

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 6149

Investigation of Washington Electric)
Cooperative, Inc.'s tariff filing requesting an)
8.1% rate increase, to take effect October 6,)
1998)
Hearings at
Montpelier, Vermont
April 20, 1999

Order entered: April 26, 1999

PRESENT: Ennis John Gidney, Hearing Officer

APPEARANCES: Aaron Adler, Esq.
for the Vermont Department of Public Service

M. Jerome Diamond, Esq.
Diamond and Associates, P.C.
for Washington Electric Cooperative, Inc.

I. INTRODUCTION

On August 21, 1998, Washington Electric Cooperative, Inc. ("WEC") filed with the Public Service Board ("Board") revisions to its tariffs reflecting an 8.1% increase in its rates, to take effect on a service-rendered basis commencing October 6, 1998, for bills rendered on and after December 1, 1998. The proposed rate increase will produce additional annual revenues in the amount of \$649,913. WEC provided notice of the proposed rate increase to its customers via publication in its membership newsletter, *Co-op Currents*.

On September 18, 1998, the Vermont Department of Public Service ("DPS"), pursuant to 30 V.S.A. Section 225, filed a letter recommending that the Board open an investigation into the justness and reasonableness of WEC's tariff filing. The Board ordered such an investigation on October 16, 1998, and appointed Ennis John Gidney, Chief Economist, as Hearing Officer in this proceeding.

On October 26, 1998, a prehearing conference was held in this docket. Appearances were entered by Earl F. Fechter, Esq., for WEC, and Aaron Adler, Esq., for the DPS. A prehearing conference memorandum was issued on November 6, 1998.

On November 16, 1998, WEC submitted prefiled testimony by Avram Patt, Janet LaRochelle and Douglas C. Smith.

On December 8, 1998, a public hearing was held at the Old Brick Church in East Montpelier, Vermont.

On December 23, 1998, WEC and the DPS entered into a protective agreement regarding "Allegedly Confidential Information" that WEC alleges may result in financial or competitive harm to WEC if disclosed to the public.

On April 1, 1999, WEC filed a Memorandum of Understanding ("Exhibit Joint-1" or "MOU") between it and the DPS. (A copy of the MOU is attached to this Proposal for Decision as Appendix I.) In the MOU, WEC and the DPS propose a resolution of all issues except those concerning WEC's costs associated with the Hydro-Quebec/Vermont Joint Owners' Contract (the "HQ Contract"). To reflect both the final and the interim cost-of-service determinations, the MOU proposes that the additional revenue requirement requested by WEC in the rate filing be reduced by \$95,000 to \$554,913, and that WEC refund to customers all revenues collected on and after October 1, 1998, in excess of this additional revenue requirement.

On April 20, 1999, a technical hearing was held at the Board's hearing room. The parties entered into evidence the MOU and sworn testimony supporting a revised cost of service resulting in a continued "temporary surcharge" of 6.87 percent or \$554,913, effective for service rendered on or after October 1, 1998, until the Board issues a final Order in this docket. No one appeared in opposition to the MOU. At the hearing, the parties agreed the seven-month rule is waived in this case.

I have reviewed the petition, prefiled testimony, exhibits, the MOU and supporting cost of service for the test year ended December 31, 1997, and the adjusted rate year ended September 30, 1999. I conclude that approval of the MOU will result in rates that are just and reasonable and recommend that the MOU be approved by this Board.

II. FINDINGS OF FACT

Based upon the evidence of record, including the agreement and exhibits contained in the MOU, I hereby report the following findings and conclusions to the Board in accordance with 30 V.S.A. § 8.

1. WEC filed with the Board revisions to its tariffs reflecting an 8.1% increase in its rates, or an increase in annual revenues of \$649,913, to take effect on a service-rendered basis commencing October 6, 1998, for bills rendered on and after December 1, 1998. WEC's Cost of Service.

2. The DPS and WEC engaged in settlement discussions which have resulted in a Memorandum of Understanding ("MOU") and a \$95,000 reduction in the cost of service. The MOU was filed with the Board on April 1, 1999. WEC Letter of April 1, 1999; MOU.
3. If the Board approves the MOU, all issues in the rate case except those concerning WEC's costs associated with the Hydro-Quebec ("HQ") Contract will be resolved. The MOU provides that all costs associated with the HQ Contract are to be deferred for future resolution. MOU at 1, ¶ 2; tr. 4/20/99 at 11 (Patt).
4. The amount of costs associated with the HQ Contract included in the cost of service and deferred for future resolution is \$990,902. Petitioner's Schedule A-2; tr. 4/20/99 at 14 (Patt).
5. Non-HQ power costs have been reduced by \$95,000 to reflect agreement that these costs will be lower than stated in WEC's original filing. MOU at 2, ¶ 2b; tr. 4/20/99 at 7 (Patt).
6. WEC has committed to spend the \$286,300 on right-of-way clearing that was included in its cost of service. MOU at 2 ¶ 4; tr. 4/20/99 at 9 (Patt).
7. WEC will expense the \$21,826.56 paid to Opinion Dynamics for a customer survey in 1998, and will adjust its DSM deferral accounts to reflect the exclusion of the amount paid to Opinion Dynamics. MOU at 2, ¶ 5; tr. 4/20/99 at 9 (Patt).
8. Agreement on the non-HQ power cost elements of the cost of service, including the adjustments described in Findings 5-7 above, has been reached after negotiations for the sole purpose of presenting to the Board a negotiated settlement which would establish just and reasonable overall rate levels. Stipulation by WEC and the DPS to the revised cost of service is not intended by either party to constitute sponsorship or approval of, or agreement with, any particular component of the cost of service contained therein. MOU at 3, ¶ 10.
9. The MOU contains additional agreements between the DPS and WEC concerning the process for crediting or refunding to customers all revenues collected on and after October 1, 1998, in excess of the additional revenue requirement of \$554,913. The processes to be used for crediting or refunding these amounts are contingent upon the timing of an Order approving the MOU. Should an Order be issued too late for WEC to credit ratepayers on the bill scheduled to be mailed on or about May 10, 1999 (the "May Bill"), WEC and the DPS have asked the Board to determine how refunds will be made to seasonal ratepayers. MOU at 2, ¶ 7, and at 3 ¶ 9.
10. The MOU contains an additional agreement that the "temporary surcharge" will be reduced on the May Bill to reflect the \$95,000 reduction in non-HQ Contract power supply

costs, provided the Board issues an Order approving this MOU sufficiently in advance of the May Bill to enable WEC to reduce the “temporary surcharge” on that bill. Should the Order be issued too late for WEC to reduce the surcharge on the May Bill, the reduction will be made on the earliest practicable bill following such decision. MOU at 3, ¶ 8.

11. The MOU contains further agreements that:

- a. If the provisions of the MOU are not approved and adopted in their entirety, the parties reserve the right to terminate the MOU.
- b. This rate proceeding should be stayed until September 1, 1999, or such other date as the Parties may agree or the Board may order.
- c. If the MOU is approved, a status conference will be held as soon as practicable after September 1, 1999, for the purpose of setting a procedural schedule for the remainder of this docket.

MOU at 2 ¶ 3, and at 4 ¶¶ 11, 12.

12. WEC and the DPS agree that a stay and suspension of this rate case will allow WEC an opportunity to seek mitigation of its power supply costs, in particular costs associated with independent power producers and the HQ Contract. MOU at 1.

13. There is an unresolved discrepancy between the number of kilowatthours sold in the test year as indicated in WEC’s original filing (55,524,627) and as indicated on WEC’s 1997 FERC Form 1 (57,415,000). Preliminary reconciliation efforts by the parties have explained some of the difference, but approximately one million kwh remained unexplained as of the time of the technical hearing in this case. Tr. 4/20/99 at 20-21 (Koliander).

14. This discrepancy does not affect WEC's and the DPS' agreement on a just and reasonable revenue requirement, but it may impact the percentage of the rate increase that WEC will need to meet this agreed-upon revenue requirement and the ultimate amount to be refunded to customers. Tr. 4/20/99 at 21 (Koliander).

15. WEC and the DPS recommend that if it is determined that the FERC Form 1 contains the correct kwh number, an additional refund to customers should be considered at that time. Tr. 4/20/99 at 22 (Koliander).

16. WEC and the DPS recommend that the Board approve, as just and reasonable, a temporary rate increase equal to 6.87%, or an additional revenue requirement of \$554,913, to be collected through a temporary surcharge until a final Order is issued in this docket. MOU at 1 ¶ 2; tr. 4/20/99 at 19 (Koliander).

III. DISCUSSION

The MOU filed by the parties on April 1, 1999, resolves most of the contested issues in this docket. Two issues currently remain unresolved: (1) WEC's costs associated with the HQ Contract; and (2) the correct number of kilowatthours WEC sold in the test year.

The parties have proposed a stay until September 1, 1999, for all issues associated with the HQ Contract. In the meantime, WEC will be participating in statewide and individual efforts to mitigate its power supply costs, including those associated with the HQ Contract. Given that WEC and the DPS have agreed that approval of this MOU will enable WEC to pursue power supply reform, including mitigation options with respect to the HQ Contract, I believe it is reasonable to defer this issue for future resolution.

The second unresolved issue is the correct number of kwh sold by WEC in the test year. There is a discrepancy of almost 2 million kwh between the number indicated in the original filing in this case, and that reported on WEC's 1997 FERC Form 1. The parties have testified that this difference has no effect on the revenue requirement, but may affect the percentage amount of the temporary surcharge and the ultimate amount of customer refunds, depending on how it is resolved. The parties have requested that the approval of the MOU not be delayed until this issue is resolved because they would like to issue customer refunds on the May Bill, because seasonal customers receive that bill and no subsequent bill until November 1999. The parties prefer that a second refund be considered if the FERC Form 1 kwh number is determined to be correct. I believe it is reasonable to allow WEC to complete the customer refunds as proposed in the MOU, provided the parties inform the Board as soon as a determination is made as to the correct number of kwh sold in the test year. The Board should reserve the authority to order an additional, appropriate refund after receiving this information. This Proposal for Decision makes no comment on the advisability of a second refund.

IV. CONCLUSION

I have reviewed the MOU, the original Cost of Service Petition, and the testimony of the respective parties. I find that based upon all of the foregoing and the evidence in the record, the MOU between WEC and the DPS recommending a rate increase of 6.87 percent or \$554,913, taken as a whole, is just and reasonable for the historic test year ended December 31, 1997, as adjusted for known and measurable changes for the adjusted rate year ended September 30, 1999. I, therefore, recommend that the MOU be approved by this Board.

This Proposal for Decision has been served on all parties to this proceeding in accordance with 3 V.S.A. § 811

DATED at Montpelier, Vermont, this 26th day of April, 1999.

s/ Ennis John Gidney
Ennis John Gidney
Hearing Officer

V. ORDER

IT IS HEREBY ORDERED, ADJUDGED AND DECREED by the Public Service Board of the State of Vermont that:

1. The Findings and Conclusion of the Hearing Officer are adopted.
2. The Memorandum of Understanding dated March 31, 1999, between Washington Electric Cooperative, Inc. and the Vermont Department of Public Service is accepted.
3. WEC is entitled to a revenue increase in an annual amount of \$554,913 to be implemented by means of an increase of 6.87 percent for all existing rates which shall be shown as a "temporary surcharge" on customer bills until a final resolution is reached in this docket.
4. WEC shall refund to all customers, all revenues in excess of 6.87 percent, collected for service rendered on or after October 6, 1998. Such refund shall be a credit to the customer's account, at the earliest practicable billing date following the date of this Order.
5. No later than June 15, 1999, WEC shall submit to the Board, with a copy to the DPS and other parties, the correct number of kwh sold in the test year, along with an explanation of the discrepancy between the original rate filing in this case and the 1997 FERC Form 1. The Board reserves the authority to order an additional, appropriate refund after receiving this information.

DATED at Montpelier, Vermont, this 26th day of April, 1999.

s/ <u>Michael H. Dworkin</u>)	PUBLIC SERVICE BOARD OF VERMONT
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s/ <u>Suzanne D. Rude</u>)	
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s/ <u>David C. Coen</u>)	

OFFICE OF THE CLERK

Filed: April 26, 1999

Attest: s/ Susan M. Hudson
Clerk of the Board

NOTICE TO READERS: This decision is subject to revision of technical errors. Readers are requested to notify the Clerk of the Board of any technical errors, in order that any necessary corrections may be made.

Appeal of this decision to the Supreme Court of Vermont must be filed with the Clerk of the Board within thirty days. Appeal will not stay the effect of this Order, absent further Order by this Board or appropriate action by the Supreme Court of Vermont. Motions for reconsideration or stay, if any, must be filed with the Clerk of the Board within ten days of the date of this decision and order.