

IN RE: THE BLOCK ISLAND POWER COMPANY :
POWER PROCUREMENT PLAN, STANDARD OFFER : **DOCKET NO. 4690**
AND TRANSMISSION TARIFF :

I. Introduction

The Narragansett Electric Company d/b/a/ National Grid's (National Grid) undersea cable connecting the Town of New Shoreham to the mainland became operational during November 2016. On May 1, 2017 BIPCo began getting power from the cable. At that time, BIPCo stopped generating energy for retail sale and began purchasing power from the New England wholesale electric market.³ BIPCo's Fuel Adjustment Charge tariff does not allow recovery of the purchase power and associated transmission costs. BIPCo requires separate Standard Offer and Transmission tariffs to recover these costs.⁴

⁴ *Id.*

On April 12, 2017, having received substantially increased estimated costs from National Grid relating to the cable, BIPCo submitted an amended filing. In its amended filing, BIPCo requested a higher transmission rate, increasing from \$0.0437 per kWh to \$0.0629 per kWh.⁵ Under the amended filing, the impact to a residential customer using 500 kWh will be a decrease in the summer rates of June through September from \$223.93 to \$198.69 and a decrease in rates for the months of October through May from \$149.48 to \$119.24.

On April 14, 2017, following an exchange of discovery and an evidentiary hearing, the Public Utilities Commission (Commission) approved BIPCo's amended filing. On April 25, 2017, BIPCo submitted a compliance filing for approval of its Standard Offer and Transmission Cost Rates, filed for the first time under the recently approved Standard Offer and Transmission Cost Riders.⁶ On April 26, 2017, the Division of Public Utilities and Carriers (Division) filed a memorandum concurring with BIPCo's calculations and recommending approval.⁷ Also on April 26, 2017, BIPCo filed a Motion for Protective Treatment for Confidential Information.⁸ At an Open Meeting held on April 27, 2017, the Commission approved BIPCo's compliance filing. At an Open Meeting held on May 25, 2017, the Commission granted BIPCo's motion for protective treatment.

II. Summary of BIPCo's testimony

A. David G. Bebyn

1. Prefiled testimony

⁵ Letter from Michael R. McElroy at 1 (Apr. 12, 2017); http://www.ripuc.org/eventsactions/docket/4690-BIPCo-Supplement-AmendFiling_4-12-17.pdf.

⁶ [http://www.ripuc.org/eventsactions/docket/4690-BIPCO-ComplianceFiling\(4-25-17\).pdf](http://www.ripuc.org/eventsactions/docket/4690-BIPCO-ComplianceFiling(4-25-17).pdf).

⁷ Division Mem. (April 26, 2017); http://www.ripuc.org/eventsactions/docket/4690-DPU-Memo_4_26_17.pdf.

⁸ http://www.ripuc.org/eventsactions/docket/4690-BIPCO-Motion-Redacted-PPA-ShellEnergy_4-26-17.pdf.

In his prefiled testimony, Mr. Bebyn identified a number of projected power purchase costs for which BIPCo sought recovery within the proposed rates: Energy Purchase, ISO ancillary charges, ISO annual fee, Energy New England administrative fee, ISO transmission charges, National Grid connection direct assignment facility charges (DAF), National Grid cable surcharge, National Grid transformer surcharge, National Grid meter surcharge, National Grid rolled-in distribution surcharge, and National Grid Transmission Facilities.⁹ Additionally, pursuant to R.I. Gen Laws §39-26.1-7 (g), BIPCo sought to recover interconnection plant costs, to be amortized over six years.¹⁰ Although BIPCo sought recovery for the interconnection costs in this docket, BIPCo also filed a Petition for Declaratory Judgment, PUC Docket No. 4688, seeking to have these costs to be socialized among all Rhode Island rate payers, pursuant to the “Town of New Shoreham Project” law, R.I. Gen Laws § 39-26.1-7.¹¹ Mr. Bebyn noted that if BIPCo prevailed in Docket No. 4688, BIPCo would credit back any recovered costs to its ratepayers in the next Standard Offer reconciliation.¹²

Mr. Bebyn testified he calculated the projected Standard Offer and Transmission charges by dividing the power purchase costs and associated costs by \$0.96 to provide for the gross receipts tax.¹³ The adjusted costs were further divided by the average electric kWh sales.¹⁴ Mr. Bebyn explained there will still be a Fuel Adjustment Clause tariff to cover the costs of standby/backup generation. If the undersea cable service were interrupted, if damage occurred to the substation, or for periods of planned service and maintenance interruptions, BIPCo would be able to generate its own electricity.¹⁵

⁹ Bebyn Test. at 6, Attach. 1.

¹⁰ Bebyn Test. at 3, Attach. 2.

¹¹ Bebyn Test. at 3; See also PUC Docket 4688, <http://www.ripuc.org/eventsactions/docket/4688page.html>.

¹² Bebyn Test. at 3.

¹³ Bebyn Test. at 4, Attach. 1 & 2.

¹⁴ Bebyn Test. at 4; Sch. DGB-2.

¹⁵ Bebyn Test. at 5.

On April 12, 2017, Mr. Bebyn submitted supplemental prefiled testimony to address the impact of the substantial change in plant estimates received from National Grid on April 11, 2017.¹⁶ National Grid increased its estimate of BIPCo's interconnection costs from \$550,000 with a carrying charge of 16.68% to \$1,835,973 with a carrying charge of 18.42%, resulting in an increase in BIPCo's annual DAF expenses from \$91,740 to \$336,186.¹⁷ National Grid also increased its estimate for the undersea cable cost, from \$75,000,000 with a carrying charge of 16.68% to \$125,575,127 with a carrying charge of 18.42%.¹⁸ Mr. Bebyn also noted that this increase was too large for BIPCo to postpone until its first reconciliation because doing so would have caused a burdensome cash flow shortfall of \$71,121.¹⁹ Mr. Bebyn explained because the DAF charge only affects the transmission rate, there was no need to change the proposed Standard Offer rate. After incorporating the new estimates into the rate calculations, the total transmission costs increased from \$322,691 to \$464,937, resulting in an increase of the proposed transmission rate from \$0.0437 per kWh to \$0.0629 per kWh.²⁰

2. Hearing testimony

At the evidentiary hearing, Mr. Bebyn adopted his prefiled testimony with two corrections.²¹ Mr. Bebyn noted that the increased estimates from National Grid for the interconnection costs and cable charges were still only estimates.²² Mr. Bebyn explained BIPCo sought to amortize its interconnection costs over a six-year period to match National Grid's

¹⁶ http://www.ripuc.org/eventsactions/docket/4690-BIPCo-Supplement-AmendFiling_4-12-17.pdf.

¹⁷ Bebyn Supp. Test. at 1 (April 12, 2017); Attach. 3.

¹⁸ Bebyn Supp. Test. at 2.

¹⁹ *Id.*

²⁰ Bebyn Supp. Test. at 3.

²¹(1) On page 2, line 22 of Bebyn's prefiled testimony, the reference to a six-month period should be changed to a twelve-month period; (2) Sch. DGB-3 (original and supplemental), the bottom table should be changed from "standard offer rate and standard offer revenue" to "transmission charge rate and transmission charge revenue."; Hr'g. Tr. at 17-18.

²² Hr'g. Tr. at 22 (Apr. 14, 2017).

treatment of the expense.²³ Mr. Bebyn indicated BIPCo planned to keep its diesel engines in place as back-up for power failures and planned outages. The engines would need to be exercised periodically to insure working order, so BIPCo planned to keep about 40,000 gallons of fuel on hand.²⁴ Mr. Bebyn acknowledged BIPCo's monthly bills to customers would continue to show a fuel adjustment charge covering the cost of the fuel for the generators, a distribution system improvement surcharge of \$.01/kWh during the summer months, and rental costs of engines and generators.²⁵

Mr. Bebyn testified the proposed tariff suggested an effective rate of May 1, 2017, with an initial three-month review to see if any estimates were materially over or under projections.²⁶ Mr. Bebyn agreed with PUC staff's suggestion to change terminology on customer bills from "energy charge" to something different, such as "plant or distribution charge," because customers may believe the term "energy charge" represents the power being purchased, which is actually the "Standard Offer" charge.²⁷

B. Timothy J. Hebert

1. Prefiled testimony

Mr. Hebert, from Energy New England, testified he was working with BIPCo to develop master contracts with three potential suppliers: NextEra Energy Marketing, Public Service Electric and Gas, and Shell Energy.²⁸ He stated he was working on three plans with varying lengths; six months, twelve months, and eighteen months.²⁹

2. Hearing testimony

²³ *Id.* at 23.

²⁴ *Id.* at 25.

²⁵ *Id.* at 29-31.

²⁶ *Id.* at 34.

²⁷ *Id.* at 42, 44.

²⁸ Hebert Test. at 2 (Feb. 10, 2017).

²⁹ *Id.*

Mr. Hebert adopted his prefiled testimony without any modifications.³⁰ He acknowledged the PUC had granted BIPCo a one-year exemption from offering retail choice and, therefore, he was recommending an eighteen-month power purchase term to BIPCo. He explained that because energy markets in New England were at historic lows, it seemed appropriate, from a rate stability perspective, to use an eighteen-month term. That would flatten the impact of winter prices, which are traditionally higher.³¹ Mr. Hebert also noted the Company would be subject to forward capacity market costs, which would add substantially to customer costs, commencing in June 2018.³² Mr. Hebert testified he was surprised National Grid's very recent DAF estimate of 1.8 million dollars was so different from the \$550,000 figure it initially provided because utilities typically use a construction cost manual to derive estimates.³³

III. The Division of Public Utilities & Carriers' Position

The Division presented prefiled comments and direct testimony at the hearing from Richard S. Hahn, of Daymark Energy Advisors. At the hearing, he adopted the following prefiled statement under oath:

Power supply portfolios typically contain several products such as fixed price, full requirements contracts, peak and off-peak blocks, and spot purchases. It is generally accepted that purchasing 100% of the required power supply in one solicitation is undesirable, and that most power supply portfolios are based upon layered and laddered purchases made at several times throughout the year. BIPCO has proposed a single product —all requirements energy —with capacity and ancillary services procured directly from ISO-NE. BIPCO also proposes to purchase 100% of its needs in a single procurement. However, BIPCO is a very small utility, with annual peak load of 4.8 MW and about 14,000 MWH per year in total energy requirements. BIPCO's load is highly seasonal, with more than 60% of its annual energy consumption occurring in the five summer months. In addition, the majority of BIPCO is municipally owned by the Town of New Shoreham. Given BIPCO's somewhat unique characteristics, I believe that it is reasonable to deviate from

³⁰ Hr'g. Tr. p. 46.

³¹ *Id.* at 51.

³² *Id.* at 50; *See* also, comments by Counsel Michael McElroy, Hr'g Tr. at 14.

³³ Hr'g. Tr. at 65.

standard power supply portfolio practices and approve the procurement plan that BIPCO has proposed.³⁴

Mr. Hahn also reviewed the proposed tariffs and concluded they were reasonable and should be approved. Mr. Hahn recommended that when BIPCO filed a full rate case, the PUC should review the required levels of reliability for BIPCo to maintain, since its electric distribution system is now connected to mainland power sources.³⁵ Mr. Hahn concurred with the PUC staff's recommendation to change the term "energy charge" to "plant/distribution charge."³⁶

IV. Commission's Findings

At the hearing's conclusion, the Commission issued a bench decision, finding the proposed rates to be just and reasonable, in accordance with R.I. Gen. Laws §39-1-1(b). The Commission commended BIPCo's nimble response to the late notification from National Grid of the substantial increase in the estimates of both the cost of the undersea cable and BIPCo's interconnection costs. The Commission agreed with staff's suggestion to change the term "energy charge" as proposed to "plant/distribution charge," to avoid confusion with standard offer. The Commission recognized that some of the customer savings realized by tying into the New England electric system will be substantially diminished when BIPCo is required to pay ISO capacity charges, starting in June 2018. The Commission further recognized the rates it approved were based upon the National Grid estimates over which BIPCo has no control. Therefore, a three-month reconciliation would be helpful for BIPCo, its customers, and the Commission.

³⁴ Hahn Mem. at 2. (Mar. 28, 2017). [http://www.ripuc.org/eventsactions/docket/4690-DPU-Hahn\(3-28-17\).pdf](http://www.ripuc.org/eventsactions/docket/4690-DPU-Hahn(3-28-17).pdf).

³⁵ Hahn Mem. at 3.

³⁶ Hr'g. Tr. at 68.

Accordingly, it is hereby

(22968) ORDERED:

1. The Block Island Power Company's Standard Offer Procurement Plan and Transmission tariffs are hereby approved for usage on and after May 1, 2017.

2. The Block Island Power Company shall make a compliance filing to change the term "energy charge" to "plant/distribution charge."

3. The Block Island Power Company shall make its first reconciliation filing on or before three months after the effective date of this order.

4. The Block Island Power Company's compliance filing of April 26, 2017 is hereby approved.

5. The Block Island Power Company's request for proprietary treatment of its Standard Offer Supply Contract, pursuant to Rule 1.2 (g) of the Public Utilities Commission Rules of Practice and Procedure and R.I. Gen. Laws § 38-2-2 (4) (A) (II) (B), is hereby approved.

EFFECTIVE MAY 1, 2017, IN WARWICK, RHODE ISLAND, PURSUANT TO A BENCH DECISION ON APRIL 14, 2017 AND OPEN MEETING DECISION ON APRIL 27, 2017 AND MAY 25, 2017. WRITTEN ORDER ISSUED NOVEMBER 27, 2017.



PUBLIC UTILITIES COMMISSION

Margaret E. Curran, Chairperson

*Herbert F. DeSimone, Jr. Commissioner

Marion S. Gold, Commissioner

*Commissioner DeSimone concurs with this decision but is not available for signature.

NOTICE OF RIGHT OF APPEAL: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within seven (7) days from the date of the order, petition the Rhode Island Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision of order.