STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

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

REPORT AND ORDER

Introduction

On January 7, 2002, the Pascoag Utility District ("Pascoag") filed proposed changes to Pascoag's Standard Offer Service Charge, Transmission Charge and Transition Charge with the Rhode Island Public Utilities Commission ("Commission"). The proposed changes were to take effect on February 1, 2002 pursuant to a semi-annual purchased power reconciliation plan.[1] On January 22, 2002, Pascoag revised certain exhibits to its filing.[2] On February 7, 2002, Pascoag again revised certain of its exhibits.[3] In its filing, Pascoag proposes to: decrease its Standard Offer Charge from the current 5.099 cents per kilowatt-hour (kWh) to 4.602 cents per kWh; decrease the Transition Charge from the current 2.006 cents per kWh to 1.722 cents per kWh; and decrease the Transmission Charge from the current .9217 cents per kWh to .687 cents per kWh. The cumulative effect of these changes is to decrease the monthly electric bill of a typical residential customer using

[1] Pascoag Ex. 02-1.
[2] Pascoag Ex. 02-2.
[3] Pascoag Ex. 02-3.

500 kWh per month by $5.07, from $60.24 to $55.17, a decrease of 8.4%.[4]

Standard Offer Service Charge

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

The proposed decrease in Pascoag's SOS Charge 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 2002 through July 2002, as well as assumptions regarding the market cost of power.[5] The proposed SOS Charge also includes any reconciling balance for the prior six-month period. From June 2001 through January 2002, Pascoag experienced a decrease in actual purchased power costs and an increase in actual sales, resulting in an approximate overcollection of $188,888 as of November 30, 2001.[6] The estimated purchased power costs to which any reconciling balance is added or subtracted, as appropriate, are then

[4] Id.
[5] Pascoag Ex. 02-1 (Garille pre-filed testimony), pp. 6-8.
[6] Id. at 4-5.

divided by the projected SOS kWh sales for the upcoming six-month period to produce the per-kWh SOS Charge for the upcoming six-month period.[7]

The revised filing proposes a SOS Charge rate of 4.602 cents per kWh for the period beginning February 1, 2002. This factor was determined as follows:

Forecast Standard Offer cost (February 2002 through July 2002)	$ 960,879
Reconciling period cost (December 2000 through November 2001 x ½)	$ 1,180,954
Reconciling period revenues	($ 1,246,437)
Overcollection from November 2000	($ 40,616)
ISO Fiscal Responsibility Pre-Payment	$ 126,802
Payment for ISO Requirement	$ 20,000
Total Standard Offer costs to recover	$ 1,001,582
Forecast MWH sales for the period	21,763
Standard Offer factor ($1,001,582/21,763,000)/kWh	$ 0.04602[8]

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 4.2 cents per kWh.

In this filing, Pascoag's Transition Charge is based upon the forecast transition costs, as determined above, the reconciliation of past

[7] Id. at 7.

period costs, and the application of available funds from the Project Six Stabilization account and from a refund of Project Six charges in a prior period.[9]

The filing proposes a Transition Charge factor of 1.722 cents per kWh for the period beginning February 1, 2002. This factor was determined as follows:

Forecast Transition Cost (February 2002 through July 2002)	$ 504,589
Reconciling period cost (December 2000 through November 2001 x ½)	$ 487,912
Reconciling period revenue	($ 562,847)
Under Collection from November 2000	$ 122,012
Reconciliation of Project 6 Rate Stabilization Fund	($ 50,000)
ISO Fiscal Responsibility prepayment	($ 126,802)
Total Transition Charge costs to recover	$ 374,864
Forecast MWH sales for the period	21,763
Transition Charge factor ($374,864/21,763,000)/kWh	$ 0.01722[10]

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 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 .9217 cents per kWh to .687 cents per kWh, based upon a reconciliation of Pascoag's actual transmission costs for the prior twelve-month period,

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[8] Pascoag Ex. 02-1, Exhibit II, Revision 2.
[9] Pascoag Ex. 01-2 (Garille pre-filed testimony), p. 6.
[10] Pascoag Ex. 02-1, Exhibit II, Revision 2.

as well as ENE's projection of transmission costs for the ensuing six months.[11]

The filing proposes a Transmission Charge factor of .687 cents per kWh for the period commencing February 1, 2002. This factor was determined as follows:

Forecast Transmission cost (February 2002 through July 2003)	$ 170,797
Reconciling period cost (December 1999 through November 2000 x ½)	$ 111,905
Reconciling period revenue	($ 104,499)
Overcollection from November 2000	($ 3,716)
Reconciliation of Project 6 Rate Stabilization Fund	($ 25,000)
Total Transmission costs to recover	$ 149,487
Forecast MWH sales for the period	$ 21,763
Transmission factor ($149,487/21,763,000)/kWh	$ 0.00687[12]

Division's Position

In memoranda dated January 25, 2002 and February 1, 2002, the Division of Public Utilities and Carriers ("Division") reviewed Pascoag's filing. The Division noted that the revisions submitted by Pascoag were the result of conversations between it and Pascoag. The Division supported Pascoag's revisions to its SOS, Transition and Transmission Charges.[13]

Public Hearing

Following due notice, a public evidentiary hearing was conducted at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island on February 7, 2002. The following appearances were entered:

FOR PASCOAG: William L. Bernstein, Esq.

FOR DIVISION: Leo Wold, Esq.

[11] Pascoag Ex. 02-1 (Garille's pre-filed testimony) p. 6.
[12] Pascoag Ex. 02-1 Exhibit II, Revision 2.
[13] Div. Ex. 1, Div. Ex. 2.

Special Assistant Attorney General

FOR COMMISSION: Cynthia G. Wilson, Esq.
Senior Legal Counsel

Theodore G. Garille, Pascoag's General Manager, and Frank Radigan and Timothy Hebert of ENE, consultants retained by Pascoag, testified in support of the filing.

With regard to the calculation of the SOS Charge, Mr. Garille testified that the rate also includes charges to Pascoag from the independent system operators (ISO). Pascoag receives charges from both ISO New England and ISO New York. He explained that the hydroelectric power that Pascoag receives from the New York Power Authority (NYPA) is subject to ISO New York charges.[14]

Mr. Garille also testified that Pascoag has entered into a contract with Massachusetts Municipal Wholesale Electric Corporation (MMWEC) in order to meet certain requirements imposed by ISO New England. He explained that ISO New England was requiring a deposit of $700,000 in cash or bond equivalent to guarantee Pascoag's payment of ISO New England charges. Mr. Garille testified that rather than require ratepayers to pay the deposit, Pascoag entered into a contract with MMWEC which, for a much smaller incremental deposit of approximately $200,000, will guarantee Pascoag's payments.[15]

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[14] Transcript, 2/7/02, p. 14.
[15] Id. at 22-3, 60-1.

Mr. Hebert explained the types of energy contracts into which Pascoag had entered to service its load for 2002. He explained that Pascoag had several different types of contracts. For bilateral energy purchases, Pascoag had entered into contracts with various suppliers at fixed prices with known delivery quantities over the course of 2002.[16]

Next, Mr. Hebert explained that for flexibility, Pascoag has also entered into a unit entitlement contract to acquire power from the Stony Brook combined cycle plant in Ludlow, MA whereby, in exchange for a $15,000 monthly reservation fee, Pascoag is entitled to purchase up to 3 megawatts of power from the plant whenever it is actually running. The purpose of the entitlement arrangement is to enable Pascoag to purchase a significant percentage of its energy at the lower of the unit's energy price, which is based upon the actual cost of the fuel burned in the plant, and the ISO New England's market clearing price. The rationale for this arrangement assumes that when the market clearing price for energy is higher than the price of running the unit, the plant would be dispatched (i.e., begin producing power) and Pascoag would pay the less expensive contractual price for the unit's power. Conversely, when the market clearing price is below the price of running the unit, the plant would not be dispatched and Pascoag would be acquiring power on the spot market at the lower market clearing prices. Pascoag would thus benefit by not having to take output from the plant when energy clearing

[16] Id. at 25.

prices are lower, but by also being able to take less expensive output from the plant when energy clearing prices are higher.[17]

Mr. Hebert explained that the Stony Brook unit could be dispatched at any time, but that overall, one would expect the plant to run more often during peak demand times, such as in the summer and winter. He also indicated that while his economic analysis primarily took into account Pascoag's needs during peak demand times, the plant could run much more often if another plant were unable to run.[18]

Elaborating on the economic analysis, Mr. Hebert testified that a comparative analysis of the cost of the Stony Brook unit entitlement contract, including the $15,000 monthly reservation fee, yielded a lower overall cost than the alternative of contracting for a fixed energy supply at a predefined price.[19] In fact, Mr. Hebert testified that his calculations yielded a savings of almost $78,000.[20] Mr. Garille also pointed out that if Pascoag were to lock in only a portion of its power and rely on the spot market for any increased demand, it was open to the risk of paying a very high energy clearing price. For example, Mr. Garille reminded the Commission that in May 2000, the energy clearing price spiked from $43/MWh to $6,000/MWh.[21] Mr. Garille opined that having to pay that amount would be very detrimental to a small utility like Pascoag.

[17] Commission Exhibit 1 (Mr. Hebert's Response to Commission Data Request 9).
[18] Tr. 2/7/02, pp. 27-28.
[19] Id. at 30-1.
[20] Id. at 35-6.
[21] Id. at 42.

Therefore, Pascoag's contracts are designed to provide a middle ground between price and risk.[22]

Mr. Garille then addressed the status of Pascoag's NYPA contracts. Mr. Garille testified that generally, Pascoag receives one-third of its power supply from NYPA's St. Lawrence FDR Plant and Niagra Plant. Mr. Garille indicated that at the time of the hearing, there was a very real possibility that after June 2002, the NYPA power from the St. Lawrence Plant may no longer be available to Pascoag. NYPA has indicated that absent an order from the Federal Energy Regulatory Commission (FERC), it would no longer provide power to out-of-state distributors, such as Pascoag. In addition, Mr. Garille testified that due to the anticipated institution of locational pricing, if the NYPA power prices were increased to include locational congestion costs, the NYPA rates would no longer be attractive to Pascoag, which is currently paying a purchase price for NYPA power based on the cost of producing the power.[23]

Since Pascoag can not definitively rely on a continuing allocation of NYPA power, when calculating its power needs, Pascoag maximized its allotment through bilateral contracts and anticipated that it would rely on the power pool price.[24] Mr. Radigan estimated that if Pascoag had to cover the loss of the NYPA power allocation entirely with energy purchased at market clearing prices, Pascoag's purchased power rates

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[22] Id.
[23] Id. at 55-6.
[24] Id. at 58-9.

would have to be increased by 10-20%.[25] However, Ms. Allaire noted that because Pascoag was returning only one-half of the prior period's overcollection of $266,000 in the first six months of 2002, the balance would be available to offset any increased energy costs incurred during the second half of the year in the event Pascoag's power allocation from NYPA's St. Lawrence Plant is discontinued after June 2002.[26]

Speaking on behalf of the Division, Mr. Wold stated that the Division was relying on the positions it had taken in its memoranda previously filed concerning Pascoag's pending filing in this docket.[27]

COMMISSION FINDINGS

After a recess, the Commission returned to the bench and considered the evidence presented in this case. The Commission found Pascoag's proposed revisions to its Standard Offer Charge, 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 bills rendered on and after February 1, 2002.

The Commission noted that Pascoag, together with its energy advisors and procurers, has worked to set up an energy supply portfolio for Pascoag aimed at benefiting the ratepayers by keeping purchased

[25] Id. at 73-4.
[26] Id. at 63.
[27] Id. at 7.

power costs down while also allowing the company some flexibility in its energy purchasing.[28]

The Commission also expressed concern regarding the potential impact on Pascoag's rates of a loss of the NYPA power allocation. The Commission indicated that it favors the extension of the NYPA power contract under its existing terms, and urged Pascoag to continue to work with the Rhode Island Congressional Delegation to achieve this result.[29]

Accordingly, it is

(17055) ORDERED:

1. Pascoag's proposed Standard Offer Charge of $0.04602 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2002.
2. Pascoag's proposed Transmission Charge of $0.00687 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2002.
3. Pascoag's proposed Transition Charge of $0.01722 per kWh is hereby approved to be effective for bills rendered on and after February 1, 2002.
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.

[28] Id. at 80-1.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON FEBRUARY 1, 2002, PURSUANT TO A BENCH DECISION ON FEBRUARY 7, 2002. WRITTEN ORDER ISSUED ON JULY 11, 2002.

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

* Commission Racine did not participate in the decision due to the birth of her twin grandchildren.

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[29] Id. at 80.