DE 01-225

CONNECTICUT VALLEY ELECTRIC COMPANY

Fuel Adjustment Clause and Purchased Power Cost Adjustment

Order Approving FAC/PPCA Rates

O R D E R N O. 23,885

December 31, 2001

APPEARANCES: Dom D'Ambrouso, Esquire of Ransmeier and Spellman on behalf of Connecticut Valley Electric Company; Wynn E. Arnold, Esq. of the Attorney General's Office and Meredith Hatfield, Esq. of the Governor's Office of Energy and Community Service on behalf of the Governor's Office of Energy and Community Service; Sarah Knowlton, Esq. of McLane, Graf, Raulerson and Middleton on behalf of the City of Claremont; Michael Holmes, Esquire and Kenneth Traum of the Office of Consumer Advocate on behalf of Residential Ratepayers; Lynmarie C. Cusack, Esquire and Thomas C. Frantz and James Cunningham for the Staff of the New Hampshire Public Utilities Commission.

I. PROCEDURAL HISTORY

On November 15, 2001, Connecticut Valley Electric Company (CVEC or the Company) filed a petition with the Commission for a change in its Fuel Adjustment Clause and Purchased Power Cost Adjustment rates effective on all bills rendered on and after January 1, 2002. The filing also included an adjustment to the rates it pays Qualifying Facilities providing power to CVEC under short-term avoided cost rates. On November 28, 2001, the Company pre-filed the testimony and exhibits of Charles A. Watts, Consultant - Power Engineering, Finance and Pricing at Central Vermont Public Service Corporation (CVPS), CVEC's parent company, and C.J. Frankiewicz, Financial Analysis Coordinator for CVPS.

The proposed rates are based on the RS-2 rate contained in the Rate Schedule FERC No. 135 which is filed by Central Vermont Public Service (CVPS) by December 1 of each year preceding the service year. The estimated 2002 energy and capacity costs from CVPS, including true-ups from previous periods, are filed at the Federal Energy Regulatory Commission for effect on January 1 of the service year.

II. POSITIONS OF THE PARTIES AND STAFF

A. CVEC

CVEC proposes to lower its 2002 combined FAC and PPCA rate by $0.0123 per kWh. For an average residential customer using 500 kWh per month, the decrease will result in a monthly savings of $6.21 or 9.3 percent from current rates.

Fuel Adjustment Clause

The FAC rate change is based on the reconciliation of the 2000 FAC because it did not include actual data for the months of November and December, 2000. Actual FAC results for 2000 show an under-collection of $828,379, a larger under-collection than projected due to increased fuel costs for the months of November and December, 2000 and actual sales lower than what had been forecasted for those two months. Year 2001 FAC results include actual data for the first 10 months of the year and re-forecasted data for November and December, 2001. CVEC projects that its ending FAC balance for 2001 will be an under-collection of its fuel and related costs, including interest, of $237,000, or 3.2 percent. The under-collection for 2001 is attributable mainly to lower sales and higher RS-2 Energy costs from CVPS, CVEC's parent company and wholesale supplier. For year 2002, the under-collection of FAC costs is added to the projected 2002 FAC costs of $8,341,501 for a net total cost of $8,578,541. Base fuel revenue of $5,547,383 is subtracted from the estimated 2002 FAC costs and divided by forecasted sales for 2002 of 158,414,000 kWh to derive the 2002 FAC rate of $0.0191 per kWh, an increase of $0.0063 per kWh over the 2001 FAC rate. The increased FAC rate is caused primarily by the pending sale of the Vermont Yankee, which includes a purchase power agreement that increases RS-2 Energy costs while decreasing RS-2 Purchased Power costs and the decrease in the retail sales forecast by 5.8 percent from the forecast for 2001.

Purchased Power Cost Adjustment

The PPCA includes the estimated cost of capacity to CVPS for the year 2002 which is then allocated to CVEC under the RS-2 rate on the basis of the monthly loads of CVEC coincident with the monthly reserve-required loads of CVPS as computed under the old NEPOOL 70/30 formula. The estimated costs of capacity for 2002 include purchased capacity, transmission by others, and CVPS' own generation, transmission and distribution. The estimated capacity costs are filed at the Federal Energy

Regulatory Commission by December 1 of each year for the following year and another cost report is submitted by May 31 of the service year based on actual capacity costs.

CVEC’s filing included a reconciliation for the 2000 PPCA because the filing at the time, in Docket DE 00-267, did not have actual November and December, 2000 data and actual 2000 RS-2 data were not available. Based on 2000 actual data, CVEC under-collected its 2000 purchased power and related costs by $371,697, or 4.4 percent, an increase of $117,000, approximately, over the under collection level it had forecast at the time. The main contributors to the increased under-recovery were a larger capacity allocation to CVEC and higher net purchased capacity costs by CVPS as well as CVPS-owned generation costs that were higher than had been forecasted.

The reconciliation of the 2001 PPCA is based on actual data through October, 2001. Based on the actual data and the CVEC re-forecast of costs for the last two months of 2001, CVEC expects to have a 2001 year-end $1,092,391 over-collection in its PPCA. The primary factor for the 2001 over-collection is lower net purchased capacity costs by CVPS in 2001. Decreased costs of Transmission by Others and a lower allocation factor also are contributing factors to the over-collection. The over-collection, including interest, is rolled into the 2002 estimate of purchased power costs. The 2002 RS-2 capacity costs are expected to be $1,983,384 lower than they were in 2001. The sale of Vermont Yankee and the elimination of the capacity payments associated with purchases from that plant lowers net purchased capacity, though the transaction increases energy costs as discussed in the FAC section above; Installed Capability purchases also are expected to decrease as well as a large decrease in forecast ancillary service charges and administrative expenses. The total 2002 RS-2 capacity costs and SPP capacity costs, including interest, is expected to be $7,182,151, which is decreased by the 2001 over-collection for a net 2002 estimated cost of $6,089,760. Base capacity costs are subtracted from the $6,089,760 and then the remainder is divided by the estimated 2002 sales level to yield the 2002 PPCA rate of negative ($0.0047) per kWh. The proposed 2002 PPCA rate is $0.0185 per kWh lower than the 2001 PPCA rate.

B. <u>Governor’s Office of Energy and Community Services</u>

The Governor’s Office of Energy and Community Services did not file testimony, but questioned the Company about the loss of some of its largest customers and whether CVEC thought that rates were a contributing factor for the decision to close or relocate of those customers. The Governor’s Office also expressed concern about the late charges CVEC has incurred as part of its RS-2 payments to CVPS and requests that the Commission not allow recovery of those late charges.

C. <u>Claremont</u>

Claremont questioned CVEC about the decrease in sales and supports the Governor's Office on not allowing CVEC to recover the late charges it incurred. Claremont also asks that the Commission hold the rates it establishes in this proceeding for reconciliation depending upon the outcome in the FERC proceeding.

D. <u>Office of Consumer Advocate</u>

OCA did not file testimony, but raised concerns about the RS-2 late payment charges and the legal expenses incurred by CVPS for the dispute with Hydro-Quebec on non-performance that went to binding arbitration and resulted in an award to CVPS that did not cover the costs of the litigation. OCA recommends that the Commission not allow the late payment charges nor the recovery of the legal costs associated with the CVPS/HQ arbitration.

E. Staff

Staff did not file testimony, but questioned CVEC on a number of matters, including its sales forecast, outages and replacement power costs and the pending sale of Vermont Yankee and the purchase prices contained in the sale. Staff did not take a position on the late payment charges or on the recovery of the legal associated with the HQ arbitration.

III. COMMISSION ANALYSIS

We have reviewed the record in this proceeding and, will approve the proposed rate changes for the FAC and PPCA. It appears from Exhibit 7 that the litigation costs associated with the CVPS/HQ arbitration are not included in the filing at FERC of the 2002 forecasted costs and therefore are not in the proposed rates for effect on January 1, 2002. If those costs are included in the May, 2002 actual cost filing at FERC, we put CVEC on notice now that those costs will be subject to a prudence review at CVEC’s next FAC/PPCA filing. If that is not correct and those litigation costs are included in the proposed costs to be recovered in the immediate filing, we direct CVEC to recalculate the FAC and PPCA rates to reflect the elimination of the litigation costs associated with the CVPS/HQ arbitration. We do so without prejudice and, as stated above, put CVEC on notice that these costs will be subject to a prudence review in the next

FAC/PPCA filing by the Company.

Concerning the late payment charges incurred by CVEC from its parent, CVPS, we will allow those costs to be recovered. Considering the financial condition of the Company, we find that the interest charges based on the prime rate associated with the late payment charges were based on a reasonable rate of borrowing that balances Company and customer interests. We note that the continued incurrence of these late payment charges and the payment of those charges to CVPS is not and should not be considered an adequate solution to the Company’s alleged cash problems. CVEC should attempt to rectify the late payment problem in the most cost-effective manner possible without reducing service quality or reliability.

Based upon the foregoing, it is hereby

ORDERED, that the proposed FAC and PPCA rates are approved in accordance with this order; however, if the proposed rates include arbitration costs associated with Hydro-Quebec, Connecticut Valley Electric is directed to recalculate the Fuel Adjustment Clause and Purchased Power Adjustment Cost rates in accordance with this order and file tariff pages and supporting documentation with the Commission within one week from the issuance date of this order; and it is

FURTHER ORDERED, that such recalculated rates are effective with all bills rendered on and after January 1, 2002;

and it is

FURTHER ORDERED, that Rate E is approved effective January 1, 2002.

By order of the Public Utilities Commission of New Hampshire this thirty-first day of December, 2001.

Thomas B. Getz Chairman	Susan S. Geiger Commissioner	Nancy Brockway Commissioner

Attested by:

Kimberly Nolin Smith
Assistant Secretary