

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

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

REPORT AND ORDER

I. Introduction

On March 14, 2018 the Block Island Power Company (BIPCo) filed its Six-Month Recalculation, Standard Offer, and Transmission Tariff with the Public Utilities Commission (PUC or Commission), together with the prefiled testimony and associated supporting schedules of David G. Bebyn.¹ BIPCo sought an increase in its Standard Offer, from \$0.0709 per kWh to \$0.0977, and a slight decrease in Transmission rates, from \$0.0779 per kWh to \$0.0647.² The impact to a typical residential customer using 500 kWh of electricity per month was an increase of \$6.81 per month, resulting in a bill for the months of October through May of \$139.09 and a bill of \$218.54 for the months of June through September.³

On April 13, 2018, the Division of Public Utilities and Carriers (Division) filed a memorandum stating that after a thorough review of the file, including testimony, calculations, and supporting invoices, the Division concluded that the proposed factors were accurately calculated and recommended approval by the PUC.⁴ On April 25, 2018, the PUC found the

¹ All filings in this docket are available at the PUC offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at <http://www.ripuc.org/eventsactions/docket/4690page.html>.

² The period of June through September also includes, as it has in prior years, a Fuel Adjustment charge, pursuant to the Company's Fuel Adjustment Clause tariff. This year, the charge is of \$0.0100.

³ [http://www.ripuc.org/eventsactions/docket/4690-BIPCo-ReconciliationFiling\(3-12-18\).pdf](http://www.ripuc.org/eventsactions/docket/4690-BIPCo-ReconciliationFiling(3-12-18).pdf)

⁴ <http://www.ripuc.org/eventsactions/docket/4690%20-%20Division%20Memorandum%204-13-18.pdf>.

proposed rates to be reasonable and just and approved the filing with an effective date of May 1, 2018.

II. Summary of BIPCo's testimony

A. Prefiled testimony

In his prefiled testimony describing the reconciliation process, Mr. Bebyn testified that he utilized actual power purchase costs and associated costs and taxes for the period of November 2017 through February 2018 and an estimate for March and April's kWh sales, using figures from 2017.⁵ He then multiplied the actual kWh sales by the approved Standard Offer and Transmission charges, netting that against the actual costs and gross receipts to calculate any over-collection or under-collection. He then factored the over-collections or under-collections into the calculation of the newly proposed rates.⁶ For this reconciliation period, BIPCo had an over-collection of Standard Offer charges of \$1,756.29 and an over-collection of Transmission charges of \$12,808.30.⁷ Mr. Bebyn explained that the over-collections occurred primarily because the approved rates were calculated using budgeted sales for November through April that turned out to be lower than actual sales.⁸

In calculating the new rates, Mr. Bebyn outlined twelve elements of BIPCo's Bulk Power Costs Projections: (1) the energy purchase price was projected to be \$36.77 per MWH for the first six-month period and \$42.20 per MWH for the second six-month period as approved in the power procurement plans; (2) the ISO-NE Capacity Charges, which were forecasted to be \$423,687 for the twelve-month period beginning May 1, 2018, reflecting 2017 coincident peak values and rates;

⁵ Bebyn Test. at 2, See Attach 4.

⁶ *Id.*

⁷ Bebyn Test. Attach. 5 at 1, 3.

⁸ Bebyn Test. at 3. Mr. Bebyn explained that calculating rates on lower sales does not affect the Standard Offer rate because it is variable, based on usage. There was a larger impact on the transmission charge because most of those costs are fixed and lower budgeted usage results in higher rates.

(3) the ISO-NE Ancillary Charges, \$ 50,760 for the twelve month period; (3) the ISO-NE Annual Fee of \$500; (4) Energy New England's administrative fee, \$69,469 for the twelve-month period; (5) the ISO-NE Transmission charges, \$239,892 for the twelve-month period; (6) National Grid's Direct Assignment Facility (DAF), \$357,576 for interconnection facilities and associated equipment;⁹ (7) the monthly National Grid cable surcharge, estimated to be between \$4,500 and \$4,900 per month, plus an additional \$1,900 per month for the period between November 2016, when the cable was first energized, and May 1, 2017, when BIPCo began taking power over the cable;¹⁰ (8) the transformer surcharge of \$5,886, calculated using a peak of 1,479kW and a monthly rate of \$0.33/kW; (9) the meter surcharge, \$867 for the twelve-month period; (10) the rolled-in distribution surcharge, \$49,155 for a six-month period; and, (11) the pooled transmission facilities, non-pooled transmission facilities and load dispatch charges of \$42,816.¹¹ BIPCo also sought to recover interconnection plant costs for the new substation, totaling \$273,254, amortized over a six-year period. The interconnection total excludes legal fees and accounting fees which were previously approved and have been fully collected.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 The gross receipts tax is included within the Standard Offer and Transmission charges because there is not a separate line item on the bills.¹⁵The Fuel

⁹ This figure represents the actual costs since National Grid has now invoiced BIPCo.

¹⁰ The \$1,900.00 monthly will be paid off in May, 2018.

¹¹ Bebyn Test. at 6.

¹² *Id.*

¹³ *Id.*

¹⁴ Bebyn Test. at 6; Sch. DGB-2 and DGB-4.

¹⁵ Previously approved in Docket 4690.

Adjustment Clause Tariff, as previously approved in this Docket, remained unchanged.¹⁶ There were no changes proposed to the existing customer service rates, electric charges, demand, or system charges in this filing.¹⁷

B. Hearing testimony

On cross-examination at the evidentiary hearing, Mr. Bebyn explained that the difference between actual purchased kilowatts and actual anticipated sales is the line loss factor. In this case, the projected line loss was approximately thirteen to sixteen percent, which is historically typical.¹⁸ While indicating that the problem might require further study, Mr. Bebyn expressed the hope that with ongoing improvements to the distribution system, line losses will decrease.¹⁹

Mr. Bebyn acknowledged that National Grid plans to take the undersea cable offline sometime in the fall of 2018 for a period of approximately three weeks for repairs. During that timeframe, BIPCo will resort to its diesel engines to generate electricity for its customers. As such, BIPCo's purchase of electricity will decrease. Mr. Bebyn explained that the decreased electricity purchase costs will be reconciled in BIPCo's next filing.²⁰

Mr. Bebyn confirmed that this filing's capacity cost of \$424,000 constituted the first time that BIPCo has incurred a capacity cost factor. At approximately 3.6¢ per kilowatt hour, this capacity cost is driving up the typical residential customer's bill by about \$18.00 per month.²¹ Mr. Bebyn emphasized, however, that transitioning to a twelve-month filing period will lessen the impact of the capacity cost factor. Notwithstanding the inclusion of the capacity cost charge, the

¹⁶ The Fuel Adjustment Clause tariff serves 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.

¹⁷ Bebyn Test. at 7.

¹⁸ Hr'g. Tr. at 9-10.

¹⁹ *Id.* at 22.

²⁰ *Id.* at 14.

²¹ Hr'g. Tr. at 18.

resulting requested rates of \$218 per month in the summer and \$139 per month in the winter were fairly comparable to the rates charged when BIPCo was generating electricity via diesel engines.²²

Mr. Bebyn discussed the Distribution System Improvement fund's summer surcharge of one cent per kilowatt and confirmed that the surcharge generates between \$50,000 and \$60,000 annually. He acknowledged that the fund was overspent some years back by approximately \$280,000 as a result of new meter installation. However, with the annual replenishment, the negative balance was now approximately \$120,000. Therefore, the account should be fully paid back after the next two summers.²³

Jeffrey Wright, BIPCo's General Manager, testified at the hearing. He too was surprised that the tree trimming program had not resulted in a greater reduction of line losses. He stated that, in his experience, line losses for a 12 kV system should be in the range of seven to eight percent.²⁴ He opined that the line losses may not change until such time as the Company undertakes a voltage conversion. Even then, he noted the line losses will likely only be reduced by two to three percent. He expressed doubt that the line losses would ever be in the seven to eight percent range because of the nature of the Island's system.

Mr. Wright also discussed his understanding concerning the cable repairs scheduled for the fall of 2018. He indicated that the precise dates had yet to be confirmed, but that it looked like National Grid was targeting September, and he confirmed that this was not the ideal time for the work to be done, because September is still a busy tourist month for Block Island.²⁵ Mr. Wright indicated that although he hoped that BIPCo would have some influence with National Grid on the timing of the cable repair, he thought the Town's efforts at persuasion would be more effective.

²² *Id.* at 21.

²³ *Id.* at 23.

²⁴ *Id.* at 28.

²⁵ *Id.* at 30.

While the cable is being repaired, BIPCo will need to run its generators to generate electricity, which will result in significantly more fuel use than has been the case with the cable in operation. BIPCo maintains approximately 24,000 gallons of diesel which would be sufficient to operate the generators for a period of approximately seven to ten days. Mr. Wright indicated that he was not concerned with BIPCo's ability to ramp up fuel deliveries, when needed, because suppliers are in place for that purpose.²⁶

Mr. Wright also addressed the issue of incremental costs that BIPCo will incur as a result of the cable being shut down. Commission staff made note of National Grid's representation in Docket No. 4805 that National Grid will pay BIPCo's "reasonable" cost of fuel during the shutdown. Mr. Wright stated that it had been his understanding that National Grid would be paying BIPCo's fuel costs and that the use of "reasonable" in Docket 4805 was the first time that he had seen it applied to the recoverable fuel costs. Mr. Wright confirmed that BIPCo has traditionally included in its fuel surcharge, not only the commodity cost of the fuel but also fuel handling, urea, and transportation costs.²⁷ Mr. Wright acknowledged that this issue has not yet been thoroughly vetted with National Grid and that if the parties cannot agree on the scope of reimbursement, any dispute would be submitted to either the Division or the PUC for resolution.²⁸

Mr. Wright also discussed overall system performance, in light of challenges presented by the 2017 hurricane season. He indicated that eight or nine poles, all vintage 1968, were broken in one storm, with five of them in a single cascade. BIPCo responded by commissioning a Geographic Information System (GIS) mapping database which revealed that more than seventy percent of the poles are over forty years old. He calculated that the Company, historically, had

²⁶ *Id.* at 39-40.

²⁷ *Id.* at 36.

²⁸ *Id.* at 37.

replaced approximately fourteen poles per year. In order to stay on an industry-recommended forty-year cycle of pole replacement, however, that number should have been fifty. As a result, the Company has embarked on an aggressive pole replacement program to deal with a backlog of approximately 1,000 poles that need to be replaced.²⁹ Mr. Wright also reported that now that the system is mapped, BIPCo can work on building an accurate distribution model. He stated that the Company is likely looking at a voltage conversion within the next few years.³⁰

Finally, Mr. Wright updated the Commission on the Company's efforts to buy out its minority shareholder and indicated that efforts on ongoing. He also indicated that the Company is proceeding with its efforts to file a rate case and anticipates the same to be filed, on target, by August 1, 2018.³¹

C. The Division of Public Utilities & Carriers' Position

On April 13, 2018, Division Rate Analyst, Patricia Smith, filed a memorandum identifying and outlining costs totaling \$1,164,001 underlying the proposed standard offer rate and costs of \$770,659 underlying the proposed transmission rate.³² Ms. Smith noted that this filing proposed rates for a twelve-month period which was an expected departure from the prior filings of six-month rates, as previously discussed in this docket. The purpose of the change was to smooth out rates and avoid winter rate shock.³³ The Division agreed that a twelve-month factor was a reasonable approach to address the problem and recommended approval.³⁴ Ms. Smith further opined that the proposed costs appeared to be properly classified as standard offer and transmission rates, respectively, and properly recoverable. She explained that BIPCo calculated the proposed

²⁹ *Id.* at 42-44.

³⁰ *Id.* at 44.

³¹ *Id.* at 42.

³² See <http://www.ripuc.org/eventsactions/docket/4690%20-%20Division%20Memorandum%204-13-18.pdf>.

³³ Due to the seasonal nature of the island, certain costs that were spread over the course of the year were unfairly burdening the year-round system user.

³⁴ Smith Memo at 1.

standard offer and transmission factors by dividing the total projected costs by estimated sales of 11,912,003 kWh.³⁵ Ms. Smith concluded that the proposed factors were accurately calculated and recommended approval.³⁶

IV. Commission's Findings

At the evidentiary 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).

Accordingly, it is hereby

(23260) ORDERED:

1. The Block Island Power Company's Standard Offer Procurement Plan and Transmission Tariff are approved for usage on and after May 1, 2018.
2. The Block Island Power Company's request to change the rate period is hereby amended from six months to twelve months.
3. The Block Island Power Company is directed to meet with Commission staff, the Division, and National Grid to develop a better understanding of how the cable outage will be handled and how costs will be recovered.
4. The Block Island Power Company is directed to meet with Commission and Division staff to discuss an appropriate methodology to inform the Commission on the status of over or under collections.

³⁵ The estimated sales were based on a two-year average of actual sales.

³⁶ Division Memo at 2.

EFFECTIVE MAY 1, 2018 IN WARWICK, RHODE ISLAND, PURSUANT TO A BENCH DECISION ON APRIL 25, 2018. WRITTEN ORDER ISSUED AUGUST 23, 2018.

PUBLIC UTILITIES COMMISSION



Margaret E. Curran

Margaret E. Curran, Chairperson

Marion Gold

Marion Gold, Commissioner

Abigail Anthony

Abigail Anthony, Commissioner

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.