

DIVISION OF PUBLIC UTILITIES AND CARRIERS  
MEMORANDUM

TO: LULY MASSARO  
COMMISSION CLERK

DATE: SEPTEMBER 27, 2016

FROM: STEPHEN SCIALABBA  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

SUBJECT: BLOCK ISLAND POWER COMPANY DOCKET 4635, MOTION FOR CONTINUED RECOVERY OF ENGINE RENTAL COSTS IN THE FUEL ADJUSTMENT CLAUSE.

By way of background, on July 29, BIPCO filed a petition for emergency rate relief associated with engine rental and associated costs incurred as a result of a fire that destroyed or significantly damaged three of BIPCO's diesel generating engines. The fire was caused by a failure in one of the engines.

BIPCO's actual fuel costs are recovered in arrears, over actual monthly kwh sales. Under long established procedures, the cost of actual fuel consumed, along with the cost of fuel inventory financing and the chemical urea (added for environmental reasons) are billed monthly to customers based on actual cost data and kwh usage. The FAC filings are filed with the Division for review and approval prior to customer billing. For example, the June FAC with June data and back-up invoices are submitted to the Division in the first week of July, and the Division endeavors to expeditiously review the data to allow for timely billing.

BIPCO was able to procure two rental engines in less than 24 hours after the fire to maintain service during the Island's peak season. The Company sought permission from the Commission to amend its Fuel Adjustment Clause (FAC) to include language that would allow engine rental costs, auxiliary component costs, and required installation and transportation costs, to be recovered through the monthly FAC. At the Open Meeting of August 4, 2016, the Commission approved the inclusion of engine rental and ancillary costs in the fuel adjustment clause, but sunset the approval at the end of September, 2016.

On September 19, BIPCO filed a Motion for continued recovery of engine rental costs via the fuel adjustment clause, and the issue is on the Open Meeting agenda for September 29. The Company does not need two engine rentals after Labor Day and is operating now on a single rental. As a result, equipment has, or will be, returned to the vendor. The Company has not yet received any insurance funds yet, but did report that the insurer has approved a partial payment of \$500,000. At the August 4 open meeting, the Commission directed any insurance proceeds received be directed to the benefit of customers. The Division staff has a meeting planned with BIPCO on October 6 to get an update of the status of the insurance claim.

BIPCO has performed an estimate of the ongoing impact on the fuel charge associated with the engine rental. That estimate is 5-7 cents/kwh per month. The estimate appears to be reasonably correct, though that does not factor in the use of insurance proceeds to offset rental-related costs. BIPCO will be filing its August fuel costs and all supporting documentation early next week for billing in early October under the usual procedures.

The Division recommends that the recovery of engine rental costs and the tariff language that was approved in the August 4 open meeting be allowed to remain in the tariff on an ongoing basis. The issue of insurance recovery, current balance in the engine maintenance restricted account, ownership/management changes at the Company, back-up power supply plans, and other regulatory issues associated with the wind farm cable tie in and the cable tie-in to the mainland are all under review, are inter-related and will be addressed in the upcoming months by the Commission and Division.