



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

March 28, 2017

Ms. Luly Massaro
Commission Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02889

**Re: IN RE: BLOCK ISLAND POWER COMPANY:
PROCUREMENT PLAN AND TARIFF FILING
DOCKET NO. 4690**

Dear Luly,

Enclosed for filing, please find an original and nine (9) copies of a Memorandum submitted from Richard Hahn of Daymark Energy Advisors regarding the Block Island Power Company's RIPUC Docket No. 4690. Mr. Hahn has reviewed the filing on behalf of the Division and the Division submits this Memorandum and recommendation to the Commission for its consideration. Please note that an electronic copy of this document has been sent to the service list.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me.

Sincerely,

Christy Hetherington, Esq.
Special Assistant Attorney General
Regulatory Unit
Extension 2425

Enclosure

cc: Service List (via electronic mail)



**To: THE RHODE ISLAND PUBLIC UTILITIES COMMISSION ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

From: RICHARD HAHN, DAYMARK ENERGY ADVISORS

Date: MARCH 28, 2017

**Subject: BLOCK ISLAND POWER CO. (BIPCO) PROPOSED PROCUREMENT PLAN AND
STANDARD OFFER AND TRANSMISSION TARIFFS - DOCKET NO. 4690**

INTRODUCTION

BIPCO has filed for approval of a Standard Offer Procurement Plan (“SOPP”) and two new tariffs, the Standard Offer Rate Rider (Rate “SOR”) and the Transmission Cost Rider (Rate “TMC”) to recover certain costs to be incurred when purchasing power from and interconnecting with the ISO-NE system. Daymark Energy Advisors has been retained by the Rhode Island Division of Public Utilities and Carriers (the “Division”) to review this filing. Based upon my review of the filing, I recommend that the SOPP and the new tariffs be approved as filed and implemented as soon as possible. I also identify two issues to be resolved in future filings. These are discussed later in this memorandum.

OVERVIEW

On or about April 1, 2017, the interconnection between BIPCO and the cable that connects Block Island and Deepwater Wind to the ISO-NE system is expected to become operational. This will allow BIPCO to purchase electric power from ISO-NE markets and cease the use of on-island diesel generators as the primary source of power to its customers. BIPCO has retained Energy New England (“ENE”) as its advisor in entering these markets. To meet its Standard Offer load, BIPCO proposes to purchase all requirements energy from wholesale suppliers for 100% of its energy requirements in a single procurement. The term of the procurement will depend upon the outcome of Docket 4606, where BIPCO has requested to extend its exemption from retail access requirements until October 1, 2018. The current exemption expires on October 1, 2017. BIPCO will also purchase other necessary services directly from ISO-NE, such as capacity, forward reserves, regulation, etc. And BIPCO will incur costs for the use of electric

transmission facilities, including the cable between Block Island and the mainland, National Grid local transmission facilities, and ISO-NE Regional Network facilities. The filed tariffs are proposed to recover these new costs. BIPCO will retain its existing Fuel Adjustment Charge rider without modification. This rider will continue to recover Distribution System Improvement costs, as well as the cost of operating the on-island diesel generators in the event of a system event, such as a cable failure.

ANALYSIS

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

I have reviewed the proposed tariffs and conclude that they are reasonable and should be approved. The retention of the existing Fuel Clause will allow BIPCO to recover the cost of operating the diesel generators when needed, including any periodic testing that may be prudently required to ensure that the generators will be available and start when called upon. The SOR appears to be appropriately designed to recover the cost of the Standard Offer power supply purchases, and the TMC should result in recovery of appropriate transmission costs. As I understand BIPCO's filing, the SOR and the TMC will be fully reconcilable, with actual costs being compared to forecasted costs on a timely basis. The Fuel Adjustment Charge rider includes a form or a template that itemizes the costs to be included. Similar templates should be developed for the SOR and the TMC. When BIPCO makes its reconciliation filings, it should make available its summary statements received from ISO-NE to facilitate the review of actual costs. In addition, the proposed tariff rate components include the full cost of certain facilities that are the subject of a petition for declaratory judgment in Docket 4688. If the Commission concludes in that docket that the costs of the disputed facilities are to be socialized across all Rhode Island ratepayers, then these rate components need to be revised.

Lastly, I wish to draw the Commission's attention to two issues identified in BIPCO's responses to Division data requests. The response to Division 1-3 states that BIPCO may need to continue the portion of the Fuel Adjustment Charge associated with the rental of additional diesel generators because it does not have sufficient operating capacity to meet load in the event of a cable failure. This raises the question of what level of reliability BIPCO should maintain now that it is connected to the North American power system. In its filing, BIPCO states that it may file a new rate case later this year. That would be an appropriate vehicle in which to address that issue. The response to Division 1-18 states that BIPCO may use its diesel generators for peak load shaving purposes. This seems to contradict the filed testimony for Mr. Bebyn, which states that the diesel generators will be used solely as a back-up supply in the event of a cable failure.¹ BIPCO should not need or desire to use its diesel generators for peak shaving purposes until it receives a capacity obligation from ISO-NE, which should not occur for another year. Before using the diesel generator for peak load shaving purchases, BIPCO should analyze the environmental and economic impacts of such activities and seek approval from the Commission. BIPCO should clarify its intention on this during this proceeding.

¹ See page 1, lines 22 to 23 of Mr. Bebyn's Direct Testimony