

# Schacht & McElroy

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March 7, 2017

Luly E. Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

Re: Block Island Power Company – Waiver Request under R.I.G.L. § 39-1-2(26)  
Docket No. 4606

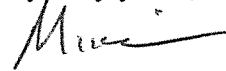
Dear Luly:

As you know, this office represents Block Island Power Company (BIPCo).

Enclosed for filing are an original and nine copies of BIPCo's Responses to the Division of Public Utilities and Carriers 1<sup>st</sup> set of data requests directed to BIPCo.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg

cc: Service List

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: BLOCK ISLAND POWER COMPANY'S  
PETITION FOR CONTINUED EXEMPTION FROM  
RETAIL ACCESS PROVISIONS OF R.I.G.L § 39-1-2(26)  
OF THE UTILITY RESTRUCTURING ACT

Docket No. 4606

BLOCK ISLAND POWER COMPANY'S RESPONSES TO THE DIVISION OF PUBLIC UTILITIES  
AND CARRIERS' FIRST SET OF DATA REQUESTS DIRECTED TO  
BLOCK ISLAND POWER COMPANY  
**Issued March 1, 2017**

1. In paragraph 13 on page 3 of the petition, BIPCO states that implementing retail access will require an upgrade to BIPCO billing and customer system.
  - a) Please describe BIPCO's current billing and customer systems, including but not limited to its software, operating platform, and vintage.
  - b) Provide the detailed basis of the upgrade cost of \$50,000 to \$70,000. Is this a one-time charge? If not, please explain.
  - c) Describe the work necessary to implement the upgrade, including any software purchases.
  - d) Provide the basis for, and any underlying calculations used to determine the \$5 per month per ratepayer figure. Also, please indicate how long this charge would be assessed.

**RESPONSE:**

- a) **BIPCO's existing billing system consists of two different applications that are very cumbersome, not automated and not integrated.**
  - 1) **The Automatic Meter Infrastructure (AMI) software and Meter Data Management (MDM) database that houses the data is provided through General Electric. This system is roughly three years old.**
  - 2) **The customer information system and billing software is provided by Power Manager from Salt Creek Software, Inc. This program is at least twenty years old and requires vendor programming for all changes. We are unsure of the operating system however we are running it on a Windows 10 PC.**
  
- b) **BIPCO has been soliciting proposals for an integrated utility software solution that includes a customer information system, meter database management system and billing system that integrates with operational and customer facing applications such as a customer portal that allows customers to view their usage data on line. The current proposal includes an initial start-up cost for hardware, cutover labor and training. There is then a reoccurring monthly fee for services such as printing, stuffing and mailing bills, housing meter data and software maintenance and upgrades. The cost of this includes a startup fee and a monthly reoccurring fee. It will likely be 30-45 days before a decision to purchase is made. The start-up costs from the proposals range between \$29,000 and \$80,000 in addition to a \$2,000 +/- monthly fee to cover billing functions, postage and software maintenance.**

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Additional software would be required to facilitate retail competition on the island. ENE solicited National Grid and Liberty Utilities to see if BIPCo could use their systems, for a fee, to manage customer choice. Both utilities informed us they had developed their own solutions and were not in a position to provide access. ENE then approached Energy Services Group (ESG) in Norwell, Massachusetts which provides software that could be helpful. Their product provides support managing transactions such as electronic data exchange, billing support, load forecasting and profiling. It supports the transactions that occur between the retail supplier and the incumbent distribution utility. The range of start-up fees quoted by ESG was \$50,000-70,000, which would be in addition to the costs referenced above.

c) The work necessary to implement an integrated utility software solution will mostly be done by the supplier. It includes the installation of hardware and software necessary to run the system at BIPCO. The software includes a fully integrated system that can, and eventually will, include accounting, work order, outage management and mapping systems in addition to a customer portal which allows customers to see their usage data and provides e-bill services. The two vendors that are providing proposals both supply comprehensive systems for electric cooperatives and municipalities across the country.

ESG's software can help provide load forecasting and profiling for BIPCo's customers who do not have hourly interval meters. These are required for retail suppliers to be able to quote and settle with those customers who choose a competitive supplier as well as their suppliers. BIPCo and ENE staff would need to be able to use the software and would require training from ESG. Some of the work required is undefined, and there may be other incremental costs to enable retail access. This could include ENE or another vendor's staff time depending on the amount of effort involved. There are load assets to be maintained in the ISO New England markets for each competitive supplier. The monthly settlement process for profile accounts requires a weather normalized true up between actual consumption and the profile load. This typically is a monthly settlement at average locational marginal prices to capture whether actual consumption was higher or lower than the load profiles.

d) ESG also has an ongoing monthly subscription cost for using their software. The \$5 per month per ratepayer figure was estimated by scaling their typical monthly charges to reflect BIPCo's relatively small customer base. Their feedback to us was a cost range of \$1.00-1.25/meter/month, but that is typically for utilities or

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**power suppliers serving 30,000-100,000 meters. ESG's feedback was that BIPCo would pay quite a bit more on a per meter basis due to their size. Since BIPCo serves less than 1,500 residential meters, ENE estimated that subscription cost at \$50,000-60,000 per year.**

**Prepared by Tim Hebert & David Bebyn CPA**

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2. In paragraph 15 on page 3 of the petition, BIPCO states that the acquisition costs for competitive suppliers will be higher to serve Block Island customers. Please explain the underlying basis for this statement.

**RESPONSE:**

**The costs will be higher on a unit cost basis due to the fact that even if acquisition costs were relatively constant or fixed, those costs can only be amortized over relatively smaller average kwh quantities. Among the reasons that the acquisition costs to serve Block Island based retail customers would be higher than other customers include: i) the costs associated with the amount of time it takes to get a customer to switch. It would take time for customers to get accustomed to the fact that they have choice of supply and retail suppliers would incur marketing costs across a relatively small potential customer base; and ii) the transportation costs associated with direct sales to retail customers would be higher due to Block Island's relatively remote location.**

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3. In paragraph 17 on page 4 of the petition, BIPCO states that competitive retail prices would need to be \$0.025 per KWH to make switching worthwhile. Please explain the underlying basis for this statement and provide any calculations or workpapers used to determine this figure.

**RESPONSE:**

**The calculation begins with the annual cost of \$135,000 presented on line 8 of page 3 of Mr. Bebyn's testimony. See attachment for calculation.**

**Prepared by David Bebyn CPA**

## Attachment to DIV 1-3

<b>Total Annual Cost (UPGRADES and Annual License)</b>	<b><u>\$ 135,000.00</u></b>	<b>a</b>
Estimated Annual Sales	11,500,000	b
Estimated cost per KWH	\$ 0.012	c (a / b)
Current energy prices (\$0.035 - \$0.040)	midpoint \$ 0.037	d
Energy Price needed to cover cost of Upgrade/License	\$ 0.025	e (d - c)

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4. Regarding paragraph 19 on page 4 of the petition, please define and explain the term “rack rate profile pricing”, and also explain why this is among the higher retail rates available.

**RESPONSE:**

**Rack rate, otherwise known as matrix pricing, is employed by the most sophisticated and largest retail suppliers to price “smaller” accounts (typically accounts less than 1,000,000 kwh per year). Suppliers also segment these accounts by size with the smallest of the size blocks paying the highest price. The reason suppliers provide matrix pricing is to avoid the time and the cost associated with custom pricing electric accounts. Block Island does not have an account that is large enough to be eligible for the lowest of the matrix rates (i.e. typically rates associated with usage greater than 800,000 kwh and less than 1,000,000 kwh annually). Retail suppliers provide these matrix prices to their sales force and brokers on a regular basis showing the all-in cost to supply qualifying customers for various delivery terms.**

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5. In paragraph 21 on page 5 of the petition, please explain the underlying basis for and provide any calculations or workpapers used to determine the \$0.0025 and \$0.005 risk premium figures.

**RESPONSE:**

The risk premiums of \$0.0025 to \$0.0050 per kwh represent an educated estimate of the costs that wholesale suppliers pass on to utility customers that choose not to procure third party supply. This cost range is based on ENE's experience as a broker of retail electricity in Connecticut, Massachusetts, New Hampshire and Rhode Island dating back to 2009. The added costs associated with Standard Offer Service pricing cover the risk that load will opt out of Basic Service were the market price of power to decline or return to Basic Service if the market price of power were to increase. Thus, the Standard Offer supplier would estimate this premium to be included in their pricing to account for wholesale supply they may procure to hedge their own price exposure and later not need due to customers leaving Standard Offer service for competitive supply. A way to think about this would be a stranded cost type element that is baked in to the Standard Offer rate. We provide a range due to the fact that BIPCo is such a small utility, and many aspects of the pricing suffer a bit from the lack of economy of scale. In this case, with a number of smaller customers, such risk premiums are likely to be a bit higher at least at the outset, until data can be gathered on the frequency and extent of customers leaving Standard Offer supply, if retail choice were to be available.

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6. Regarding line 8 of page 3 of Mr Bebyn's testimony, please explain the underlying basis for and provide any calculations or workpapers used to determine the \$135,000 figure. Also indicate how long or over how many years this cost would be incurred.

**RESPONSE:**

**See attached for the calculation which supports the \$135,000 figure. Please note Mr. Bebyn's testimony indicates the calculated annual cost would be almost \$135,000 per year mentioned. This amount would last for 3 years while the start-up software costs are recovered. After the third year, the annual cost would drop to the \$114,000 to cover only the annual software license fee.**

**Prepared by David Bebyn CPA**

**Estimated Cost of the Upgrades**

Between	\$ 50,000.00	
	\$ 70,000.00	
Midrange of estimate	\$ 60,000.00	
Amortization period	3 years	
Annual Recovery		\$ 20,000.00

**Annual cost of the Software License**

License cost per service (per month)	\$ 5.00	
	x12	
License cost per service (per year)	\$ 60.00	
Average number of services	1,900	
Total Annual Software License cost for all services		<u>\$ 114,000.00</u>
<b>Total Annual Cost</b>		<b><u><u>\$ 134,000.00</u></u></b>

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7. Regarding line 13 of page 3 of Mr Bebyn's testimony, please explain the underlying basis for and provide any calculations or workpapers used to determine the \$6.00 figure. Also indicate how long or over how many years this cost would be incurred.

**RESPONSE:**

**The calculation begins with the annual cost of \$135,000 presented on line 8 of page 3 of Mr. Bebyn's testimony. This annual cost is divided by the average service count of 1,900 and then by 12 months. The result of \$5.92 was rounded to the \$6.00 figure presented.**

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8. BIPCO is requesting an extension of the exemption until October 2018. Between now and that date, does BIPCO have any plans or does it intend to offer the output of the diesels into any ISO-NE market, including but not limited to the energy market, the forward capacity, or the forward reserve market? If so, please describe these plans or intentions in detail.

**RESPONSE:**

**BIPCo does not have any plans between now and October 2018 to offer the output of the diesels into any ISO-NE market. BIPCO still has to further study this issue in more detail to determine if offering such output in the future would be beneficial and or desired, as a result, at this time there are no plans.**

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9. Please provide BIPCO's monthly peak load and monthly energy for load for the past three years.

**RESPONSE:**

**See Attached.**

**Prepared by David Bebyn CPA**

Monthly Energy Load Month	Year			
	2014	2015	2016	2017
January	779.772	780.238	764.433	332.150
February	673.954	723.410	722.315	
March	735.314	757.860	718.733	
April	720.164	725.399	755.730	
May	969.117	1019.600	1034.493	
June	1294.515	1423.010	1386.070	
July	1991.480	2124.780	2294.577	
August	1943.230	2233.095	2354.100	
September	1305.320	1481.900	1444.210	
October	932.844	945.634	957.850	
November	748.411	713.965	730.450	
December	750.000	715.899	780.188	
<b>Grand Total</b>	<b>12844.121</b>	<b>13644.790</b>	<b>13943.149</b>	<b>332.150</b>

Monthly Peak Load Month	Year			
	2014	2015	2016	2017
January	1.400	1.401	1.375	1.375
February	1.230	1.360	1.520	
March	1.225	1.225	1.230	
April	1.260	1.300	1.350	
May	2.275	2.300	2.350	
June	2.875	2.880	3.100	
July	3.880	4.010	4.200	
August	3.650	4.210	4.775	
September	3.080	3.270	3.200	
October	1.960	2.065	2.000	
November	1.425	1.230	1.350	
December	1.325	1.300	1.450	
<b>Grand Total</b>	<b>3.880</b>	<b>4.210</b>	<b>4.775</b>	<b>1.375</b>

**Docket No. 4606 – Block Island Power Co. – Waiver/Exemption Requests  
under R.I.G.L. § 39-1-27**

**Service List as of 2/27/17**

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