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March 7, 2016

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. § 39-1-27(g)

Dear Luly:

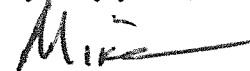
As you know, this office represents Block Island Power Company (BIPCo).

Enclosed for filing in this matter are an original and nine copies of the following:

1. Petition of BIPCo pursuant to R.I.G.L. § 39-1-27(g) for exemption (1) from the requirement to transfer ownership of generation facilities to an affiliated company, (2) from the prohibition against selling electricity at retail, and (3) from certain standards of conduct.
2. Direct testimony of David G. Bebyn, CPA.

If you have any questions or you need any further information, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc:tmg

cc: David G. Bebyn, CPA
Timothy Hebert
BIPCo Owners
Nancy Dodge, Esq.
Katherine Merolla, Esq.
Leo Wold, Esq.
Christy Hetherington, Esq.
John Bell
Daniel W. Majcher, Esq.
Mary Kay, Esq.
Cynthia Wilson Frias, Esq.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: BLOCK ISLAND POWER COMPANY : DOCKET No. _____
PETITION PURSUANT TO R.I.G.L. § 39-1-27(g) :

PETITION OF BLOCK ISLAND POWER COMPANY PURSUANT TO R.I.G.L. § 39-1-27(g)
FOR EXEMPTION (1) FROM THE REQUIREMENT TO TRANSFER OWNERSHIP OF
GENERATION FACILITIES TO AN AFFILIATED COMPANY, (2) FROM THE
PROHIBITION AGAINST SELLING ELECTRICITY AT RETAIL, AND (3) FROM
CERTAIN STANDARDS OF CONDUCT

1. Block Island Power Company (BIPCo) is a vertically integrated power company that generates electricity using diesel engines and distributes that electricity in its service territory, which consists of the Town of New Shoreham (Block Island), Rhode Island.

2. It is anticipated that by approximately the end of calendar year 2016, the National Grid/Deepwater Wind project will be operational and the Town of New Shoreham will then be connected by an undersea electric cable to the mainland. This connection will make mainland electric power available to BIPCo for distribution to the Island.

3. Pursuant to R.I.G.L. § 39-1-1(a)(3), it is the policy of the State that electric energy be supplied “with reliability, at economical cost . . .”.

4. Pursuant to R.I.G.L. § 39-1-1(b), it is the policy of the State that there will be “fair regulation of public utilities” “to promote availability of adequate, efficient and economical energy. . . to provide just and reasonable rates and charges for such services . . .”.

5. Pursuant to R.I.G.L. § 39-2-1(a), “[e]very public utility is required to furnish safe, reasonable, and adequate services and facilities” and “[t]he rate . . . for any service rendered . . . shall be reasonable and just . . .”.

6. Chapter 316 of the 1996 Public Laws, approved on August 7, 1996, created a “restructured electrical industry” in Rhode Island. (R.I.G.L. § 39-1-1(d)(7)). This same Public Law created R.I.G.L. § 39-1-27, which required electric distribution companies to file

restructuring plans on or before January 1, 1997. These plans were required to result in “transferring ownership of generation facilities into a separate affiliate of the electric distribution company.”¹

7. Pursuant to the new R.I.G.L. § 39-1-27(d), “[f]ollowing the complete implementation of the restructuring plans, electric distribution companies shall be prohibited from selling electricity at retail and from owning, operating, or controlling generation facilities, although such facilities may be owned by affiliates of electric distribution companies.”

8. Pursuant to the new R.I.G.L. § 39-1-27.4, transition charges were authorized to allow for the recovery of stranded costs through a nonbypassable transition charge to be paid by all customers of the electric distribution company.

9. Pursuant to R.I.G.L. § 39-1-27.6(b)(1), “the employees of the electric distribution company engaged in distribution system operations must function independently of its employees, or the employees of any of its affiliates, who are engaged in the business of a nonregulated power producer,” among other standards of conduct imposed as a result of deregulation.

10. Chapter 357 of the Public Laws of 1997 enacted a provision which allowed certain electric utilities to request an exemption from the Utility Restructuring Act (or any provision thereof) upon certain requirements and conditions. (R.I.G.L. § 39-1-2(26)).²

11. Pursuant to this 1997 Public Law and R.I.G.L. § 39-1-2(26), on September 26, 1997, BIPCo filed with the Commission a request for an exemption from the Utility Restructuring Act of 1996. BIPCo asked for this exemption to remain in effect until six (6)

¹ The same section also required the generation plant, equipment, and facilities to be transferred “to an affiliate that is a nonregulated power producer at a price that shall equal the book value of the generation plant, equipment, and facilities . . . net of depreciation and deferred taxes as of the date of the transfer.”

² An exemption request can be requested under this subsection if (1) “the utility is not selling or distributing electricity outside of the service territory in effect for that utility on the date of passage of the Utility Restructuring Act”; and (ii) “the number of kilowatt hours sold or distributed annually by the utility to the public is less than five percent (5%) of the total kilowatt hours consumed annually by the state.”

months after an undersea cable connecting the Island to the mainland electric grid was installed and operational. (Docket No. 2490).

12. Finding that BIPCo's "ratepayers cannot avail themselves of the Act's retail access until such time as the undersea cable is completed, making it possible for Block Island customers to obtain power from the electric generation market," this Commission ordered in Order No. 15461 that "the Block Island Power Company is hereby authorized to delay implementation of the Utility Restructuring Act's mandates until six months following the installation and operation of the undersea cable connecting the island to the mainland electric grid."

13. BIPCo continues to operate under this exemption.

14. When the undersea electric cable becomes operational on or about December 31, 2016, the rationale for continuing to exempt BIPCo entirely from the provisions of the Utility Restructuring Act of 1996 will no longer exist. However, R.I.G.L. § 39-1-27(g) provides:

After notice and public hearing, the commission may exempt electric distribution companies subject to this paragraph from: (1) the requirement to transfer ownership of generation and transmission facilities to affiliated companies pursuant to subsection (a); and (2) the prohibition against selling electricity at retail pursuant to subsection (d) of this section with respect to sales within the service territory of such electric distribution company, **if it determines that such exemptions are in the public interest.** (Emphasis added).

15. In a written Order issued on June 30, 1998 in Docket Nos. 2516 and 2688 dealing with the Pascoag Fire District, this Commission approved certain exemptions from the Utility Restructuring Act (URA) under R.I.G.L. §§ 39-1-2(26), 39-1-27(g), and 39-1-27.3(c). Among the exemptions approved were:

1. "Pascoag will be exempted from the URA's requirement that it transfer its purchase power contract to affiliates (See R.I.G.L. Section 39-1-27(c))",
2. "Pascoag will be exempted from the URA's prohibition against selling electricity at retail within in its service territory (See R.I.G.L., Section 39-1-27(d))", and

3. “Pascoag will be exempted from the URA’s standards of conduct, to the extent they require separation of Pascoag’s marketing and distribution functions or cumbersome and expensive communications requirements (See R.I.G.L. Section 39-1-27(6)).”

16. The Commission found these requested exemptions to be warranted and approved them.

17. In addition, the Commission incorporated into its Order a Revised Settlement Agreement between Pascoag and the Division which stipulated that:

“it is in the public interest that Pascoag be granted an exemption under URA Section 39-1-27(g) from the prohibition against selling electricity at retail with respect to sales within its service territory; and that the Commission has the power to exempt Pascoag in whole or in part from the provisions of URA by reason of URA Section 39-1-2(26).”

18. This Revised Settlement Agreement also provided that “Pascoag and the Division have agreed that it is in the public interest that Pascoag sell electricity within its service territory at retail . . .”.

19. Finally, the Revised Settlement Agreement stated (and the Commission agreed) that “the standards of conduct are not applicable.”

20. There are a number of reasons why granting the exemptions requested by BIPCo are in the public interest.

21. Allowing BIPCo to continue to own and maintain its generation facilities will improve BIPCo’s ability to provide safe, reliable, reasonable, and adequate services and facilities after the cable is connected and operating. There is, of course, a need for backup facilities on an Island that is 12 miles from the mainland, even if that Island is connected by an undersea cable. There are numerous instances where such backup facilities could be essential. For example:

- The undersea cable could break and it could take some time for the break to be repaired;

- A storm could knock out power on the mainland, and because Block Island will be dependent on that power, Block Island would also be knocked out;
- There could be a breakdown in other aspects of the undersea cable connection to Block Island, such as a transformer or other equipment failure in either the Wakefield substation or in the Block Island substation.

22. It is BIPCo's understanding that as of this time, National Grid has elected not to maintain a backup transformer for its substation on Block Island. BIPCo understands that such a transformer would cost about \$500,000, and apparently National Grid does not want to incur that expense.

23. BIPCo has backup transformers for its facilities, but the cable substation on Block Island will be owned by National Grid, not BIPCo. If National Grid chooses to operate that substation without a backup transformer and if National Grid's transformer should fail, it will be necessary to find a new transformer, ship it to the Island, and install it. It is unknown how long this process will take, but during that period of time, having BIPCo's generation equipment available to provide power to the Island is essential.

24. It is also in the public interest to maintain the generation equipment on the Island as part of BIPCo's obligation to provide for just and reasonable rates and charges. It is not yet certain, and more investigation is needed, but if BIPCo continues to own its generation equipment, it might be able to become part of the ISO-NE system. This could put BIPCo in a position where it might be able to obtain capacity payments from ISO-NE for having its equipment available to the grid. These capacity payments might be available simply because the capacity for generating electricity will exist.

25. In addition to capacity payments, if BIPCo is called upon to operate (likely to be a rare occurrence since the energy that will be produced by the diesel engines will be very

expensive), and BIPCo is able to become part of the ISO-NE system, then BIPCo might also be paid for the energy that it sells.

26. It is also possible that BIPCo might be paid for energy generated when BIPCo routinely exercises its engines for maintenance purposes.

27. The possible capacity and energy payments might allow BIPCo to hold rates down on the Island and offset other costs involved with connecting to the mainland.

28. If BIPCo were forced to sell its generation equipment, it is unknown who would purchase it. But if it were purchased, the purchaser could set up a non-regulated power producer that is essentially unregulated by the Commission. The non-regulated power producer might be able to obtain capacity and energy payments from ISO-NE. It could also essentially operate without oversight by this Commission. If BIPCo needed backup power and had to turn to this non-regulated power producer as BIPCo's only option, it is likely that the rates that would be charged by the non-regulated power producer would be quite high because BIPCo would have no other option available to it.

29. This non-regulated power producer would also be able to operate its engines and generate emissions to the maximum extent allowed by law.

30. In addition to the income that might be generated for BIPCo's ratepayers from possible capacity and energy payments, BIPCo's ratepayers will avoid having to pay stranded cost transition charges if the exemption is granted. Stranded costs are recoverable under the URA, but if there is no separation of generation and distribution, there will be no stranded cost charges.

31. BIPCo expects to retain all of its existing engines because there is no way to know when the backup engines will be called upon. It is possible that BIPCo could need to provide generation at the height of power demand in the summer and would need all of the

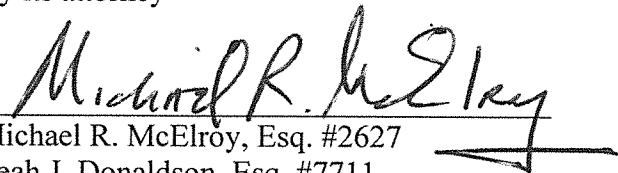
engines. With regard to the tanks, however, BIPCo's intention is to eventually remove the existing five underground tanks and replace them with two new above ground tanks.

32. The testimony of BIPCo's regulatory accountant David G. Bebyn, CPA, is filed in support of this petition and incorporated by reference herein.

WHEREFORE, BIPCo respectfully requests that, in the public interest, and pursuant to the authority granted in R.I.G.L. § 39-1-27(g), BIPCo be granted exemptions from the Utility Restructuring Act as follows:

1. Exempt BIPCo from the URA's requirement that it transfer its generation facilities;
2. Exempt BIPCo from the URA's prohibition against selling electricity at retail within its service territory;
3. Exempt BIPCo from URA's standards of conduct to the extent they require separation of BIPCo's marketing and distribution functions or are cumbersome and expensive communications requirements.

Respectfully submitted,
BLOCK ISLAND POWER COMPANY
By its attorney



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Dated: March 7, 2016

CERTIFICATE OF SERVICE

I hereby certify that on the 7th day of March, 2016, I sent a copy of the foregoing to the attached service list.


Theresa Gallo

BIPCo Deepwater Wind-Exemption Request Petition

**Direct Testimony
of
David G. Bebyn CPA
Regarding Waiver Request under
R.I. General Laws 39-1-27(g)**

**Block Island Power Company
Docket No. _____**

March, 2016

1 **Q. Please state your name and business address for the record.**

2 A. My name is David G. Bebyn CPA and my business address is 21 Dryden Lane,
3 Providence, Rhode Island 02904.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of B&E Consulting LLC. (B&E). B&E is a CPA firm that specializes
7 in utility regulation, expert rate and accounting testimony, school budget reviews and
8 accounting services.

9
10 **Q. What is the purpose of your testimony in this docket?**

11 A. I was asked by Block Island Power Company (BIPCo) to provide testimony in support of
12 BIPCo's request for a waiver (exemption) from certain requirements of the Utility
13 Restructuring Act (URA) under R.I.G.L. § 39-1-27(g) so that BIPCo will not have to
14 divest itself of its generation assets once the cable from the mainland is connected to
15 Block Island. My testimony will address the following:

16
17 ➤ That if the exemption is granted, BIPCo will continue to provide safe, reliable, and
18 adequate services and facilities.

19 ➤ That if the exemption is granted, BIPCo's rates, tolls and charges will remain
20 reasonable.

21 ➤ A review of economic considerations.

22 ➤ A review of the reliability considerations between maintaining the status quo and
23 separation of the generation assets.

24 ➤ A review of the advantages and disadvantages of maintaining one company compared
25 to BIPCo transferring the generation assets to an affiliated entity or a completely new
26 company.

27
28 **Q. Mr. Bebyn, in your professional opinion, will the BIPCo ratepayers be better off
29 with the status quo or if BIPCo is required to divest itself of its generation assets?**

30 A. I believe the status quo approach is better, simpler, less costly, and will provide the Island
31 with safety and the best likelihood of reliable and adequate service.

1 **Safe, Reliable, and Adequate Services and Facilities.**

2
3 **Q. If BIPCo receives the exemption/waiver, will it allow BIPCo to continue to provide**
4 **safe, reliable, and adequate services and facilities?**

5 A. Yes. BIPCo will continue to own the generation assets and will use them to provide
6 backup and safety in the case of any discontinuance of power from the mainland, from
7 the loss of the cable from the mainland, or any problems relating to the National Grid
8 substations and transformers. BIPCo has always had redundancy for its generators and
9 substation. Other than the generation assets which will be used as back-up instead of
10 generating power for the company every day, nothing else will change.

11
12 **Q. Mr. Bebyn, in your opinion will the waiver result in a safer, more reliable, and**
13 **adequate services and facilities?**

14 A. Yes.

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Rates, Tolls and Charges

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Q Mr. Bebyn, how would the rates be different if BIPCo did or did not get the waiver?

A. The primary difference would be the recovery of stranded costs. If BIPCo retains its generation assets, and the company has no other changes in its fixed assets, there will be no stranded costs to recover from ratepayers. BIPCo's current depreciation would continue. If BIPCo is forced to divest, the ratepayers will have to pay stranded costs.

Q. Will there be any other changes to BIPCo's rates, tolls and charges after the cable from the mainland is connected to the Island?

A. Yes. There will no longer be a need for the fuel adjustment clause, but there will be a need for a purchase power charge and a transmission charge to receive power from the mainland. There will also be a few other additional rates that will need to be developed. BIPCo will also need to provide a "standard offer" for the purchase of energy from BIPCo and a charge for ratepayers returning to BIPCo after having left to buy their electricity elsewhere.

Economic Considerations

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2
3 **Q. Mr. Bebyn, are there any economic considerations that should be addressed in**
4 **BIPCo's request for this waiver?**

5 A. Yes there are a few.

6
7 1) If BIPCo is required to divest its generation assets, the end result would be a
8 regulated distribution company and a deregulated generation company. In other
9 words, the generation company might be allowed to sell as much or as little power
10 to BIPCo (and possibly the mainland) as is allowed by law. Since the generation
11 company would be deregulated, it could negotiate with BIPCo to provide for a
12 back-up (stand-by) rate to provide energy to BIPCo in case BIPCo loses power
13 for any reason. Because BIPCo would have no other back-up option, the price
14 could be very high.

15
16 2) The generation company might also receive a capacity payment from ISO New
17 England just for providing standby capacity. Further, the generation company
18 might also receive energy payments from ISO New England any time the
19 generation company is asked to provide energy to the grid.
20 If BIPCo is given the waiver (exemption), there would be no deregulated
21 generation company and BIPCo's ratepayers would receive any benefits that
22 might be available from ISO New England.

23
24 3) Given that all of BIPCo's assets are pledged to the Rural Utilities Services (RUS)
25 in support of RUS loans, BIPCo will not be able to sell its generating assets
26 without RUS approval. Further, when selling utility assets, RUS requires that all
27 proceeds be deposited into a separate RUS labeled account. RUS has to approve
28 the use of these funds. RUS has very tight control over any funds deposited into
29 the RUS account. There are only a few acceptable uses for these funds. If
30 BIPCo is given the wavier, there will be no need to get RUS approval.

1 4) In addition to the sale of the generation assets, attention must be given to the land
2 on which the generation assets sit. It is very unlikely that someone will buy the
3 generation assets for use elsewhere. There will be a need to address the sale
4 and/or lease of the land. I believe that the value of the land will be a significant
5 issue in either a sale or a lease. The selling of the generation assets will most
6 likely be at book value (cost less depreciation). The book value of the land is
7 minor when compared to the market value of the land. RUS requires a fair
8 market value for the sale of utility assets. If the waiver is granted there would be
9 no need to sell or lease the land.

10
11 I believe that the best way to address these economic matters is by eliminating them and
12 approving the waiver (exemption).

Reliability Considerations

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3 **Q. Which option, status quo or divesting the generating assets, results in the most**
4 **reliability for the ratepayers?**

5 A. I think it is obvious that having your own stand-by generation is far better than relying on
6 a separate non-regulated company to supply your back-up. There are a number of
7 possible reasons why BIPCo could lose its energy supply such as storms which could
8 knock out power to the Island. Damage to the cable could also result in the loss of
9 power to the Island. Damage to Grid's substations or transformers on the Island or in
10 Wakefield could result in the loss of power by BIPCo. In any one of these cases, BIPCo
11 could quickly and reliably address the problem if it still had its own back-up generation.
12

13 Many electric companies would love to have the type of redundancy that BIPCo will
14 have if the wavier is approved. I believe that it would be shortsighted to have BIPCo
15 divest its current generation assets which will serve as a complete back-up system with
16 the wavier.
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1 **Advantages and Disadvantages of**
2 **Maintaining One Company Compared to BIPCo**
3 **Selling off its Generation Assets**

4
5 **Q. Mr. Bebyn, what are the advantages to maintaining one company?**

6 A. Maintaining one company will eliminate the need for a new nonregulated company which
7 might be able to sell to BIPCo and the mainland as much or as little power as the law
8 allows. That company would be allowed to earn whatever it could from the sale of its
9 electric generation. The new generation company would be motivated to sell as much
10 power as it could to make the most money that it could. The new generating company
11 would have no need to address the clean air wishes of some on Block Island and in fact
12 would be motivated to increase usage of the generators rather than reduce it.

13
14 **Q. Are there financial advantages of maintaining one company?**

15 A. Yes. There would be no need for the ratepayers to pay stranded costs for the generators.
16 The ratepayers might benefit from capacity and energy revenue from ISO New England.
17 The ratepayers would avoid the costs and uncertainties relating to dealing with the RUS.
18 BIPCo would not be required to divide its assets between the generation assets and the
19 rest of the company which would be much harder than it sounds and far more costly.

20
21 **Q. Are there safety reasons for keeping the one company?**

22 A. Absolutely.

23
24 **Q. Are there any savings in the ratemaking area?**

25 A. Yes. Selling the generation assets would result in the need for rate treatment of the sale
26 proceeds. There would be issues such as who owns the assets, who should be given the
27 proceeds, and of course dealing with RUS lien on the properties.

1 **Q. Would there be substantial regulatory, zoning, ownership (ratepayers or**
2 **stockholders), RUS and other issues that would result in significant costs to the**
3 **ratepayers?**

4 A. Yes. In my opinion given my knowledge of BIPCo's previous dealings with regulatory,
5 zoning, ownership, RUS and other issues that always come up, I would not be surprised if
6 the costs of breaking out the generation assets for sale would be in the hundreds of
7 thousands of dollars for the ratepayers.

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9 **Q. Does that conclude your testimony?**

10 A. Yes.

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