[24] Id. at 7.
[25] Id. at 8.
[26] Id. at 8-9.

of each class' demand at the moment in time when Pascoag experienced its maximum system demand. He argued that this methodology results in a misallocation of costs which can be avoided by allocating the costs based on each class' noncoincident peak demand. In other words, according to Mr. Galligan, the costs should be allocated on the basis of the sum of class peak demands regardless of when they occur. He noted that allocation of costs based on noncoincident peak demand is "a common practice in allocating electric distribution demand related costs and also comports with the requirement to build sufficient capacity so as to be able to meet any class demand regardless of when or where those demands occur on an electric distribution system."[27] Therefore, in performing his cost of service study, Mr. Galligan "utilized noncoincident peak demands to allocate distribution costs upstream of services investment to all customer classes."[28] He further indicated that he had not allocated these costs on the basis of the number of customers, but rather, on the basis of average demands and class noncoincident peak. According to Mr. Galligan, distribution system line transformers and the facilities upstream of the transformers are sized to meet the maximum loads place on them, not the number of customers. In other words, the utility does not incur these costs just because there is a customer, but rather, because the customers have sustained demands for electricity which vary throughout the year. Therefore, Mr. Galligan argued that in order to calculate an allocated cost of service that is consistent with the principle of cost causality, it is reasonable to allocate distribution investment in transformers and

---

[27] Id. at 9-10.

[28] Id. at 10. The upstream distribution costs are those that are between the source voltage at the transmission system up to and including the transformer which steps the voltage down to secondary voltage.

other upstream distribution investment on the basis of average, or annual service requirements and on class peak demands, both of which cause those costs.[29]

2. Cost Revenue Requirement/Rate Design

After explaining his cost allocation methodology, Mr. Galligan summarized his calculation of Pascoag's revenue shortfall or surplus by class in accord with Mr. Catlin's recommended revenue increase. The revenue shortfall or surplus for each class corresponds with the increase or decrease that each rate class should experience if Pascoag were to move to fully cost based rates. Therefore, under Mr. Galligan's calculations, the Residential Class should experience an 11.2% increase, the Commercial class should face a 44.8% increase, the Industrial Class should receive a 15.6% decrease, the Housing Class should receive a 26.8% decrease and the Street Lighting Class should face a 57.6% increase.[30] Mr. Galligan indicated that the Division supports the move toward fully cost based rates, but suggested that if the Commission has concern with the amount of increase for the Street Lighting Class, it could moderate it by reducing the decrease the Industrial and Housing Classes would experience.[31] Additionally, Mr. Galligan indicated that the Division supports combining the Housing Class, a single customer class, with the Industrial Class because the Housing Authority loads are characteristic of smaller industrial loads that are already included in Pascaog's Industrial Rate.[32]

Turning to Pascoag's proposed customer charge, late fee, returned check fee and reconnection fee, Mr. Galligan indicated that the Division believed that the customer

[29] Id. at 10-11.
[30] Id. at 13-14.
[31] Id. at 14.
[32] Id. at 17.

charges are reasonable. With regard to the proposed 1.5% late fee on all customer bills, Mr. Galligan noted that these late fees would equate to the percentage Pascoag has to pay to its vendors if a payment is late. Mr. Galligan also indicated that the increased returned check fee will allow Pascoag to simply recover the amount a financial institution charges it for the customer's returned check. Finally with regard to the increased reconnection charges, Mr. Galligan agreed that these additional fees are cost based and will allow Pascoag to recover the revenue from the cost costing customers.[33]

IV. PASCOAG'S REBUTTAL

In its rebuttal testimony, filed by Mr. Anderson, Pascoag did not challenge the Division's recommended revenue requirement, with the exception of a request to increase the 1.5% operating reserve to a 2.0% operating reserve, which would produce $34,850, or $4,850 more than originally requested in annual funding for a rate stabilization fund.[34] Mr. Anderson took issue with many aspects of the Division's cost allocation methodology, indicating that his was more valid than Mr. Galligan's, arguing that the end result of the Division's allocated cost of service produces costs that approximate Pascoag's allocated costs of service.

V. DIVISION'S SURREBUTTAL

On December 19, 2004, the Division submitted the pre-filed surrebuttal testimony of Richard A. Galligan to address comments regarding cost allocation that were contained in Mr. Anderson's rebuttal testimony. Mr. Galligan disagreed that his cost studies and Mr. Anderson's cost studies produced comparable results. Mr. Galligan noted that the issue in dispute is "the allocation of certain costs upstream of customer

---

[33] Id. at 15-17.
[34] Pascoag Exhibit 3 (Rebuttal Testimony), pp. 16-17.

services on a customer or demand only basis, and whether certain demand-related costs upstream of poles, towers, fixtures and line transformers should be allocated on a coincident or noncoincident peak demand basis." He concluded that in the end, the Commission will set just and reasonable rates based on the evidence presented.[35]

VI. SETTLEMENT AND ADDENDUM

On January 2, 2004, Pascoag and the Division filed a Settlement Agreement resolving all issues in dispute. The parties agreed to a revenue requirement of $1,774,728, requiring an overall increase in Pascoag's rates by $163,039, or 10.1%. In summary, Pascoag agreed to the cost of service contained in the Division's Direct testimony with one adjustment. Pascoag had not included funds for rate case expense. Therefore, the parties agreed to a rate case expense of $24,000 amortized over four years. The parties noted that the rate changes are not evenly distributed over all rate classes because the parties agree that the new rates will ensure that Pascoag is better able to recover from ach customer class the costs associated with that customer class than the rates that were then in effect.

Under the Settlement, the impact on a typical residential customer using 500 kWh per month is $2.36 per month, or 4.13% over the current bill (an increase of $2.36 per month, or 11.81% in distribution related charges). However, Pascoag had, at that point, recently filed its Standard Offer reconciliation, which represented a decrease of $3.06 per month. Therefore, if the Settlement is approved and the reconciliation is approved, Pascoag residential ratepayers will actually receive an overall decrease in their bills on February 1, 2004.

[35] Division Exhibit 3 (Surrebuttal Testimony of Richard Galligan), pp. 1-10.

With regard to non-residential customers, the Street Lighting and Commercial Classes experience the largest percentage increase to bring those customers more in line with the cost of serving them. In fact, reviewing the Division's testimony, neither street lighting nor commercial customers are being brought completely in line with their cost of service due to a desire to avoid rate shock. The industrial and housing class, on the other hand experience decreases in their distribution rates.

Key factors agreed to by the parties are as follows: (1) that the Division supports Pascoag's request to move the NYPA transmission related charges from the SOS charge to the transmission charge, (2) that the interest rate applied to customer deposits be variable rather than fixed, (3) that the parties agree that it shall be the average rate over the prior calendar year for the 10-year constant maturity treasury bonds as reported by the Federal Reserve Bank, (4) that the rate shall be adjusted on March 1st annually, (5) that the Company shall assess a late fee of 1.5% on accounts that are more than 30 days past due, (6) that a $20 late fee will be assessed for dishonored checks, (7) that Pascoag's reconnect charges be changed, and (8) that a 1.5% Operating Reserve (approximately $26,000) be allowed on total expenses for the first time for Pascoag.[36]

On January 9, 2004, the parties filed an Addendum to the Settlement Agreement establishing a separate restricted fund for capital costs, including debt service and cash capital outlays to ensure proper matching of funds collected through rates to make principal and interest payments and to pay for cash capital outlays with actual associated costs. The restricted receipt account would begin to be funded in July 2004 with quarterly deposits thereafter. Pascoag agreed to file semi-annual compliance reports regarding the activity on the restricted account. The total restricted account represents

[36] Joint Exhibit 1 (Settlement Agreement), pp. 1-4.

21% of Pascoag's annual revenue requirement and totals $376,651. The account will be comprised of Capital Expenditures, $107,000, Existing Debt – Principal, $182,309, Existing Debt – Interest, $24,594, and New Debt Service, $62,748.[37]

VII. HEARING

On January 9, 2004, after due notice, the Commission conducted an evidentiary hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following entered appearances:

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

A. Settlement

No members of the public appeared for comment. Pascoag presented Mr. Garille to explain terms of the Settlement and Addendum.[38] Ms. Allaire then explained that Pascoag collects customer deposits from non-property owners equal to roughly two months of a typical bill and the utility holds the deposit, which accrues interest that is applied to the customer's account, until the customer closes his or her account. At that time, the deposit is applied against the final bill and any remainder is sent to the customer.[39] The adjustable interest rate will protect the Company from paying more than it should on deposits and will also protect customers from getting too little credit on their

[37] Joint Exhibit 2 (Addendum to Settlement Agreement), pp. 1-2. A copy of the Settlement and Settlement Addendum are Attached as Appendix A and Appendix B, respectively.
[38] Tr. 1/9/04, pp. 17-23.
[39] Id. at 23-24.

deposits.[40] Mr. Stearns, a Rate Analyst with the Division, explained that the March 1st date to set the customer deposit interest rate was chosen because the information that is required to calculate the rate is the previous calendar year, which will be available in March and also to be consistent with Narragansett Electric Company's procedure.[41]

Ms. Allaire discussed the Addendum to the Settlement, which requires the establishment and funding of restricted accounts. She explained that the parties arrived at a number that represents the total Pascoag will need to meet its capital expenditures, to fund its current existing debt and interest payments and any new debt service. The parties then agreed to fund the interest bearing account quarterly.[42]

Addressing the issue of rate shock, Mr. Garille indicated that increases of 20-40% could be considered rate shock, but they are the increases developed through the cost of service study designed to allocate rates based on cost of serving each customer class. He stated that he felt very comfortable interfacing with Pascoag's customers in explaining the rate changes.[43] Mr. Stearns indicated that the settled rate structure was very close to cost based rates. In other words, "those who are causing Pascoag to incur costs are those who will be responsible for those costs."[44] Mr. Stearns maintained that this is a good goal for a utility in that subsidization across customer classes is minimized.[45]

B. Commission Staff Rate Design Alternatives

Although a bit unusual, the Commission staff presented two alternatives to the parties and to the Commission on the record. Commission counsel presented Mr. Alan

---

[40] Id. at 27-29.
[41] Id. at 25.
[42] Id. at 37-38.
[43] Id. at 76-79.
[44] Id. at 79.
[45] Id.

Nault, a Rate Analyst for the Commission, to address the alternatives. There was no objection from the parties to Mr. Nault testifying.[46]

Mr. Nault noted that the two alternatives do not change the settled overall revenue requirement and related revenue increase. Additionally, Mr. Nault noted that the Commission Staff has accepted the Division's Cost of Service Study and resulting revenue class shortfalls or surpluses. However, both alternatives propose a rate design that attempts to more closely track the cost of service for each rate class than the settled position. Mr. Nault explained that under each scenario, including the Settlement, the Residential and Commercial Classes receive the same increase, 11.81% and 46.14% respectively. This increase brings each class within a quarter of a percent of Pascoag's cost of serving each class. However, under the Settlement, the rates for the other classes are between 3.47% and 35.89% out of line with the cost of service. The rationale was to avoid rate shock for the Street Lighting Class, which should have experienced a 61.35% increase. However, Mr. Nault noted that the Settlement provides for a 46.14% increase for the Commercial Class, implying that such an increase can be justified without causing rate shock on a class. Therefore, in each of the alternatives, the Street Lighting Class would experience the same percentage increase as the Commercial Class, still 15.21% below Pascoag's cost of serving that class.

Where the Commission Staff's alternatives differ from each other is that Alternative One does not combine the Industrial and Housing Classes, whereas Alternative Two accepts the parties' desire to combine those two classes for administrative purposes. Mr. Nault noted that the parties indicated that the characteristics of the Housing Class are similar enough to an Industrial Customer to justify combining

[46] Commission staff had provided the parties with its alternatives prior to the hearing for their review.

the two into one class. Under Alternative One, the Housing Class would experience a 29.05% decrease and the Industrial Class would experience a 12.78% decrease. The effect would be to bring the Housing Class 100% in line with its cost of service and to bring the Industrial Class within 2.82% of its cost of service. Alternative Two, on the other hand, provides the Housing Class with a 34.36% decrease and the Industrial Class with a 12.62% decrease. The effect is to bring the Housing Class into the Industrial Class, and within 5.31% of its cost of service and the Industrial Class within 2.98% of its cost of service.

Mr. Nault recommended that the Commission accept Alternative Two because although it is a little less in line with the cost of service for the Housing Class, each class, with the exception of the Street Lighting Class is within 5.31% if its respective cost of service. Mr. Nault believed that the benefit of combining the two classes justifies the deviation in the cost of service. However, Mr. Nault stated that, based on the principle of cost causality, the customers that cause the costs should be the customers to pay the costs. Furthermore, in light of the fact that Pascoag does not request approval of distribution rate adjustments very often Mr. Nault indicated that it is even more important to bring the rate classes as close to their cost of service whenever there is the chance. Therefore, Mr. Nault recommended the Commission approve the Rate Design set forth in Alternative Two rather than the Settlement Rate Design. Mr. Nault did add that in its next rate case, Pascoag should attempt to better align the Street Lighting class with its true cost of service.[47]

[47] Tr. 1/9/04, pp. 81-97. PUC Exhibit 1 (Summary of Rate Design Alternatives). A copy of PUC Exhibit 1, Exhibit 4 (Comparison of Current and Proposed Rates by Class) and Exhibit 5 (Bill Impact Analysis) are attached hereto as Appendix C, Appendix D, and Appendix E, respectively.

Finally, in closing arguments, Mr. Bernstein stated that Pascoag had no objection to the rate design as set forth in the Settlement or either of the two Alternatives, so long as the revenue requirement remains untouched. Mr. Lueker indicated that the Division believes that the Settlement or either of the two Alternative rate designs would be appropriate, but that the Division prefers Alternative Two. He noted that Alternative Two is like the Settlement in that it combines the Housing Class with the Industrial Class. He stated that "it's just inherently inefficient to have a single ratepayer or rate class out there and it's just going to create additional costs for the utility to keep that separate and maintain it over time."

VIII. COMMISSION FINDINGS

After hearing and considering the evidence presented, the Commission deliberated at the Bench. The Commission approved the Settlement with the exception of the rate design, specifically finding that the revenue requirement as filed in the Settlement is reasonable. The Commission further approved the provisions of Settlement Addendum creating the restricted accounts. The Commission next approved the Division's cost allocation methodology finding it to be reasonable. One Commissioner specifically noted that the Commission's goal all along has been to match the cost of service to the user of the service. Another stated that philosophically, the Commission should be moving toward bringing the rates close to the cost of service. Finally, one Commissioner had earlier expressed concern that there may be some situations where the benefits of having a customer locate in a service territory may justify spreading the cost over the entire territory, but accepted the Division's cost allocation methodology. Finally, addressing the appropriate rate design, setting the percentage adjustments in rates for each class of customers, the Commission approved Alternative Two as presented by Mr. Nault, finding it to adequately address the concerns of the Commission in assuring that one customer class does not subsidize another.

IX. PASCOAG'S SEMI-ANNUAL FILING

On December 30, 2003, Pascoag submitted its semi-annual reconciliation of its SOS, Transmission and Transition Rates for effect February 1, 2004. In that filing, Pascoag sought a decrease to the SOS charge from 5.619 cents per kWh to 5.579 cents per kWh, an increase to the Transmission charge from .453 cents per kWh to .525 cents per kWh and a decrease to the Transition Charge from 1.345 cents per kWh to .701 cents per kWh. Pascoag also sought to allocate charges from the New York Power Authority ("NYPA") identifiable as transmission to the transmission charge. The effect on the average residential customer using 500 kWh per month, combined with the distribution rate change that will go into effect on the same date, with be a 1.2% per month reduction, or 70 cents.

A. 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.

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 2004 through July 2004, as well as assumptions regarding the market cost of power. The proposed SOS also includes any reconciling balance for the prior six-month period.

Pascoag has proposed to include NYPA transmission related charges in the transmission charge as opposed to the SOS charge where it is currently allocated. The first calculation shown below reflects this proposal. The second calculation reflects the status quo.

The filing proposes a decrease in the SOS rate from 5.619 cents per kWh to 5.167 cents per kWh for the period beginning February 1, 2004. This factor was determined as follows:

Forecast Standard Offer cost (February 2004 through July 2004)	$1,252,137
Reconciling period cost (July 2003 through December 2003)	1,295,144
Reconciling period revenues	(1,348,436)
Undercollection from June 2003	(72,228)
Total Standard Offer costs to recover	$1,271,073
Forecast MWH sales for the period	24,602
Standard Offer factor ($1,271,073/24,602,000)/kWh	$ 0.05167[48]

The filing presents a decrease in the SOS rate from 5.619 cents per kWh to 5.579 cents per kWh for the period beginning February 1, 2004 if the status quo is retained. This factor was determined as follows:

Forecast Standard Offer cost (February 2004 through July 2004)	$1,353,489
Reconciling period cost (July 2003 through December 2003)	1,295,144
Reconciling period revenues	(1,348,436)
Undercollection from June 2003	(72,228)
Total Standard Offer costs to recover	$1,372,425
Forecast MWH sales for the period	24,602
Standard Offer factor ($1,353,489/24,602,000)/kWh	$ 0.05579[49]

[48] Pascoag Ex. 04-3, Schedule H-1 W/NYPA reallocation.
[49] Pascoag Ex. 04-1, Schedule H-1.

B. 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 5.897 cents per kWh based on calculation the Requirements Market Rate, the methodology accepted by the Commission in Pascoag's two most recent filings.[50]

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.

Pascoag's filing proposes a transition rate of 0.701 cents per kWh for the period beginning February 6, 2003. This factor was determined as follows:

Forecast Transition Cost (February 2004 through July 2004)	$ 223,004
Reconciling period cost (July 2003 through December 2003)	337,928
Reconciling period revenue	(370,278)
Overcollection from June 2003	(18,239)
Total Transition Charge costs to recover	$ 172,414
Forecast MWH sales for the period	24,602
Transition Charge factor ($172,414/24,602,000)/kWh	$ 0.00701[51]

C. 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

[50] Pascoag Ex. 04-1, (Pre-filed Testimony of Theodore Garille), pp. 3-4.
[51] Pascoag Ex. 04-1, Schedule H-1.

provide transmission service to its distribution substation; otherwise the customer has the option of obtaining transmission service from its own suppliers.

Pascoag has proposed to include NYPA transmission related charges in the transmission charge as opposed to the SOS charge where it is currently allocated. The first calculation shown below reflects this proposal. The second calculation reflects the status quo.

The filing proposes a Transmission Charge factor of 0.937 cents per kWh for the period commencing February 1, 2004. This factor was determined as follows:

Forecast Transmission cost (February 2004 through July 2004)	$ 243,969
Reconciling period cost (July 2003 through December 2003)	141,870
Reconciling period revenue	(127,547)
Overcollection from June 2003	(27,457)
Total Transmission costs to recover	$ 230,561
Forecast MWH sales for the period	24,602
Transmission factor ($243,969/24,602,000)/kWh	$ 0.00937[52]

The filing presents an increase in the transmission rate from 0.453 cents per kWh to 0.525 cents per kWh for the period beginning February 1, 2004 if the status quo is retained. This factor was determined as follows:

Forecast Transmission cost (February 2004 through July 2004)	$ 142,344
Reconciling period cost (July 2003 through December 2003)	141,870
Reconciling period revenue	(127,547)
Overcollection from June 2003	(27,457)
Total Transmission costs to recover	$ 129,209
Forecast MWH sales for the period	24,602
Transmission factor ($129,209/24,602,000)/kWh	$ 0.00525[53]

D. Division's Position

On January 15, 2004, Mr. David Stearns filed a Memorandum with the Commission recommending that the Commission approve Pascoag's SOS, Transmission

[52] Pascoag Ex. 04-3 Schedule H-1 W/NYPA reallocation.
[53] Pascoag Ex. 04-1 Schedule H-1.

and Transition rates as proposed by the Company, specifically reallocating the NYPA related transmission costs to the Transmission Charge from the SOS charge.

XI. OPEN MEETING AND HEARING

On January 29, 2004, after reviewing a filing by the Division and Pascoag's request, at open meeting, the Commission approved Pascoag's rates as filed, including Pascoag's request to allocate charges from NYPA identifiable as transmission to the transmission charge, on an interim basis effective on usage on and after February 1, 2004.[54] The Commission found that because the proposed rates would result in a decrease for many customers and the distribution rates were changing on February 1, 2004, in order to implement a decrease as soon as possible and alleviate customer confusion from multiple rate changes in a short period of time, good cause existed to approve the rates on an interim basis subject to true-up after a hearing.[55]

On February 19, 2004, after due notice, the Commission conducted an evidentiary hearing at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following entered appearances:

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

A. Current Issues

Pascoag presented Mr. Theodore Garille, Pascoag's General Manager, and Ms. Judith Allaire, Pascoag's Customer Service and Accounting Manager, in support of its

[54] Pascoag's hearing had been cancelled as a result of inclement weather.
[55] See 39-3-12.

filing. Mr. Garille summarized the proposed rates under Pascoag's request to reallocate the NYPA related transmission costs from the SOS charge to the transmission charge and under the status quo. He explained that he believed that reallocating the NYPA transmission costs would send a more appropriate price signal and would be more consistent with his understanding of the legislature's intent behind the URA.[56] Mr. Garille also testified that it was his understanding that only the energy portion of the unbundled electric rates are subject to competition, not the transmission rates.[57] Ms. Allaire recollected that the NYPA related transmission charges were originally allocated to the SOS charge because of concern that the SOS rate, which includes two cent power from New York, would be too low to spark competition.[58] She clarified that a customer choosing to receive all services from Pascoag, including power procured by Pascoag, would see no difference in the bottom line whether the transmission costs are in the transmission charge or the energy charge.[59]

Mr. Garille testified that Pascoag did not have to enter into any new power contracts for this filing because it is still under contract with TransCanada for 44% of Pascoag's SOS requirement at a fixed price of $48 per MWh through December 2004. He indicated that Pascoag, with the assistance of ENE, is in the process of monitoring the market for power contracts that can provide some price stability for customers after December 2004.[60]

Addressing the NYPA power and the status of the Relicensing Proceedings at FERC, Mr. Garille indicated that the result of a St. Lawrence Settlement that has been

[56] Tr. 2/17/04, pp. 16-17.
[57] Id. at 56.
[58] Id. at 54.
[59] Id. at 57.
[60] Id. at 17-22.

made part of the new license, was a 50% reduction of power to the out of state allotees, including Rhode Island. However, Rhode Island was able to regain its lost 50% through an agreement with Pennsylvania, effective through 2007. Additionally, as part of the St. Lawrence Settlement, Pascoag was required to recalculate its load factor for purposes of receiving an allocation of power from the Niagara Plant. Unfortunately, this, together with the fact that Ohio received an increased allotment due to identification of additional qualified recipients of the power, resulted in a loss to Rhode Island from .8 megawatts to .5 megawatts. Mr. Garille testified that the loss of power from Niagara should be small enough to be covered by the existing TransCanada contract.[61]

In the past, Pascoag has faced cash flow challenges during the winter moratorium period, when customers are protected from termination of service under certain circumstances. Ms. Allaire testified that prior to the start of the winter moratorium in November 2003, she sent customer service representatives to meet with the Division consumer agents to better understand when customers' service can be terminated during the winter moratorium. She testified that in the past, Pascoag terminated service to very few people, even if they were not paying their bills. However, during this moratorium, between November and February 17, 2004, Pascoag sent 144 disconnect notices to non-protected customers, received payment in full from 92 customers, entered into 31 payment plans and found that four customers had moved. The remaining accounts were in the process of being addressed by Pascoag. The total amount of receivables from the 144 customers was $51,337. As of February 17, 2004, $26,953 of the $51,337 had been collected. Finally, Ms. Allaire testified that one person's service was disconnected in

[61] Id. at 23-30.

January, but was restored on that same day after visiting Pascoag's office and entering into a payment agreement.[62]

B. Future Issues

Although not affecting Pascoag's current semi-annual filing, effective on usage on and after February 1, 2004, Mr. Garille discussed an issue that will affect Pascoag's rates in its next semi-annual filing. He noted that NYPA had sent a letter to Pascoag dated February 9, 2004, indicating that it had underbilled Pascoag over the course of fifteen months in the amount of $25,102.23. The letter indicated that NYPA would be seeking reimbursement over the course of the next fifteen months. Mr. Garille testified that Pascoag is in the process of analyzing NYPA's claim for accuracy and has requested that repayment not begin until August 2004. Otherwise, Pascoag would be forced to raise its rates slightly to cover the costs until the next filing. Mr. Garille believed that NYPA was amenable to delaying the start of the repayment date. Furthermore, he also indicated that NYPA will not bill Pascoag for the underbilling until Pascoag has determined the numbers are correct. He stated that he would continue to keep the Commission apprised of the progress of this issue.[63]

C. Division's Position

The Division presented Mr. David Stearns in support of its position. With regard to the reallocation of the NYPA related transmission costs, Mr. Stearns testified that because the costs are identifiable as transmission, they should be properly allocated to the

[62] Id. at 40-46.
[63] Id. at 32-37.

transmission charge. He indicated that it was his understanding that only the energy portion of the unbundled electric costs are subject to competition.[64]

XII. COMMISSION FINDINGS

After hearing and considering the evidence presented, the Commission ruled that the interim rates should be made permanent. With regard to the NYPA transmission related charges, the Commission finds that a reading of the URA confirms the understanding of the witnesses for Pascoag and the Division that the energy charge is that part of the unbundled electricity rate which is subject to competition.[65] Notably, the only rate the General Assembly chose not to be regulated is the energy charge from a nonregulated power producer. That is the rate subject to competition.

While it may be true that the Commission was initially concerned that Pascoag's SOS rate would be too low to spark competition, the Commission has since frequently determined that the SOS charge should not be artificially inflated in order to allow a marketer to offer prices lower than an artificially high rate. The Commission has previously stated, "…it must be emphasized that the creation of competition is beneficial only if it produces savings for ratepayers. The payment of higher prices to create a competitive market, just for the sake of having a competitive market, is economic logic turned upside down. The Commission rejects it.[66]

---

[64] Id. at 64-67.

[65] See R.I.G.L. §§ 39-1-27(a) (stating that nondiscriminatory access shall mean access to transmission and distribution services on rates, terms and conditions found to be reasonable by FERC or the commission as appropriately and applied consistently to all customers in a rate class), 39-1-27(d) (prohibiting a distribution company from selling electricity at retail while owning generation), 39-1-27.3 (requiring each electric distribution company to offer retail access from nonregulated power producers ("NPP") and to provide SOS and/or last resort service to those not purchasing power from an NPP).

[66] Order No 16916 (issued February 15, 2002), Order No. 15520 (issued July 10, 1998), Order No. 15521 (issued July 10, 1998).

Therefore, while there may have been a time when the Commission was concerned with the low cost of Pascoag's SOS charge shortly after the passage of the URA, when there was an optimism that suppliers would be offering low cost power to everyone, the Commission is now more concerned with sending the appropriate price signals to customers and suppliers if and when competition develops for the smaller customers, such as those served by Pascoag.

Accordingly, it is

(17820) ORDERED:

1. Pascoag Utility District's General Rate Filing, made on August 8, 2003, is hereby denied and dismissed.
2. The Settlement Agreement filed by Pascoag Utility District and the Division of Public Utilities and Carriers on or about January 2, 2004, is hereby approved for usage on and after February 1, 2004 with the exception of the Rate Design contained therein. Pascoag's overall revenue requirement is $1,774,728.
3. The Rate Design as set forth in Commission Exhibit 4 and identified as Alternative Two during the proceedings is hereby approved to be applied to usage on and after February 1, 2004.
4. The Settlement Addendum filed by Pascoag Utility District and the Division of Utilities and Carriers on or about January 9, 2004, is hereby approved. Pascoag Utility District shall set up restricted accounts for Debt Service in the amount of $269,651 and Capital Expenditures in the amount of $107,000 to be funded in accordance with the terms of the Settlement Addendum.

5. Pascoag's Standard Offer Charge of $0.05167 per kWh is hereby approved to be effective for usage on and after February 1, 2004.
6. Pascoag's Transmission Charge of $0.00937 per kWh is hereby approved to be effective for usage on and after February 1, 2004. Pascoag's Transmission Charge shall include transmission costs identifiable as related to power provided by the New York Power Authority.
7. Pascoag's Transition Charge of $0.00701 per kWh is hereby approved to be effective for usage on and after February 1, 2004.
8. Pascoag's shall file compliance tariffs in conformance with this Report and Order within thirty (30) days of the Bench Decision.
9. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON FEBRUARY 1, 2004 PURSUANT TO A BENCH DECISION ON JANUARY 9, 2004, AN OPEN MEETING DECISION ON JANUARY 29, 2004 AND A BENCH DECISION ON FEBRUARY 19, 2004. WRITTEN ORDER ISSUED ON MAY 5, 2004.

PUBLIC UTILITIES COMMISSION

____

Elia Germani, Chairman

____

Kate F. Racine, Commissioner

____

Robert B. Holbrook, Commissioner

Appendix C

Docket 3546
Pascoag Utility District General Rate Filing
PUC Exhibit 1

Class Revenue Shortfalls Resulting From Division's Cost of Service Study (Equates to the amount each class should experience an increase or decrease)

Class	Per Division Direct ($)[1]	Percent	Per Div COS Study with Settlement Revenue Requirement ($)	Percent
Residential	$112,020	11.2%	$115,543	12.05%
Commercial	76,083	44.8	76,783	46.39
Industrial	(59,814)	(15.6)	(58,163)	(15.6)
Housing	(2,402)	(26.8)	(2,372)	(29.05)
Street Lighting	31,060	57.6	31,246	61.35
Total Revenue Increase	$156,947		$163,037	

Alternative Rate Designs

Class	Settlement ($)[2]	Percent Rate Δ	% Δ from COS	PUC Alternative #1 ($)[3]	Percent Rate Δ	% Δ from COS	PUC Alternative #2 ($)[4]	Percent Rate Δ	% Δ from COS
Residential	$113,201	11.81%	(0.24%)	$113,201	11.81%	(.24%)	$113,201	11.81%	(0.24%)
Commercial	76,377	46.14	(0.25)	76,377	46.14	(.25)	76,377	46.14	(0.25)
Industrial	(36,849)	(9.88)	5.72	(47,667)	(12.78)	2.82	(47,231)	(12.62)	2.98
Housing	(2,656)	(32.52)	(3.47)	(2,372)	(29.05)	0.00	(2,808)	(34.36)	(5.31)
Street Lighting	12,966	25.46	(35.89)	23,501	46.14	(15.21)	23,501	46.14	(15.21)
Total Revenue Increase	$163,039			$163,039			$163,039		

[1] Direct Testimony of Richard Galligan, p. 13.
[2] Combines Housing and Industrial Rate Classes. See Joint Exhibit 3 for Proof of Revenue.
[3] Keeps Housing and Industrial Rate Classes Separate. See PUC Exhibit 2 for Proof of Revenue and PUC Exhibit 3 for Overall Bill Impact Analysis.
[4] Combines Housing and Industrial Rate Classes. See PUC Exhibit 4 for Proof of Revenue and PUC Exhibit 5 for Overall Bill Impact Analysis.

Appendix D **PASCOAG UTILITY DISTRICT ELECTRIC DIVISION**

Comparison of Current and Proposed Revenue by Class

Rate Year 2004

Alternative 2

Industrial & Housing Combined

	Residential	Commercial	Industrial	Housing Authority	Industrial & Housing Auth. Combined	Lighting	Total
Kilowatt Hours/Kilowatt Demand (1)	25,605,066	4,756,304	46,444	683	47,127		
Rate per kWh or kW	$ 0.03464	$ 0.04118	$ 6.53	$ 6.53	$ 6.53		
Distribution Revenue	$ 887,004	$ 195,865	$ 303,115	$ 4,458	$ 307,573		
Number of Customers	46,275	4,604	300	12	312		
Customer Charge	$ 4.00	$ 10.00	$ 75.00	$ 75.00	$ 75.00		
Customer Revenue	$ 185,100	$ 46,040	$ 22,500	$ 900	$ 23,400		$ 254,540
Total Base Revenue: Proposed Rates	$ 1,072,104	$ 241,905	$ 325,615	$ 5,358	$ 330,973	$ 74,435	$ 1,719,416
Total Base Revenue: Current Rates	$ 958,903	$ 165,528	$ 372,846	$ 8,166	$ 381,012	$ 50,934	$ 1,556,377
Increase (Decrease)	**$ 113,201**	**$ 76,377**	**$ (47,231)**	**$ (2,808)**	**$ (50,039)**	**$ 23,501**	$ 163,039
% Increase (Decrease)	**11.81%**	**46.14%**	**-12.62%**	**-34.36%**	**-13.13%**	**46.14%**	**10.48%**
Shortfall per Division COS Study	**$ 115,543**	**$ 76,783**	**$ (58,163)**	**$ (2,372)**	**$ (60,535)**	**$ 31,246**	$ 163,037
(adjusted for rate case expense)	**12.05%**	**46.39%**	**-15.60%**	**-29.05%**	**-15.89%**	**61.35%**	**10.48%**
Difference: Proposed Rates vs.	**$ (2,342)**	**$ (406)**	**$ 10,932**	**$ (436)**	**$ 10,496**	**$ (7,745)**	$ 2
COS Study	**-0.24%**	**-0.25%**	**2.98%**	**-5.31%**	**2.75%**	**-15.21%**	**0.00%**

(1) Reflects 1.5% growth over test year amount.

Appendix E

Alternative 2
Industrial & Housing Combined

PASCOAG UTILITY DISTRICT
COMPARISON OF CURRENT AND COMMISSION STAFF PROPOSED RATES
TYPICAL BILLS BY CUSTOMER CLASS, AT VARIOUS USAGE LEVELS

Line No.	A		B	C	D	E
1	**RESIDENTIAL CLASS:**					
2			BILL AT	BILL AT		PERCENT
3	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
4	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
5	300		$ 35.52	$ 37.33	$ 1.81	5.10%
6	500		$ 57.20	$ 59.56	$ 2.36	4.13%
7	1,000		$ 111.39	$ 115.11	$ 3.72	3.34%
8	2,000		$ 219.78	$ 226.22	$ 6.44	2.93%
9	**COMMERCIAL CLASS:**					
10			BILL AT	BILL AT		PERCENT
11	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
12	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
13	500		$ 58.79	$ 68.83	$ 10.04	17.08%
14	800		$ 90.34	$ 104.12	$ 13.78	15.25%
15	1,000		$ 111.37	$ 127.65	$ 16.28	14.62%
16	3,000		$ 321.71	$ 362.95	$ 41.24	12.82%
17	5,000		$ 532.05	$ 598.25	$ 66.20	12.44%
18	**INDUSTRIAL CLASS:**					
19			BILL AT	BILL AT		PERCENT
20	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
21	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
22	6,388	25	$ 737.24	$ 726.65	$ (10.59)	-1.44%
23	20,075	50	$ 1,974.64	$ 1,936.46	$ (38.18)	-1.93%
24	47,450	100	$ 4,449.50	$ 4,356.15	$ (93.35)	-2.10%
25	200,750	500	$19,224.35	$18,689.59	$ (534.76)	-2.78%
26	321,200	800	$30,724.16	$29,858.34	$ (865.82)	-2.82%
27	**HOUSING CLASS (PROPOSAL IS TO COMBINE WITH INDUSTRIAL RATE):**					
28			BILL AT	BILL AT		PERCENT
29	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
30	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
31	12,775	50	$ 1,586.90	$ 1,378.23	$ (208.68)	-13.15%
32	20,075	50	$ 2,145.14	$ 1,936.46	$ (208.68)	-9.73%
33	19,163	75	$ 2,322.89	$ 2,029.88	$ (293.01)	-12.61%
34	41,063	75	$ 3,997.59	$ 3,704.57	$ (293.01)	-7.33%

RHODE ISLAND PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT)
ELECTRIC DIVISION FILING) **DOCKET NO. 3546**

SETTLEMENT AGREEMENT

The Pascoag Utility District (hereinafter "Pascoag") and the Rhode Island Division of Public Utilities and Carriers (hereinafter, "Division") (collectively referred to herein as the "Parties") have reached an agreement on Pascoag's August 2003 rate application and jointly request the approval of this Settlement Agreement by the Public Utilities Commission (the "Commission").

I. RECITALS

1. On or about August 8, 2003, Pascoag filed a rate application pursuant to R.I. Gen. Laws §§ 39-3-10 and 39-3-11, and Rules 2.4, 2.5 and 2.9 of the Commission's Rules of Practice and Procedure. The application projected a revenue requirement of approximately $2.1M, which would require an average rate increase across all classes of rates of about 30.3% over normalized test year revenues for the rate year commencing November 1, 2001, and ending October 31, 2002. The Division filed its Direct Testimony on or about November 4, 2003, using a different approach to cost allocation and rate design than had Pascoag, determined that Pascoag would

have overall revenue requirements of just under $1.8M, and recommended an increase in Pascoag's rates by an average of about 9.7% to accommodate the need to increase revenues to meet requirements. The difference in revenue requirements was largely attributable to adjustments the Division made in Pascoag's claimed revenues, expenses, and debt service costs (summarized in Schedule TSC-2, attached to the Direct Testimony of Mr. Thomas Catlin).

2. On or about December 1, 2003, Pascoag filed its Rebuttal position, primarily to address differences in the cost allocation methods used by Pascoag and the Division; the Rebuttal testimony specifically noted that Pascoag either did not contest, or was in substantial agreement with, the majority of the Division's adjustments to Pascoag's revenue requirement. The sole concern remaining from the perspective of a revenue requirement was Pascoag's desire to create an operating reserve more quickly than the Division had supported. The Division, in turn, filed its Surrebuttal position on or about December 19, 2003, confining itself to further discussion of the differences of the parties with respect to the cost allocation method to be used in this matter.

3. The Division conducted an investigation of Pascoag's rate filing which included, but was not limited to the following: the retention of two expert consultants, Thomas S. Catlin and Richard A. Galligan, the preparation of multiple data requests, the review of the responses to the data requests, and conversations with Pascoag employees and consultants to gain more direct understanding of its positions. In addition, Division staff is familiar with Pascoag's facilities through tours during past dockets, and with its financial requirements, again through past dockets.

4. After due consideration of the testimony, exhibits and other documentation, the Parties agree to a comprehensive settlement which resolves all issues relating to the Board's rate application. Schedules reflecting the Agreed to Revenue Requirements, Comparison of Current

and Proposed Rates, Proof of Revenues, and Typical Bill Comparison are attached hereto and marked as "Schedule 1," "Schedule 2," "Schedule 3," and "Schedule 4," respectively. Schedules 1, 2, 3 and 4 are restated and incorporated in this Settlement Agreement by reference.

5. The Parties believe that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

II. TERMS OF SETTLEMENT

1. The Parties agree to a net revenue requirement of $1,774,728, which is an increase of $163,039, or 10.1% over Pascoag's present rate revenues of approximately $1,611,689. See Schedule 1.

2. The increases shall be applied to all Pascoag customer classes as set out in Schedule 2.[1]

3. Pascoag currently records all charges associated with its New York Power Authority (NYPA) entitlement as Standard Offer expense. The Company had proposed that they be allowed to record the NYPA charges that are identifiable as transmission-related, as transmission expense, and to recover these costs via the Transmission Charge rather than through the Standard Offer charge, as is the current practice. The Division supports Pascoag's proposal in this matter.

[1] As indicated in Schedule 2, the rate increases are not evenly distributed across all rate classes. This reflects the consensus of the Parties that the present rates do not fairly and accurately recover the costs associated with each customer class. The Parties believe that the new rates will ensure that Pascoag is better able to recover from each customer class the costs associated with that customer class.

4. The interest rate applied to customer deposits shall be adjusted annually, and shall be the average rate over the prior calendar year for 10-year constant maturity treasury bonds, as reported by the Federal Reserve Bank. For the most recently available 12 months (December 2002 through November 2003) the average rate was 4.0 percent; Pascoag's interest rate shall be 4.0 percent through February 2004, and shall be adjusted on March 1st 2004 and annually thereafter.

5. The Company shall assess a late fee of 1.5 percent per month on accounts that are more than 30 days past due.

6. A $20.00 fee will be charged to customers for each check presented to the Company that is not honored by the financial institution.

7. Pascoag's reconnect charges shall be $25.00 during normal business hours and $40.00 after normal business hours. The fee for reconnections performed at the pole shall be set at $50.00 during all time periods.

8. This Settlement Agreement is the product of negotiation and compromise. The making of this agreement establishes no principles or precedents. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

9. The acceptance of this agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any issue in any subsequent rate proceeding.

10. In the event that the Commission (i) rejects this Settlement Agreement, (ii) fails to accept this Settlement Agreement as filed, or (iii) accepts the Settlement Agreement subject to

conditions unacceptable to any party hereto, then this Settlement Agreement shall be deemed withdrawn and shall be null void in all respects.

11. The undersigned signatories hereby attest that each believes that the settlement is reasonable, in the public interest and in accordance with law and regulatory policy.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By its attorneys,

PATRICK C. LYNCH
ATTORNEY GENERAL

William K. Lueker (R.I. Bar No. 6334)
Special Assistant Attorney General
150 South Main Street
Providence, RI 02903
tel. (401) 274-4400, ext. 2299
fax (401) 222-3016

PASCOAG UTILITY DISTRICT,
ELECTRIC DIVISION
By its attorney,

William L. Bernstein

William L. Bernstein (R.I. Bar No.2185
Attorney at Law
P.O. Box 565
627 Putnam Pike
Greenville, RI 02828
tel. (401) 949-2228
fax (401) 949-1680

CERTIFICATION

I hereby certify that on the ____ day of January 2004, a copy of the above Settlement Agreement between the Division of Public Utilities and Carriers and the Pascoag Utility District was sent by U. S. mail, postage prepaid, to each person named on the service list for this docket, and by electronic mail to those persons on the service list for this docket whose entry on the service list reflects and electronic mail address.

____

conditions unacceptable to any party hereto, then this Settlement Agreement shall be deemed withdrawn and shall be null void in all respects.

11. The undersigned signatories hereby attest that each believes that the settlement is reasonable, in the public interest and in accordance with law and regulatory policy.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By its attorneys,

PATRICK C. LYNCH
ATTORNEY GENERAL

William K. Lueker (R.I. Bar No. 6334)
Special Assistant Attorney General
150 South Main Street
Providence, RI 02903
tel. (401) 274-4400, ext. 2299
fax (401) 222-3016

PASCOAG UTILITY DISTRICT,
ELECTRIC DIVISION
By its attorney,

William L. Bernstein (R.I. Bar No. 2185)
Attorney at Law
P.O. Box 565
627 Putnam Pike
Greenville, RI 02828
tel. (401) 949-2228
fax (401) 949-1680

CERTIFICATION

I hereby certify that on the 2nd day of January 2004, a copy of the above Settlement Agreement between the Division of Public Utilities and Carriers and the Pascoag Utility District was sent by U. S. mail, postage prepaid, to each person named on the service list for this docket, and by electronic mail to those persons on the service list for this docket whose entry on the service list reflects and electronic mail address.

PASCOAG UTILITY DISTRICT

Agreed to Revenue Requirements
Rate Year Ending December 31, 2004

Line No.	A	Rate Year Amount Per Pascoag Filing B	Agreed-to Adjustments C	Rate Year at Present Rates D	Rate Increase E	Rate Year at Proposed Rates F	
1	**Revenue**						
2	Base Revenue	$ 1,537,004	$ 19,373	$ 1,556,377	$ 163,039	$ 1,719,416	
3	Purchased Power Revenue	-	-	-	-	-	
4	Other Revenue	43,552	11,760	55,312		55,312	
5	Total Revenue	$ 1,580,556	$ 31,133	$ 1,611,689	$ 163,039	**$ 1,774,728**	1/
6	**Expenses**						
7	Purchased Power	-		-	-	-	
8	Other O&M	1,365,154	(6,552)	1,358,602	-	1,358,602	
9	O&M Adjustments	6,100		6,100	-	6,100	
10	Rate Stabilization Fund	30,000	(30,000)	-	-	-	
11	Interest on Customer Deposits	1,800	(653)	1,147		1,147	
12	Capital Expenditures	112,800	(5,800)	107,000	-	107,000	
13	Existing Debt-Principal	179,841	2,468	182,309	-	182,309	
14	Existing Debt-Interest	78,378	(53,784)	24,594		24,594	
15	New Debt Service	84,146	(21,398)	62,748	-	62,748	
16	Rate Case Expenses		6,000	6,000		6,000	
17	Return on Rate Base	210,852	(210,852)	-	-	-	
18	Total Expenses	$ 2,069,071	$ (320,571)	$ 1,748,500	$ -	$ 1,748,500	
18	Operating Reserve	-	26,228	26,228	-	26,228	
20	Total Cost of Service	$ 2,069,071	$ (294,344)	$ 1,774,728	$ -	**$ 1,774,728**	1/
21	Revenue Surplus/(Deficiency)	$ (488,515)	$ 325,477	$ (163,039)	$ 163,039	$ -	

1/ Rate Year Revenue Requirement.

PASCOAG UTILITY DISTRICT
CURRENT AND PROPOSED RATES

Line No.	A	B	C	D	E
1	**Residential Service Rate A:**				
		Current		Proposed	
2	Customer Charge	$ 3.00		$ 4.00	
3	Distribution Charge	$ 0.03192	/kWh	$ 0.03464	/kWh
4	Transition Charge	Per Tariff		Per Tariff	
5	Transmission Charge	Per Tariff		Per Tariff	
6	Standard Offer Rate	Per Tariff		Per Tariff	
7	Interest on Late Payment (>15 Days)	N/A		1.5%	/Mo.
8	Total Effect on Typical 500 kWh Bill				
9	**Small Commercial and Industrial Rate B:**				
		Current		Proposed	
10	Customer Charge	$ 6.20		$ 10.00	
11	Distribution Charge	$ 0.02870	/kWh	$ 0.04118	/kWh
12	Transition Charge	Per Tariff		Per Tariff	
13	Transmission Charge	Per Tariff		Per Tariff	
14	Standard Offer Rate	Per Tariff		Per Tariff	
15	Interest on Late Payment (>15 Days)	N/A		1.5%	/Mo.
16	Total Effect on Typical 500 kWh Bill				
17	**Large Commercial and Industrial Rate C:**				
		Current		Proposed	
18	Customer Charge	$ 58.00		$ 75.00	
19	Distribution Charge	$ -	/kWh	$ -	/kWh
20	Demand Charge	$ 7.63	/kW	$ 6.75	/kW
21	Transition Charge	Per Tariff		Per Tariff	
22	Transmission Charge	Per Tariff		Per Tariff	
23	Standard Offer Rate	Per Tariff		Per Tariff	
24	Interest on Late Payment (>15 Days)	N/A		1.5%	/Mo.
25	**Housing Authority Rate D:**				
		Current		Proposed	
26	Customer Charge	$ 115.00		$ 75.00	
27	Distribution Charge	$ -	/kWh	$ -	/kWh
28	Demand Charge	$ 9.90	/kW	$ 6.75	/kW
29	Transition Charge	Per Tariff		Per Tariff	
30	Transmission Charge	Per Tariff		Per Tariff	
31	Standard Offer Rate	Per Tariff		Per Tariff	
32	Interest on Late Payment (>15 Days)	N/A		1.5%	/Mo.

PASCOAG UTILITY DISTRICT
CURRENT AND PROPOSED RATES

Line No.	A	B Current Per Month	C Proposed Per Month	D Monthly Increase	E Proposed Annual	F Proposed Annual Increase
1	**Lighting Rate:**					
2	Merury:					
3	175 Watt	$ 3.95	$ 4.96	$ 1.006	$ 59.47	$ 12.07
4	400 Watt	$ 7.72	N/A	N/A	N/A	N/A
5	1,000 Watt	$ 18.56	N/A	N/A	N/A	N/A
6	Sodium:					
7	50 Watt	$ 2.50	$ 3.14	$ 0.636	$ 37.64	$ 7.64
8	70 Watt	$ 2.99	$ 3.75	$ 0.761	$ 45.01	$ 9.13
9	100 Watt	$ 3.45	$ 4.33	$ 0.878	$ 51.94	$ 10.54
10	150 Watt	$ 4.26	$ 5.34	$ 1.084	$ 64.13	$ 13.01
11	250 Watt	$ 7.45	$ 9.35	$ 1.897	$ 112.16	$ 22.76
12	400 Watt	$ 8.29	$ 10.40	$ 2.110	$ 124.80	$ 25.32

PASCOAG UTILITY DISTRICT

Proof of Revenues
Rate Year Ending December 31, 2004

Line No.	A	B	C	D	E	F
		Residential	Commercial	Industrial	Housing Authority	Total
1	**Rate Year per Settlement**					
2	Kilowatt Hours/Kilowatt Demand	25,605,066	4,756,304	46,444	689	30,408,503
3	Rate per kWh or kW	$ 0.03464	$ 0.04118	6.75	$ 6.75	
4	Distribution Revenue	$ 886,959	$ 195,868	$ 313,497	$ 4,651	$ 1,400,976
5	Number of Customers	46,275	4,604	300	12	
6	Customer Charge	$ 4.00	$ 10.00	$ 75.00	$ 75.00	
7	Customer Revenue	$ 185,100	$ 46,040	$ 22,500	$ 900	$ 254,540
8	Street Lighting					63,900
9	Total Base Revenue					**$ 1,719,416**
10	Other Revenue					$ 55,312
11	**Total Revenue Per Rev. Requirement (Schedule 1)**					**$ 1,774,728**

PASCOAG UTILITY DISTRICT
COMPARISON OF CURRENT AND DIVISION-PROPOSED RATES
TYPICAL BILLS BY CUSTOMER CLASS, AT VARIOUS USAGE LEVELS

Line No.	A		B	C	D	E
1	**RESIDENTIAL CLASS:**					
2			BILL AT	BILL AT		PERCENT
3	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
4	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
5	300		$ 35.52	$ 37.33	$ 1.81	5.10%
6	500		$ 57.20	$ 59.56	$ 2.36	4.13%
7	1,000		$ 111.39	$ 115.11	$ 3.72	3.34%
8	2,000		$ 219.78	$ 226.22	$ 6.44	2.93%
9	**COMMERCIAL CLASS:**					
10			BILL AT	BILL AT		PERCENT
11	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
12	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
13	500		$ 58.79	$ 68.83	$ 10.04	17.08%
14	800		$ 90.34	$ 104.12	$ 13.78	15.25%
15	1,000		$ 111.37	$ 127.65	$ 16.28	14.62%
16	3,000		$ 321.71	$ 362.95	$ 41.24	12.82%
17	5,000		$ 532.05	$ 598.25	$ 66.20	12.44%
18	**INDUSTRIAL CLASS:**					
19			BILL AT	BILL AT		PERCENT
20	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
21	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
22	6,388	25	$ 737.24	$ 732.24	$ (5.00)	-0.68%
23	20,075	50	$ 1,974.64	$ 1,947.64	$ (27.00)	-1.37%
24	47,450	100	$ 4,449.50	$ 4,378.50	$ (71.00)	-1.60%
25	200,750	500	$19,224.35	$18,801.35	$ (423.00)	-2.20%
26	321,200	800	$30,724.16	$30,037.16	$ (687.00)	-2.24%
27	**HOUSING CLASS (PROPOSAL IS TO COMBINE WITH INDUSTRIAL RATE):**					
28			BILL AT	BILL AT		PERCENT
29	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
30	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
31	12,775	50	$ 1,586.90	$ 1,389.40	$ (197.50)	-12.45%
32	20,075	50	$ 2,145.14	$ 1,947.64	$ (197.50)	-9.21%
33	19,163	75	$ 2,322.89	$ 2,046.64	$ (276.25)	-11.89%
34	41,063	75	$ 3,997.59	$ 3,721.34	$ (276.25)	-6.91%

RHODE ISLAND PUBLIC UTILITIES COMMISSION

IN RE: PASCOAG UTILITY DISTRICT)
ELECTRIC DIVISION FILING) DOCKET NO. 3546

ADDENDUM TO SETTLEMENT AGREEMENT

The Pascoag Utility District (hereinafter "Pascoag") and the Rhode Island Division of Public Utilities and Carriers (hereinafter, "Division") (collectively referred to herein as the "Parties") hereby offer the following additional paragraph to the "Terms Of Settlement" section of the Settlement Agreement filed in this docket on January 2, 2004, and jointly request the approval by the Public Utilities Commission (the "Commission") of that Settlement Agreement as amended by this Addendum.

Further, Pascoag and the Division jointly request that Schedule 4 (Rev. 1/6/04) attached to this Addendum be substituted for Schedule 4 attached to the Settlement Agreement in this Docket.

II. ADDENDUM TO TERMS OF SETTLEMENT

7A. The parties agree that Pascoag shall establish a separate restricted fund for capital costs, including debt service and cash capital outlays. This will help ensure proper matching of funds collected through rates to make principal and interest payments and to pay for cash capital outlays with actual associated costs. It will also help ensure that the funds will be available when needed. The restricted account shall be comprised of:

Capital Expenditures:	$107,000;
Existing Debt – Principal	$182,309;
Existing Debt – Interest	$ 24,594;
New Debt Service	$ 62,748.

(The total of these items, $376,651, represents about 21% of Pascoag's annual revenue requirement of $1,774,728.)

a. During July 2004, Pascoag shall deposit in a separate, interest-bearing account, $125,550. This amount represents four-twelfths of the annual $376,651 to be deposited. Thereafter, during the month following each calendar quarter, Pascoag shall deposit $94,163 (one-fourth of the annual requirement) in the account.

b. Pascoag agrees to file status reports with the Commission semi-annually. The reports will be filed with the Company's semi-annual Standard Offer, Transmission, and Transition reconciliation filings, and will include the beginning balance, deposits, interest, withdrawals, and ending balance of this restricted account.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By its attorneys,

PATRICK C. LYNCH
ATTORNEY GENERAL

____

William K. Lueker (R.I. Bar No. 6334)
Special Assistant Attorney General
150 South Main Street
Providence, RI 02903
tel. (401) 274-4400, ext. 2299
fax (401) 222-3016

PASCOAG UTILITY DISTRICT,
ELECTRIC DIVISION
By its attorney,

____

William L. Bernstein (R.I. Bar No. 2185)
Attorney at Law
P.O. Box 565
627 Putnam Pike
Greenville, RI 02828
tel. (401) 949-2228

fax (401) 949-1680

CERTIFICATION

I hereby certify that on the 9th day of January 2004, a copy of the above Addendum to Settlement Agreement between the Division of Public Utilities and Carriers and the Pascoag Utility District was sent by U. S. mail, postage prepaid, to each person named on the service list for this docket, and by electronic mail to those persons on the service list for this docket whose entry on the service list reflects and electronic mail address.

____

Appendix C

Docket 3546
Pascoag Utility District General Rate Filing
PUC Exhibit 1

Class Revenue Shortfalls Resulting From Division's Cost of Service Study
(Equates to the amount each class should experience an increase or decrease)

Class	Per Division Direct ($)[1]	Percent	Per Div COS Study with Settlement Revenue Requirement ($)	Percent
Residential	$112,020	11.2%	$115,543	12.05%
Commercial	76,083	44.8	76,783	46.39
Industrial	(59,814)	(15.6)	(58,163)	(15.6)
Housing	(2,402)	(26.8)	(2,372)	(29.05)
Street Lighting	31,060	57.6	31,246	61.35
Total Revenue Increase	$156,947		$163,037	

Alternative Rate Designs

Class	Settlement ($)[2]	Percent Rate Δ	% Δ from COS	PUC Alternative #1 ($)[3]	Percent Rate Δ	% Δ from COS	PUC Alternative #2 ($)[4]	Percent Rate Δ	% Δ from COS
Residential	$113,201	11.81%	(0.24%)	$113,201	11.81%	(.24%)	$113,201	11.81%	(0.24%)
Commercial	76,377	46.14	(0.25)	76,377	46.14	(.25)	76,377	46.14	(0.25)
Industrial	(36,849)	(9.88)	5.72	(47,667)	(12.78)	2.82	(47,231)	(12.62)	2.98
Housing	(2,656)	(32.52)	(3.47)	(2,372)	(29.05)	0.00	(2,808)	(34.36)	(5.31)
Street Lighting	12,966	25.46	(35.89)	23,501	46.14	(15.21)	23,501	46.14	(15.21)
Total Revenue Increase	$163,039			$163,039			$163,039		

[1] Direct Testimony of Richard Galligan, p. 13.
[2] Combines Housing and Industrial Rate Classes. See Joint Exhibit 3 for Proof of Revenue.
[3] Keeps Housing and Industrial Rate Classes Separate. See PUC Exhibit 2 for Proof of Revenue and PUC Exhibit 3 for Overall Bill Impact Analysis.
[4] Combines Housing and Industrial Rate Classes. See PUC Exhibit 4 for Proof of Revenue and PUC Exhibit 5 for Overall Bill Impact Analysis.

Appendix D **PASCOAG UTILITY DISTRICT ELECTRIC DIVISION**

Comparison of Current and Proposed Revenue by Class

Rate Year 2004

Alternative 2
Industrial & Housing Combined

	Residential	Commercial	Industrial	Housing Authority	Industrial & Housing Auth. Combined	Lighting	Total
Kilowatt Hours/Kilowatt Demand (1)	25,605,066	4,756,304	46,444	683	47,127		
Rate per kWh or kW	$ 0.03464	$ 0.04118	$ 6.53	$ 6.53	$ 6.53		
Distribution Revenue	$ 887,004	$ 195,865	$ 303,115	$ 4,458	$ 307,573		
Number of Customers	46,275	4,604	300	12	312		
Customer Charge	$ 4.00	$ 10.00	$ 75.00	$ 75.00	$ 75.00		
Customer Revenue	$ 185,100	$ 46,040	$ 22,500	$ 900	$ 23,400		$ 254,540
Total Base Revenue: Proposed Rates	$ 1,072,104	$ 241,905	$ 325,615	$ 5,358	$ 330,973	$ 74,435	$ 1,719,416
Total Base Revenue: Current Rates	$ 958,903	$ 165,528	$ 372,846	$ 8,166	$ 381,012	$ 50,934	$ 1,556,377
Increase (Decrease)	**$ 113,201**	**$ 76,377**	**$ (47,231)**	**$ (2,808)**	**$ (50,039)**	**$ 23,501**	$ 163,039
% Increase (Decrease)	**11.81%**	**46.14%**	**-12.62%**	**-34.36%**	**-13.13%**	**46.14%**	**10.48%**
Shortfall per Division COS Study	**$ 115,543**	**$ 76,783**	**$ (58,163)**	**$ (2,372)**	**$ (60,535)**	**$ 31,246**	$ 163,037
(adjusted for rate case expense)	**12.05%**	**46.39%**	**-15.60%**	**-29.05%**	**-15.89%**	**61.35%**	**10.48%**
Difference: Proposed Rates vs.	**$ (2,342)**	**$ (406)**	**$ 10,932**	**$ (436)**	**$ 10,496**	**$ (7,745)**	$ 2
COS Study	**-0.24%**	**-0.25%**	**2.98%**	**-5.31%**	**2.75%**	**-15.21%**	**0.00%**

(1) Reflects 1.5% growth over test year amount.

Appendix E

Alternative 2
Industrial & Housing Combined

PASCOAG UTILITY DISTRICT
COMPARISON OF CURRENT AND COMMISSION STAFF PROPOSED RATES
TYPICAL BILLS BY CUSTOMER CLASS, AT VARIOUS USAGE LEVELS

Line No.	A		B	C	D	E
1	**RESIDENTIAL CLASS:**					
2			BILL AT	BILL AT		PERCENT
3	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
4	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
5	300		$ 35.52	$ 37.33	$ 1.81	5.10%
6	500		$ 57.20	$ 59.56	$ 2.36	4.13%
7	1,000		$ 111.39	$ 115.11	$ 3.72	3.34%
8	2,000		$ 219.78	$ 226.22	$ 6.44	2.93%
9	**COMMERCIAL CLASS:**					
10			BILL AT	BILL AT		PERCENT
11	USAGE		CURRENT	PROPOSED	INCREASE	INCREASE
12	(KWH)		RATES	RATES	(DECREASE)	(DECREASE)
13	500		$ 58.79	$ 68.83	$ 10.04	17.08%
14	800		$ 90.34	$ 104.12	$ 13.78	15.25%
15	1,000		$ 111.37	$ 127.65	$ 16.28	14.62%
16	3,000		$ 321.71	$ 362.95	$ 41.24	12.82%
17	5,000		$ 532.05	$ 598.25	$ 66.20	12.44%
18	**INDUSTRIAL CLASS:**					
19			BILL AT	BILL AT		PERCENT
20	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
21	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
22	6,388	25	$ 737.24	$ 726.65	$ (10.59)	-1.44%
23	20,075	50	$ 1,974.64	$ 1,936.46	$ (38.18)	-1.93%
24	47,450	100	$ 4,449.50	$ 4,356.15	$ (93.35)	-2.10%
25	200,750	500	$19,224.35	$18,689.59	$ (534.76)	-2.78%
26	321,200	800	$30,724.16	$29,858.34	$ (865.82)	-2.82%
27	**HOUSING CLASS (PROPOSAL IS TO COMBINE WITH INDUSTRIAL RATE):**					
28			BILL AT	BILL AT		PERCENT
29	USAGE	DEMAND	CURRENT	PROPOSED	INCREASE	INCREASE
30	(KWH)	(KW)	RATES	RATES	(DECREASE)	(DECREASE)
31	12,775	50	$ 1,586.90	$ 1,378.23	$ (208.68)	-13.15%
32	20,075	50	$ 2,145.14	$ 1,936.46	$ (208.68)	-9.73%
33	19,163	75	$ 2,322.89	$ 2,029.88	$ (293.01)	-12.61%
34	41,063	75	$ 3,997.59	$ 3,704.57	$ (293.01)	-7.33%