

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 June 21, 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”). On July 12, 2002, Pascoag filed a full revision to include updated figures and to resolve minor calculation errors. The proposed changes were to take effect on August 1, 2002 pursuant to a semi-annual purchased power reconciliation plan.<sup>1</sup>

In its filing, Pascoag proposed to: decrease its Standard Offer Charge from the current 4.602 cents per kilowatt-hour (kWh) to 4.514 cents per kWh; decrease the Transition Charge from the current 1.722 cents per kWh to .641 cents per kWh; and decrease the Transmission Charge from the current .687 cents per kWh to .487 cents per kWh. The cumulative effect of these changes is to decrease the monthly electric bill of a typical residential customer using 500 kWh per month by \$6.85, from \$55.17 to \$48.32, a decrease of 12.4%.<sup>2</sup>

In his pre-filed testimony, General Manager, Theodore Garille, testified that the filing included a reconciliation of the projected power cost to actual cost for December 2001 and the period January through April 2002. He indicated that Pascoag’s contracts

---

<sup>1</sup> Pascoag Ex. 02-4.

<sup>2</sup> Id.

for the year 2002, through April, appeared to be performing as projected. Therefore, the rates in effect for February 2002 through July 2002 accurately reflected the cost of purchasing power under the 2002 contracts.<sup>3</sup> Mr. Garille did note that Pascoag has been, and needs to continue, refunding a revenue over-collection from a prior period to ratepayers.<sup>4</sup> He testified that the prior period's over-collection was the result of the savings realized in 2001 between budgeted power costs, upon which the 2001 rates were based, and actual power costs for 2001.<sup>5</sup> Additionally, in April 2002, Pascoag received an unanticipated refund from Seabrook Project 6 as a result of litigation in Vermont over the Seabrook power plant.<sup>6</sup>

#### 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.

---

<sup>3</sup> A detailed explanation of Pascoag's 2002 power contracts may be found in Commission Order No. 17055 (issued July 11, 2002).

<sup>4</sup> In January 2002, the Commission approved an 8.4% rate reduction for Pascoag for the period February 1, 2002 through July 31, 2002. This rate reduction was designed to refund to customers one-half of Pascoag's revenue over-collection incurred during the period June 2001 through January 2002, with the remainder of the over-collection to be refunded over the period August 1, 2002 through January 31, 2003. However, as the current filing explains, Pascoag also over-recovered additional revenues during the February 2002 through July 2002 period because of the unexpected Seabrook Project 6 refund received in April 2002 and somewhat lower than expected purchased power costs for the period February 2002 through July 2002. In the interest of maintaining rate stability, Pascoag's current filing requests a rate reduction designed to refund to customers the cumulative over-collection of \$307,849 incurred through July 2002 over the ensuing 12-month period, August 1, 2002 through July 31, 2003. Pascoag Ex. 02-4 (Garille pre-filed testimony), pp. 3-4; Div. Ex. 02-3 (Memorandum of D. Stearns); See Order No. 17055, pp. 9-10.

<sup>5</sup> Pascoag Ex. 02-4, pp. 2-3.

<sup>6</sup> Id. at 3.

The proposed decrease in Pascoag’s SOS Charge is based upon Pascoag’s estimated purchased power costs for the upcoming six-month period, August 2002 through January 2003. These estimates are based upon projections supplied by Energy New England (“ENE”) for the period August 2002 through January 2003, as well as assumptions regarding the market cost of power.<sup>7</sup> The proposed SOS Charge also includes any reconciling balance for prior periods. 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 six-month period to produce the per-kWh SOS Charge for the upcoming six-month period.<sup>8</sup>

The revised filing proposes a SOS Charge rate of 4.514 cents per kWh for the six-month period beginning August 1, 2002. This factor was determined as follows:

Forecast Standard Offer cost (August 2002 through January 2003)	\$ 1,032,402
Reconciling period cost (December 2001 through May 2002 x ½)	\$ 470,153
Reconciling period revenues x ½	(\$ 535,909)
Under-collection from prior period ending November 2001 x ½	<u>\$ 135,045</u>
Total Standard Offer costs to recover	\$ 1,101,690
Forecast MWH sales for the period	24,404
Standard Offer factor (\$1,101,690/24,404,000)/kWh	\$ 0.04514 <sup>9</sup>

### 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. The Transition Charge includes the above-market cost of energy associated with Pascoag’s purchases under the Seabrook Project Six Contract and its contract

---

<sup>7</sup> Id. at 6-8.

<sup>8</sup> Id. at 7. As noted above, Pascoag pointed out that in its prior six-month filing, the Commission allowed Pascoag to refund a cumulative over-collection for the period ending November 2001 over the 2002 calendar year. Furthermore, despite a small rate-reduction in December 2001, Pascoag still experienced an over-collection in and December 2001 and January 2002. Pascoag has again requested its over-collection be refunded to customers over the prospective twelve-month period, rather than the six-month period, in order to keep rates relatively stable. Id.

<sup>9</sup> Pascoag Ex. 02-4, Revised Exhibit II.

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 proxy market value associated with Seabrook energy purchases. The proxy 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 period costs, and the application of available funds from the Project Six Stabilization account and from a refund of Project Six charges from a prior period.<sup>10</sup> Mr. Garille noted that two factors will reduce Pascoag's transition costs. First, Pascoag will apply an estimated monthly credit of \$11,450 from Project Six directly to its monthly billing for Project Six costs and second, the interest portion of its contract termination charge is scheduled to be reduced by approximately \$950 per month. These factors will have the effect of reducing the forecast power estimate by approximately \$12,500 per month.<sup>11</sup>

The filing proposes a Transition Charge factor of .641 cents per kWh for the six-month period beginning August 1, 2002. This factor was determined as follows:

Forecast Transition Cost (August 2002 through January 2003)	\$ 360,153
Reconciling period cost (December 2001 through May 2002 x 1/2)	\$ 235,183
Reconciling period revenue x 1/2	(\$ 204,225)
Over-Collection from period ending November 2001 x 1/2	<u>(\$ 234,779)</u>
Total Transition Charge costs to recover	\$ 156,332
Forecast MWH sales for the period	24,404
Transition Charge factor (\$156,332/24,404,000)/kWh	\$ 0.00641 <sup>12</sup>

#### 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

---

<sup>10</sup> Pascoag Ex. 02-4, p. 6.

<sup>11</sup> Id. at 7.

<sup>12</sup> Pascoag Ex. 02-4, Revised Exhibit II.

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 .687 cents per kWh to .487 cents per kWh, based upon a reconciliation of Pascoag's actual transmission costs for the prior twelve-month period, as well as ENE's projection of transmission costs for the ensuing six months.<sup>13</sup>

The filing proposes a Transmission Charge factor of .487 cents per kWh for the six-month period commencing August 1, 2002. This factor was determined as follows:

Forecast Transmission cost (August 2002 through January 2003)	\$ 138,239
Reconciling period cost (December 2001 through May 2002 x ½)	\$ 62,022
Reconciling period revenue	(\$ 86,893)
Over-Collection from period ending November 2001 x ½	<u>\$ 5,549</u>
Total Transmission costs to recover	\$ 118,847
Forecast MWH sales for the period	\$ 24,404
Transmission factor (\$118,847/24,404,000)/kWh	\$ 0.00487 <sup>14</sup>

#### Division's Position

In a memorandum dated July 16, 2002, the Division of Public Utilities and Carriers ("Division") reviewed Pascoag's filing and stated that the Division supported Pascoag's revisions to its SOS, Transition and Transmission charges. The Division noted that as of the end of May 2002, Pascoag's accounts had a cumulative over-recovery of \$307,849, which Pascoag proposed to refund to customers over a twelve-month period from August 2002 through July 2003. The Division opined that the extended refund period would achieve greater rate stability and avoid customer confusion.<sup>15</sup>

---

<sup>13</sup> Pascoag Ex. 02-4 (Garille's pre-filed testimony) p. 6.

<sup>14</sup> Pascoag Ex. 02-1 Exhibit II, Revision 2.

<sup>15</sup> Div. Ex. 3.

However, the Division did express some concern with Pascoag's continuing use of Narragansett Electric's standard offer contract price as a proxy for the market price used in calculating Pascoag's SOS and Transition Charges. As the Division pointed out, testimony in several Commission dockets has made clear that Narragansett's long-term contract price for standard offer power was not intended to be a proxy for the market price for the period 1998 through 2009. The Division did note that, coincidentally, the contract price of 4.2 cents per kWh reasonably reflects the current market conditions. However, the Division recommended that in future filings, Pascoag consult with ENE to establish a reasonable market price for purposes of calculating Pascoag's SOS and transition charge rates.<sup>16</sup>

#### Public Hearing

Following due notice, a public evidentiary hearing was conducted at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island on July 17, 2002.

The following appearances were entered:

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

Theodore G. Garille, Pascoag's General Manager, and Judith Allaire, Pascoag's Customer Service and Accounts Manager, testified in support of the filing.

#### Current Issues

Ms. Allaire provided additional explanation of the origin of Pascoag's \$307,848 over-collection. She explained that the over-collection was the combined total of the

---

<sup>16</sup> Id.

carryover of one-half of the over-collection from the period ending November 2001 plus the total monthly reconciliation between projected power costs and actual purchased power costs for the period December 2001 through May 2003.<sup>17</sup>

Mr. Garille updated the Commission on the status of Pascoag's allocation of power from New York Power Authority ("NYPA"). He reminded the Commission that as part of the pending St. Lawrence project relicensing proceeding before FERC, the State of New York was attempting to keep the St. Lawrence project power exclusively for use in New York, rather than having to continue to allocate a portion to municipal utilities outside of New York, such as Pascoag. Therefore, Pascoag would be intervening in the FERC proceeding, arguing that NYPA's St. Lawrence project power should continue to be allocated to utilities outside of the state of New York.<sup>18</sup> Mr. Garille indicated that Pascoag currently pays approximately 1.6 cents per kWh delivered for NYPA power. Pascoag's allocation is guaranteed at current prices at least until June 2003, when the St. Lawrence project's license expires.<sup>19</sup> However, if the relicensing proceeding is not completed by that date, Mr. Garille testified that it was his understanding that Pascoag's allocation of NYPA power would continue on a year-to-year basis until final rules were approved by FERC.<sup>20</sup>

#### Issues for Pascoag's 2003 Filings

Mr. Garille testified that Pascoag anticipates an expansion by its single largest commercial customer, Daniele Prosciutto. Additionally, Pascoag expects a new golf

---

<sup>17</sup> Tr. 7/17/02, pp. 11-12.

<sup>18</sup> On August 12, 2002, the Attorney General filed a Motion to Intervene in FERC Docket Nos. P-2002-000 and P-2002-030 on behalf of Pascoag Utility District, The Rhode Island Public Utilities Commission and the Rhode Island Division of Public Utilities and Carriers.

<sup>19</sup> Tr. 7/17/02, p. 57.

<sup>20</sup> Id. at 25-30.

course to be built in Pascoag's service territory. Currently, Daniele Prosciutto accounts for approximately 6% of Pascoag's load. Pascoag anticipates that Prosiutto's load will double by the end of 2003, and therefore, anticipates including the expected increase in demand into its power forecasts for 2003.<sup>21</sup>

Mr. Garille also testified that he expected Pascoag would request the creation of a customer rate stabilization fund and a Project Six stabilization fund in 2003. He indicated that Pascoag had been allowed rate stabilization funds in the past, enabling Pascoag to cushion the impact of unexpected spikes in rates in 2001. However, because the funds were depleted during the rate increases, Pascoag has no means of providing customers with rate stability. Mr. Garille explained that the stabilization funds would be held in an interest bearing account for the benefit of ratepayers. He did concede that, because Pascoag follows a semi-annual reconciliation schedule, ratepayers have only been experiencing stability for six months at a time.<sup>22</sup> However, he also testified that Pascoag's power contracts cover a twelve-month period and are designed to provide some stability.<sup>23</sup>

Mr. David Stearns, Rate Analyst, testifying on behalf of the Division, indicated that while the Division had not taken a final position on the issue, historically, the Division has taken the position that ratepayer money should be refunded to ratepayers in the event of an over-collection. Additionally, Mr. Stearns noted that over the recent months leading up to the hearing, ENE's forecasts had been almost on target. Therefore, in Mr. Stearns' opinion, it was unclear that stabilization funds would be necessary.<sup>24</sup>

---

<sup>21</sup> Id. at 9-11.

<sup>22</sup> Id. at 16-20.

<sup>23</sup> Id. at 19-20, 35-36.

<sup>24</sup> Id. at 21-22.



Mr. Garille responded that because of its status as a non-investor-owned utility, Pascoag does not always have sufficient cash reserves on hand. Additionally, Mr. Garille testified that Pascoag had not been successful in obtaining a line of credit from its financial institution. In his opinion, the stabilization funds would be the most efficient and beneficial way of providing customers with a chance at rate stability. However, as this request is anticipated for 2003, Mr. Garille indicated that he would discuss the matter with the Division prior to its next filing.<sup>25</sup>

Finally, Mr. Garille agreed with the Division's position that, rather than using Narragansett's standard offer contract price as a proxy for market price when calculating its standard offer and transition rates, the assumed market price should be based on estimates made by ENE.

#### 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 filed on July 12, 2002 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 August 1, 2002.

The Commission noted that Pascoag had worked hard to operate within its budget and had been working diligently with the Division to present an accurate case and provide fair representation to the ratepayers.

Accordingly, it is

(17120) ORDERED:

---

<sup>25</sup> Id. at 22-25.

1. Pascoag's proposed Standard Offer Charge of \$0.04514 per kWh is hereby approved to be effective for bills rendered on and after August 1, 2002.
2. Pascoag's proposed Transmission Charge of \$0.00487 per kWh is hereby approved to be effective for bills rendered on and after August 1, 2002.
3. Pascoag's proposed Transition Charge of \$0.00641 per kWh is hereby approved to be effective for bills rendered on and after August 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.

EFFECTIVE AT WARWICK, RHODE ISLAND, ON AUGUST 1, 2002,  
PURSUANT TO A BENCH DECISION ON JULY 17, 2002. WRITTEN ORDER  
ISSUED ON SEPTEMBER 5, 2002.

PUBLIC UTILITIES COMMISSION

---

Elia Germani, Chairman

---

Kate F. Racine, Commissioner

---

Brenda K. Gaynor, Commissioner