

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

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

REPORT AND ORDER

On January 4, 2001, the Pascoag Fire District ("Pascoag") filed with the Rhode Island Public Utilities Commission ("Commission") proposed changes to take effect on January 1, 2001, to Pascoag's Standard Offer Charge, Transmission Charge and Transition Charge, pursuant to a semi-annual purchased power reconciliation plan.<sup>1</sup> On January 26, 2001, Pascoag revised its filing and requested that the effective date be changed to February 1, 2001.<sup>2</sup> In its filing, Pascoag proposes to: increase its Standard Offer Charge from the current \$0.03384 per kilowatt-hour (kWh) to \$0.05534 per kWh; increase the Transition Charge from the current \$0.02353 per kWh to \$0.02520 per kWh; and decrease the Transmission Charge from the current \$0.00517 per kWh to \$0.00451 per kWh. The cumulative effect of these changes is to increase the monthly electric bill of a typical residential customer using 500 kWh per month by \$11.26, from \$51.38 to \$62.64, an increase of 21.9%.<sup>3</sup>

Following public notice, a hearing was conducted at the Commission's offices, at 89 Jefferson Boulevard, Warwick, Rhode Island on January 29, 2001. The following appearances were entered:

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<sup>1</sup> Pascoag Ex. 01-1.

<sup>2</sup> Pascoag Ex. 01-2.

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

Theodore G. Garille, Pascoag's General Manager, and Frank Radigan and Timothy Hebert, consultants retained by Pascoag, testified in support of the filing. Mr. Garille explained that Pascoag is seeking a rate increase because it had approximately a \$50,000 undercollection in Standard Offer revenues for December 2000, and would likely have an undercollection for the month of January 2001 of approximately \$140,000.<sup>4</sup> Mr. Garille noted that each of the following entities provide approximately one-third of Pascoag's electric supply needs: the New York Power Authority ("NYPA"), the Seabrook nuclear power plant, and competitive suppliers.<sup>5</sup> The Standard Offer undercollection was caused by a reduction in the power supplied by NYPA and the shut-down of the Seabrook nuclear power plant for approximately two months; both of these events required Pascoag to purchase replacement power at higher prices.<sup>6</sup>

In addition, Mr. Garille testified that Pascoag's contract with competitive suppliers expired in December of 2000, and through a competitive bidding process, Pascoag has signed new contracts for

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<sup>3</sup> Id.

<sup>4</sup> T. 1/29/01, pp. 11, 31.

<sup>5</sup> Id., pp. 10, 43.

electric supply at \$74 per MWH plus a capacity charge for off-peak hours, and 2 MWHs of on- peak power at \$98 per MWH plus a capacity charge. He noted that these prices are significantly higher than the expired contract price of \$41 per MWH.<sup>7</sup> The new contracts, however, allow Pascoag to avoid taking the high cost power by purchasing cheaper energy in the electric wholesale spot market when the opportunity arises.<sup>8</sup> At the hearing, members of the Commission expressed concern that Pascoag's proposed rate increase would not eliminate the Standard Offer revenue undercollection noting that the Commission's recent policy towards setting electricity rates was to prevent the creation of a large undercollection.<sup>9</sup>

After a recess in the hearing and in response to the Commission's concern about the Standard Offer revenue undercollection, Pascoag submitted a revised filing in which Pascoag proposes to: increase its Standard Offer Charge from \$0.03384 per kWh to \$0.05964 per kWh; increase its Transition Charge from \$0.02353 per kWh to \$0.02520 per kWh; and decrease the Transmission Charge from \$0.00517 per kWh to \$0.00451 per kWh.<sup>10</sup> The cumulative effect of these changes on a typical residential customer using 500 kWh per month is to increase the

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<sup>6</sup> *Id.*, pp. 10-11.

<sup>7</sup> Pascoag Ex. 01-1 (Garille pre-filed testimony), pp. 6-7.

<sup>8</sup> *Id.*

<sup>9</sup> T., pp. 46-47.

<sup>10</sup> The revised Standard Offer rate proposal represents an increase of \$0.0043 over the originally proposed rate of \$0.05534. No further changes were proposed to the Transition and Transmission Charges.

monthly electric bill by \$13.41, from \$51.38 to \$64.79, an increase of 26.1%.<sup>11</sup>

Pascoag also withdrew its request that it be allowed to file reconciliations on an annual basis, and instead agreed to continue with the current six-month reconciliation filing.<sup>12</sup> Also, Mr. Garille updated the Commission on the status of Pascoag's negotiations with NYPA for the renewal of its contract to receive electric power from St. Lawrence/FDR plant.<sup>13</sup> Mr. Garille explained that Pascoag has signed an extension of its contract with NYPA through June 2002, and is making other efforts to ensure that Pascoag continues to receive electric power from NYPA.<sup>14</sup> If Pascoag were to lose its NYPA power allotment, Mr. Garille theorized that Pascoag would become an electric distribution company.<sup>15</sup>

In addition, Pascoag filed revisions to its transition tariff. The existing transition tariff contained language that is outdated because its power supply contract with Montaup Electric Company ("Montaup") has expired.<sup>16</sup> The current tariff requires all payments to ISO-New England or for purchases made by Energy New England ("ENE") on behalf of

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<sup>11</sup> Pascoag Ex. 01-4.

<sup>12</sup> T. pp. 119-120.

<sup>13</sup> Id., pp. 105-106, 108.

<sup>14</sup> Id. If Pascoag was allowed to obtain power from NYPA's Niagara plant, but not NYPA's St. Lawrence/FDR plant, Pascoag would increase its rates, but the effect "would not be catastrophic". Id., p. 113.

<sup>15</sup> Id., p. 113.

<sup>16</sup> Pascoag Ex. 01-1 (Garille pre-filed testimony), p. 7.

Pascoag to be included in the transition charge.<sup>17</sup> Pascoag has determined that almost all the power purchases it makes in the open marketplace on behalf of its customers should be included in the standard offer charge.<sup>18</sup> As a result, Pascoag has revised the transition tariff so that it only includes the “above market costs for the contracts” that were in effect before the Utility Restructuring Act (“URA”) went into effect, such as the Seabrook contract, the contract termination charges relating to the Montaup power supply contract and the above market costs relating to the Hydro Quebec power supply contract.<sup>19</sup>

#### STANDARD OFFER 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 a non-regulated power producer. Pascoag offers SOS Charge 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 increase in Pascoag’s Standard Offer Service is based upon Pascoag’s estimated purchase power costs for the upcoming twelve-month period. These estimates are based upon projections supplied by ENE for the period of February 2001 through July 2001, as well as

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<sup>17</sup> Id.

<sup>18</sup> Id.

<sup>19</sup> Id.

assumptions regarding the market cost of power.<sup>20</sup> The proposed SOS Charge also includes any reconciling balance for the prior six-month period. From June 2000 through January 2001, Pascoag experienced an increase in actual purchased power costs, resulting in an estimated undercollection of \$191,350.<sup>21</sup> Also, as a result of dramatic increases in the price of natural gas and crude oil, the two contracts Pascoag entered into with competitive power suppliers at contract price of \$74 per MWH and \$98 per MWH, are higher than Pascoag's previous contract of \$41 MWH.<sup>22</sup> The estimated purchased power costs to which any reconciling balance is added or subtracted, as appropriate, are then divided by the projected SOS kWh sales for the upcoming twelve-month period to produce the per-unit (kWh charge) for the upcoming twelve-month period.

The revised filing proposes a Standard Offer Charge rate of 5.964 cents per kWh for the period beginning February 1, 2001. This factor was determined as follows:

Forecast Standard Offer cost (February 2001 through January 2002)	\$2,500,423
Reconciling period cost (December 1999 through November 2000)	\$1,350,520
Reconciling period revenues	(\$1,391,136)
December 2000 and January 2001 undercollection	<u>\$ 191,350</u>
Total Standard Offer costs to recover	\$2,651,157
Forecast MWH sales for the period	44,451
Standard Offer factor (\$2,651,157/44,451)	\$0.05964 <sup>23</sup>

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<sup>20</sup> Pascoag Ex. 01-1 (Garille pre-filed testimony), p. 4.

<sup>21</sup> Pascoag Ex. 01-4.

<sup>22</sup> Pascoag Ex. 01-1(Garille pre-filed testimony), pp. 6-7.

<sup>23</sup> Pascoag Ex. 01-1, Exhibit V, Pascoag Ex. 01-4.

## TRANSITION CHARGE

Electric distribution companies are authorized by R.I.G.L. § 39-1-27.4 to collect a non-bypassable transition charge from all customers of the electric distribution company. This charge recovers certain costs incurred as a result of Pascoag's contractual obligations under its wholesale power supply contracts that were entered into before retail access was mandated by the URA. For Pascoag, the Transition Charge recovers contract termination costs for the upcoming twelve-month period. The Transition Charge includes the above-market cost of energy associated with Pascoag's purchases under the MMWEC Project Six Contract (Seabrook power) and its contractual obligations to Montaup Electric Co., net of transmission costs and any re-marketing savings.

The proposed increase in Pascoag's Transition Charge is based upon purchased power cost projections supplied by ENE for the period February 2001 through January 2002, as well as an undercollection of \$122,012 in Pascoag's Transition Charge from December 1999 through November 2000.<sup>24</sup>

The filing proposes a Transition Charge factor of 2.52 cents per kWh for the period beginning February 1, 2001. This factor was determined as follows:

Forecast Transition Cost (February 2001 through January 2002)	\$ 998,331
Reconciling period cost (December 1999 through November 2000)	\$1,077,658
Reconciling period revenue	<u>(\$ 955,646)</u>
Total Transition Charge costs to recover	\$1,120,343
Forecast MWH sales for the period	44,451

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<sup>24</sup> Pascoag Ex. 01-1 (Grille pre-filed testimony), pp.4-5.

TRANSMISSION CHARGE

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

Pascoag proposes to decrease its Transmission Charge factor from \$0.00517 per kWh to \$0.00451 per kWh, based upon Pascoag's actual cost for purchased power for the prior twelve-month period, as well as ENE's projection of purchased power costs for the ensuing twelve months.<sup>26</sup>

The filing proposes a Transmission Charge factor of .451 cents per kWh for the period commencing February 1, 2001. The factor was determined as follows:

Forecast Transmission cost (February 2001 through January 2002)	\$204,240
Reconciling period cost (December 1999 through November 2000)	\$216,769
Reconciling period revenue	<u>(\$220,485)</u>
Total Transmission costs to recover	\$200,524
Forecast MWH sales for the period	\$ 44,451
Transmission factor (\$200,254/44,451)	\$0.00451 <sup>27</sup>

DIVISION POSITION

In an amended memorandum dated January 26, 2001, the Division of Public Utilities and Carriers ("Division") reviewed Pascoag's

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<sup>25</sup> Pascoag Ex. 01-1 Exhibit V.

<sup>26</sup> Pascoag Ex. 01-1 (Garille's pre-filed testimony) p. 5.



filing. The Division supported Pascoag's revisions to its transition tariff.<sup>28</sup> At the hearing, Mr. Wold, speaking on behalf of the Division, stated that the Division supported Pascoag's proposed increase in the SOS Charge to \$0.05964 per kWh as properly addressing the undercollection through January 2001. The Division made no recommendation as to whether Pascoag's reconciliation filings should be in on annual or semi-annual basis.<sup>29</sup>

#### COMMISSION FINDINGS

At an open meeting held on January 31, 2001, the Commission considered the evidence presented in this case. The Commission found Pascoag's proposed revisions to its Standard Offer Charge (filed on January 29, 2001), Transition Charge and Transmission Charge 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 billing rendered on and after February 1, 2001.

Due to high prices for natural gas and crude oil, the cost of electricity has steadily increased. Pascoag's original rate increase request would have resulted in a SOS under-recovery of approximately \$191,000 through January 2001. Consistent with this Commission decisions in Docket No. 3138 and Docket No. 3243, however, the Commission believes that it is better to increase Pascoag's SOS Charge to

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<sup>27</sup> Pascoag Ex. 01-1 Exhibit V.

<sup>28</sup> Div. Ex. 1.

<sup>29</sup> Id., pp. 145-146.

stay current with Pascoag's cost of supplying SOS rather than permit the build-up of an SOS undercollection which will ultimately cost ratepayers more because they will pay both the deferred SOS costs and the accrued interest thereon. Therefore, the Commission believes that the increase in Pascoag's SOS Charge from 5.534 cents per kWh, as originally filed, to 5.964 cents per kWh as proposed at the hearing, is appropriate and in the best interest of the ratepayers.

Also, due to the volatility of wholesale electric prices and high fuel prices, the Commission determines that it is appropriate for Pascoag to continue to make semi-annual reconciliation filings. Lastly, the Commission directs Pascoag to remove language in its transition tariff indicating specific market rates. The Commission feels that it is difficult to determine what the market rates will be in the future and that therefore, any specific market price reference should be deleted in the transition tariff.<sup>30</sup> Finally, the Commission directs that Pascoag make a compliance filing in conformance with the Commission's decision.<sup>31</sup>

Accordingly, it is

(16637) ORDERED:

1. Pascoag's proposed Standard Offer Charge of \$0.05964 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2001.

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<sup>30</sup> Id., pp. 120-122.

<sup>31</sup> On March 9, 2001, Pascoag appropriately filed compliance tariffs in conformance with the Commission's directives.

2. Pascoag's proposed Transmission Charge of \$0.00451 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2001.
3. Pascoag's proposed Transition Charge of \$0.02520 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2001.
4. Pascoag's shall file compliance tariffs in conformance with this Report and Order.
5. Pascoag shall comply with all other findings and directives contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON FEBRUARY 1, 2001, PURSUANT TO AN OPEN MEETING DECISION ON JANUARY 31, 2001. WRITTEN ORDER ISSUED ON JUNE 14, 2001.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner