

Prefiled Direct Testimony

Of

Walter E. Edge Jr. MBA, CPA

For

Block Island Power Company

Docket # _____

December 2004

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

2 A. My name is Walter E. Edge Jr. MBA CPA and my business address is Bacon & Edge
3 p.c., One Worthington Road, Cranston, Rhode Island 02920.

4

5 **Q. What is your position with Bacon & Edge?**

6 A. I am the President and Consulting Department Director.

7

8 **Q. Mr. Edge, have you testified as an expert witness prior to this docket?**

9 A. Yes. I have testified as an expert witness in support of numerous filings for Block
10 Island Power Company (BIPCo), Interstate Navigation Company, Providence Water Supply
11 Board, Pawtucket Water Supply Board, Newport Water Department, Stone Bridge Fire
12 District and Prudence Ferry Inc., all of which were filed before the Rhode Island Public
13 Utilities Commission (PUC) or the Division of Public Utilities and Carriers (DPUC). I
14 have also testified before the Federal Communications Commission Joint Committee, the
15 Power Authority of the State of New York, the U. S. District Court in RI, and on a dozen
16 occasions before the Rhode Island State Superior Court. In addition to the above, I was the
17 chief rate analyst for the DPUC and advisor to the PUC for five years and frequently
18 testified as an expert witness.

19

20 **Q. What is your educational background?**

21 A. I received my Bachelors Degree in Business Administration (BSBA) with a major in
22 accounting from Bryant College and a Masters Degree in Business Administration (MBA)
23 from the University of Rhode Island. I became a Certified Public Accountant (CPA) after
24 successfully passing the national CPA exam in 1974.

25

26 **Q. What is the purpose of your testimony?**

27 A. Bacon & Edge (B&E) was engaged by BIPCo to provide expert accounting and rate
28 testimony in support of its rate request. My testimony and schedules will include a
29 presentation of the pro forma rate year (June 1, 2005 through May 31, 2006), the proposed
30 rate of return on equity, and the weighted cost of capital, rate year rate base, and rate design.
31 The test year testimony and schedules will be completed by Mr. David G. Bebyn CPA,
32 manager of the B&E consulting department.

1 **Q. What are the major reasons for requesting rate relief at this time?**

2 A. BIPCo hasn't filed a full rate case in about thirteen years and many of its financial and
3 operational activities have changed significantly since then. Over the past few years the
4 financial position of the Company has improved due to good management, sales growth and
5 reinvesting profits back into the company. In addition, operations have become less
6 disruptive to island residents with a new substation, an improving distribution system, and
7 the addition of more efficient, more economical, reduced emission diesel generation
8 equipment. In other words BIPCo has completely re-powered the Company and has made
9 great strides to improve its operations without requesting a rate increase in base rates for
10 over a decade.

11
12 Although there have been no complete rate filings for thirteen years, there have been a
13 number of limited (rate increase and decrease) filings to address items such as the lease and
14 purchase of new engines, environmental requirements relating to clean air compliance and
15 remediation of soil contamination, changes to the fuel adjustment charge, DPUC approval of
16 refinancing with Washington Trust (from Fleet) and DPUC approval of financing with the
17 Rural Utilities Services (RUS). BIPCo has also utilized the authority given to it by the PUC
18 to establish a net metering program. Therefore, numerous concerns relating to regulation
19 have been addressed over the years.

20
21 I believe that the PUC, DPUC, the Town of New Shoreham (including its energy
22 committee), and the owners of BIPCo have worked very hard individually and together to
23 address the concerns of BIPCo's ratepayers, the Town, DEM, EPA and DOJ while at the
24 same time becoming the first utility in Rhode Island that I am aware of to obtain low cost
25 financing from the Rural Utilities Service (RUS). All of this was done to provide the
26 ratepayers with improved service at the lowest possible rates.

27
28 In addition to the above items, the Company has faced other big issues such as consideration
29 of continued on-island electric generation vs. an underwater cable (twice). BIPCo removed
30 old fuel tanks and rebuilt or replaced them with tanks compliant with DEM requirements at
31 a cost of about \$400,000.

1 To make improvements possible, the PUC granted BIPCo an allowance for engine rentals
2 (over \$200,000) in its FAC and an environmental surcharge (as high as \$75,000/year) for
3 environmental clean-up costs. These two revenue streams were eliminated during the FYE
4 May 31, 2001. Fortunately, the engine rental costs were likewise eliminated in FYE May
5 31, 2001, but the rental costs were replaced with depreciation and return on investment for
6 the new engines that BIPCo purchased (engines #22 # 23 and #24). In addition, BIPCo is
7 faced with additional depreciation and return on investment relating to the new SCR units
8 needed for its newest engines and engine # 21. Further, many of the environmental costs
9 continue even though the environmental surcharge was eliminated. One of the primary
10 reasons for this request for rate relief is the costs relating to the new engines and SCR
11 equipment that is not reflected in BIPCo's current rates.

12

13 Another of the major reasons for this rate request is normal inflationary increases for
14 operations and payroll over the past thirteen years. Fortunately, good management,
15 inexpensive borrowing, a new communications tower (radio and cell phone) and growth in
16 revenue have made it possible to push off this request for years but the need for rate relief is
17 now evident. Other less significant reasons for this rate increase will be discussed in detail
18 in this testimony.

19

20 **Q. What increase is BIPCo requesting in this filing?**

21 A. BIPCo is requesting an increase in revenue requirement of \$463,171. This increase
22 represents a 21.96% increase over the adjusted rate year revenue at current rates. This is
23 less than two percent per year since the last full rate case.

24

25 **Q. Will all rates increase by this 21.96 %?**

26 A. No. BIPCo is requesting that the summer rates be extended one month in each
27 direction (May and October). The rate design change in these two shoulder months will
28 result in additional revenue without increasing rates. After netting out the new increased
29 revenue from the shoulder months (see the rate design portion of Mr. Bebyn's testimony for
30 details) the "across the board" percentage increase would be 10.52%. However, not all
31 revenue is from tariff rates, therefore, the "across the board" rate increase on all applicable
32 tariff rates will be 11.49% (See DGB - 8 in Mr. Bebyn's testimony).

1 **Q. How did BIPCo avoid having to request an increase in base rates for about**
2 **thirteen years?**

3 A. Many of the reasons have already been stated above but there are two additional reasons
4 why BIPCo was able to avoid needing a rate increase in the most recent years. First BIPCo
5 exercised its option with the RUS to defer principal payments on its RUS loans for two
6 years providing much needed cash flow. That deferral period is over. Second BIPCo
7 erected a new communications tower on its property which is generating about \$146,000 per
8 year for the ratepayers. The benefit of these two decisions resulted in deferring the need for
9 rate relief for about four years.

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11 **Q. Does that conclude your introduction?**

12 A. Yes.

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14 **Q. What would you like to discuss next?**

15 A. I would like to review my rate year adjustments and the rate year revenue requirement.

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1 **REVENUE REQUIREMENT**

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3 **Rate Year - (June 1, 2005 – May 31, 2006)**

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5 **Q. Mr. Edge, in what order would you like to review your rate year adjustments for**
6 **revenue requirement?**

7 A. I prefer to start with the revenue accounts (see Schedule WEE-2). After reviewing
8 revenues and making the appropriate adjustments I will review the expense accounts and
9 explain any rate year adjustment that are needed (see Schedule WEE-3).

10
11 **Revenues:**

12
13 **Q. Please explain how you calculated your rate year revenue levels.**

14 A. BIPCo received revenue in the test year from nineteen sources. These sources have
15 been combined into five classifications. The largest revenue classification is electric charge
16 revenue that represents about 54 % of the total revenue in the test year. The next largest
17 revenue classification is fuel surcharge revenue that represents about 32 % of total revenue.
18 Together, these two classifications represent about 88 % of the total BIPCo test year
19 revenue. The revenue from these five classifications for the test year is as follows:

20

Electric charges	\$1,601,000	54.0 %
Fuel surcharge revenue	960,000	32.4 %
Service charges	207,000	7.0 %
Other revenue	192,708	6.5 %
Miscellaneous revenue	4,000	0.1 %
TOTAL TEST YEAR REVENUE	<u>\$2,964,853</u>	<u>100.0 %</u>

21
22 Interestingly I found that the ratios above have been approximately the same for the past
23 four years (Note: B&E completed a review of BIPCo's rates in CY 2000 similar in fashion
24 to this rate filing). Electric charges are the same at about 54% as they were in FYE 2000.
25 Other revenue is up slightly as a percentage of total revenue because of the new tower
26 rentals while the other three revenue classifications are only slightly less.

1 **Q. Could you please explain how you projected the rate year revenue level for electric**
2 **charges?**

3 A. Yes. Electric charge revenue includes customer demand charges, system charges and
4 usage charges for residential, commercial, public streets and highway, and other public
5 authorities. Base rates have not changed in thirteen years so electric charge revenue is a
6 good indicator of customer usage. To project the revenue growth for FYE 2006, it was
7 necessary to review the three years of actual revenue data prior to the test year (2001-2003),
8 the test year revenue (2004) and the estimated interim year revenue (2005). Although the
9 interim information is projected (less than a full year of actual information) I will provide
10 updated information as this docket proceeds. The following chart shows the electric charge
11 revenues from those periods and the projected rate year.
12

Date	Actual Revenue (000)	Dollar Increase (000)	Percentage Increase
5/31/01	\$1,409		
5/31/02	1,471	\$62	4.40 %
5/31/03	1,580	109	7.41 %
5/31/04	1,601	21	1.33 %
5/31/05 est.	1,635	34	2.12 %
Average			3.82 %
Rate Year	\$1,697	62	3.82 %

13
14 From a review of the above table it is evident that BIPCo has had actual electric charge
15 revenue growth each year since FY 2001 ranging from 1.33% to 7.41%. I have estimated
16 that there will be 2.1% electric charge revenue growth in FYE 2005 based upon the 2004
17 summer activity (June through September). I will update the FYE 2005 information either
18 up or down as the new information becomes available.

19
20 It appears that FYE 5/31/03 was a very good electric charge revenue year (with a great
21 summer in 2002) but that since then the electric charge revenue growth percentage has
22 declined to about two percent growth for electric charge revenue for FYE 2005. This
23 decline in the percentage growth is reasonable given the limited size of the Island and the
24 fact that available space for expansion is becoming scarce.

1 To calculate the electric charge revenue growth for the rate year, I averaged the electric
2 charge revenue growth percentages for the last four years and applied that percentage
3 increase to the estimated FYE 2005 electric charge revenue level. My calculation resulted
4 in a rate year electric charge revenue level of \$1,697,000. Although I believe that this
5 amount represents a reasonable and normal revenue growth for BIPCo's electric charge
6 revenue based upon the average growth in recent history, I am concerned that the electric
7 charge revenue percentage growth has been shrinking.

8
9 **Q. Would you please explain how you analyzed fuel revenue?**

10 A. Future fuel cost is nearly impossible to accurately project. Fortunately fuel costs are
11 treated as pass through cost to arrive at fuel revenue. Fuel costs are collected as part of the
12 monthly Fuel Adjustment Clause (FAC) revenue calculation. Therefore, rather than trying
13 to estimate fuel related revenue and fuel related costs (at the same amount) I eliminated both
14 fuel revenues and fuel costs from consideration of BIPCo's base rate calculation.
15 Therefore, I have eliminated the test year revenue (\$960,113) applicable to the FAC
16 surcharge revenue and I will also eliminate FAC related expenses (cost) when I review the
17 rate year expenses. With the exception of some minor timing issues the elimination of both
18 fuel related revenues and expenses (plus the related gross receipts tax) from the base rate
19 calculation is revenue neutral.

20
21 **Q. The third most important revenue classification is service charges. Would you
22 please explain your calculation of rate year levels for service charges?**

23 A. There are three service charge accounts; removal non payment (TY level \$550),
24 customer charge (see below) and connection charges (\$0). The removal and connection
25 charges are insignificant and show no apparent trend so I used the test year level for the rate
26 year.

27
28 The customer charge revenue is far more significant. For this reason I have prepared the
29 following schedule that provides four years of actual customer charge revenue and an
30 estimate of customer charge revenue for FY 2005. From this information I have projected
31 the rate year level of customer charge revenue.

Date	Actual Revenue (000)	Dollar Increase (000)	Percentage Increase (Decrease)
5/31/01	\$192		
5/31/02	197	\$5	2.60 %
5/31/03	204	7	3.55 %
5/31/04	207	3	1.47 %
5/31/05 est.	210	3	1.45 %
Average			2.27 %
Rate Year	\$215	5	2.27 %

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2 The previous table shows that there has been very little new customer growth on the island
3 resulting in a very modest revenue growth for this revenue source. The customer charge
4 revenue for the rate year was calculated by taking the average of the customer charge
5 revenue percentage increases for the last four years times the estimated 5/31/05 customer
6 charge revenue level to arrive at the rate year level of customer charge revenue of \$215,000.

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8 **Q. The next classification of revenue is other revenue. How have you projected these**
9 **revenues?**

10 A. Because these revenue sources are less significant I have left the other revenues (interest
11 income, lease income (including tower revenue) and billing penalty) at test year levels. I
12 found very little variation from year to year in these three accounts with the exception of
13 lease revenue which has grown during the last three years to reflect the revenue from the
14 tower (See schedule WEE-2). Since the tower revenue and other lease revenue are not
15 expected to grow in the rate year no increase was projected.

16

17 **Q. The last classification of revenue is miscellaneous revenue. How did you project**
18 **this revenue account for the rate year?**

19 A. There are a number of small revenue sources that have made up this balance over the
20 past four years. In each of the last two years the miscellaneous revenue has been slightly
21 less than \$4,000. My projected rate year miscellaneous revenue therefore is \$4,000.

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1 **Q. What is your projected Rate Year Revenue at current rates?**

2 A. I have projected \$2,109,257 as shown on Schedule WEE-2. Revenue from the FAC
3 has been eliminated from this base rate calculation but there will be FAC revenue in the rate
4 year that will be off-set by fuel related expenses.

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6 **Q. Does that include your revenue analysis?**

7 A. Yes, it does. Next, I would like to discuss my expense adjustments (Schedule WEE-3).

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1 **Expenses:**

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3 **Q. Mr. Edge, would you please explain how you calculate expense balances?**

4 A. Yes. First, I eliminated the fuel related expense accounts, those expense accounts that I
5 believe may not reoccur in the rate year, and interest related expense accounts as follows:

6

ACCOUNT #	ACCOUNT	TY BALANCE
Fuel related:		
5547.0001	Fuel	\$807,262
4500.0100	Fuel Discount	(8,497)
5547.0401	Fuel Procurement	86,104
5547.0102	Fuel Procurement-P/R	10,108
5935.0905	Urea	36,034
Non-recurring:		
5935.2111	Generator 22 Install	1,989
8505.0001	Condo fees	3,240
Interest:		
7431.0003	Interest Loan #39903	41,771
7431.0004	Interest Loan #39904	414
7431.0005	Interest Digger	484
7431.0007	RUS Loan Interest	172,675
7431.0201	Interest Other	30
	Total	\$1,151,614

7

8 Fuel, fuel procurement and urea are all Fuel Adjustment Clause (FAC) related expenses.

9 Like the FAC revenue I eliminated the fuel related expenses. When I eliminate fuel
10 revenue from the gross receipts tax calculation I will have in fact eliminated all of the FAC
11 related expenses. The minor difference in the amount of fuel revenue compared to fuel
12 related expense is due to timing differences and the return authorized through the FAC for
13 the carrying cost of fuel inventory. I have excluded fuel inventory from rate base.

14

15

16

1 Future installation costs will be addressed later in this testimony but installation for engine #
2 22 will not re-occur in the rate year. Condo fees will be eliminated by the rate year with the
3 expected sale of the two (one week each) time share condos this year. Interest expense is a
4 "below the line" item that is included in the return on rate base calculation and not as an
5 expense in the cost of service.

6
7 **Q. What expense accounts did you review next?**

8 A. The next area that I looked at was payroll. Payroll costs are allocated to various payroll
9 expense accounts based upon where the employees worked during the day. I summarized
10 the payroll accounts from the test year as shown on my Schedule WEE-4 and reconciled the
11 total charged to the payroll accounts on Schedule WEE-4 to the actual payroll by employee
12 per Schedule WEE-4a.

13
14 **Q. How did you calculate the rate year level for the payroll accounts?**

15 A. Using the test year information per employee as a base (WEE-4a) I first adjusted out
16 one employee that has retired, then I increased the remaining salaries for the full year impact
17 of the known and measurable increases given to the employees in FYE 2005 (the interim
18 year). I then increased the interim year salary levels by 5% (consistent with the FYE 2005
19 increases) for the anticipated rate year salary increases. (Note: There were two new
20 employees hired in the test year and the interim year that received a larger 9% pay increases
21 after one year of service before joining the remaining employees at 5%).

22
23 It should be noted that the BIPCo employees continue to be underpaid by Island and
24 Statewide standards but over recent years management has given reasonable increases
25 (slightly more than inflation) to bring the salary levels up. The total percentage increase
26 through the rate year for all of the employees is shown on Schedule WEE-4a. This
27 percentage was then applied to each of the summary payroll accounts on Schedule WEE-4
28 and the resulting rate year levels were posted to the summary expense Schedule WEE-3.

1 **Q. Are there any other accounts that you addressed as a group?**

2 A. Yes. I left eighteen accounts (including some zero balance accounts) at the test year
3 level for the rate year. These accounts are for the most part the minor balance accounts and
4 are shown on Schedule WEE-7 and on Schedule WEE-3. In addition, I identified some
5 accounts that showed no specific trend. In some years these accounts increased while in
6 other years they decreased. Therefore, for these accounts I projected the rate year level of
7 expenditure using a five year average (See Schedule WEE-8).

8

9 **Q. What did you review next?**

10 A. The remaining accounts had to be reviewed and evaluated on an individual basis.

11

12 **Q. In what order would you like to analyze the remaining accounts?**

13 A. It is easier for me to go in the same order as the trial balance so that I don't miss any
14 accounts. The first account in the trial balance on my Schedule WEE-3 that has not yet
15 been discussed is accounting (account #59330001). This account is used to post the costs
16 relating to three activities. I have analyzed these three activities and projected the rate year
17 level of cost for each activity as follows:

18

Activity	Test Year	Rate Year
Bookkeeping	\$18,141	\$24,500
YE audit	7,824	8,500
Payroll Cost	2,338	2,151
Total	\$28,303	\$35,151

19

20 The outsourced bookkeeping service which started in FY 2002 with the departure of one of
21 BIPCo's office employees (Hope) was increased after three years of no increase in FY 2005
22 (the interim year) from \$1,500 per month to \$2,000 per month plus the cost of postage and
23 envelopes. The year end audit is contracted at \$8,100 in FY 2005 and is expected to
24 increase by about 5% in the rate year. The payroll cost has declined in the FY 2005
25 because the number of employees is less. This reduction is expected to continue through
26 the rate year.

27

1 **Q. What account is next?**

2 A. Lease motor vehicle (account #5935.0301). This account has remained about the same
3 for the last four years and represents the lease of four vehicles to provide on island
4 transportation for meter reading, trouble shooting, repair persons for the engines, RUS
5 representatives and other power company business. In the past, employees were required to
6 use their own vehicles to pick up visitors to the island on BIPCo business, meter reading and
7 general power company business (for example on-island meetings and visits to the mainland
8 to meet with accountants, lawyers, etc.). I left the test year level for the rate year for this
9 account.

10

11 **Q. What account did you look at next?**

12 A. The management fee account (account # 5920.0211). It may be helpful if I provide
13 some brief history on how the Commission arrived at the management fee concept for
14 BIPCo.

15

16 There was much testimony in the last docket (about thirteen years ago) regarding the
17 appropriate level of compensation for the owners/managers of BIPCo. BIPCo explained in
18 its testimony that Jerry Edwards was the full time President of BIPCo. Dr. Albert Casazza
19 was the financial advisor to the former controller and is now the Treasurer and Chief
20 Financial Officer of the company (there is no longer a controller at BIPCo). Mr. Cliff
21 McGinnes was a part time Manager of Generation (now Mr. McGinnis is a full time Chief
22 Operating Officer). Dr. John Pezzimenti was and is an advisor to the President, Treasurer
23 and the Board of Directors.

24

25 The Division and the Commission were faced with trying to determine the value of the
26 services provided to BIPCo by these four highly educated individuals. The Division's
27 position was that the President's salary (the only management fee component at the time)
28 should be set at \$36,000 based upon the fact that \$36,000 was actually being paid by BIPCo
29 at that time. When asked why he didn't recommend more, the Division witness' response
30 was "because more wasn't being paid".

31

1 I believe that it was obvious (even then) that a \$36,000 salary for a full time President of a
2 \$2 million power company in 1991 was low. And this allowed nothing for the other three
3 managers. Nevertheless, the Commission pointed out in its Order that it was undisputed
4 that the test year included **only** \$36,000 for management fees. The Commission further
5 stated that “augmenting the allowance (\$36,000) to compensate other director-owners for
6 their involvement has virtually no record support; the scope and productive effect of Dr.
7 Casazza’s and Mr. McGinnes’ efforts in BIPCo’s behalf remains hazy.” The owner/
8 manager participation is addressed by the managers of BIPCo in their individual prefiled
9 testimony in this docket.

10
11 The Company requested in the last Docket a management fee of \$95,000 to cover all of the
12 managers. BIPCo presented testimony in support of its request. The Commission
13 concluded in 1991 that “\$60,000 will provide adequate compensation for these purposes”
14 (management and directors fees). It must be noted that in 1991, BIPCo also had a controller
15 (Ms. Linda Frumolt) and the PUC allowed \$32,000 per year for her compensation. Since
16 the last filing in 1991, the controller position was eliminated and Dr. Casazza assumed most
17 of the controller’s financial responsibilities and has become a hands on Treasurer for BIPCo.

18
19 **Q. Is it your testimony that the allowance approved for the management fee and**
20 **director’s fees in the last Docket was inadequate?**

21 A. Yes, however, things were significantly different back then and there were many other
22 considerations that the Commission reviewed before setting this \$60,000 allowance for the
23 rate year 1992. The Company was not financially strong, black-outs and brown-outs were
24 frequent, the generation equipment was old and not reliable, the company had very little
25 borrowing ability and everyone from the DEM to the DOJ was after the company. All of
26 these other considerations, I believe, impacted the Commission’s decision. Now for this
27 docket BIPCo will show that these issues have been addressed and corrected.

28
29 **Q. Has BIPCo increased the management fee over the past thirteen years?**

30 A. Yes, they have. The management fee was established for the rate year 1992 and all of
31 BIPCo’s costs have risen since that rate year.

1 The managers have all gained years of experience in operating an electric company. In fact
2 BIPCo is now the only Rhode Island electric company that both generates and distributes
3 power. In addition, as stated earlier, the management team has taken on the added
4 responsibilities and duties of the controller. The combination of the previous allowance for
5 the management fee (\$60,000), plus the salary of the controller (\$32,000) results in a
6 Commission approved management allowance of \$92,000 in 1992.

7
8 If we use a conservative annual increase factor of 5% per year (3% inflation and 2% merit),
9 the \$92,000 BIPCo management allowance in FYE 2006 would be \$182,154, but the
10 problem of the starting base compensation being low is not addressed in this calculation.

11 Given all of the improvements made by the managers of BIPCo that have resulted in savings
12 for the ratepayers (see the prefiled testimony of Jerry Edwards, Cliff McGinnes and Dr. Al
13 Casazza) it would appear reasonable to conclude that the management fee would be no less
14 than \$182,154. Also I believe that the fact that the base (\$60,000) was set very low (for
15 good cause) in 1991 would require a management fee substantially higher than \$182,154
16 now that BIPCo has addressed the Commission's concerns.

17
18 **Q. What was the management fee paid in FY 2004 (the test year)?**

19 A. BIPCo paid a management fee of \$192,000. No increase was approved for FYE 2005
20 pending the Commission's decision regarding an appropriate management fee in this docket.
21 BIPCo is hopeful that the Commission will recognize the contributions made by the
22 managers of the Company and approve the management fee as filed.

23
24 **Q. Do you believe that \$192,000 is an adequate allowance for the management fee?**

25 A. Yes, I believe that it is now reasonable but should be increased annually to remain
26 reasonable. BIPCo has provided the testimony of three of the managers of the Company
27 (President, Treasurer and Chief Operations Officer) so that the Commission can get a better
28 understanding of the management effort and results that have been obtained for the
29 ratepayers.

1 **Q. What management fee have you included for the rate year?**

2 A. I calculated the rate year management fee as $\$192,000 * 1.05 * 1.05 = \$212,000$ (Five
3 percent was the percentage allowed for BIPCo's employees by the Board).

4

5 **Q. Mr. Edge, did you review the management salaries of other utilities regulated by
6 the Commission?**

7 A. Yes, in the year 2000 I completed a limited review of salary levels of other utilities
8 regulated by the PUC at BIPCo's request. I found that in general the salaries paid officers
9 of other utilities were much higher than what I have proposed for BIPCo.

10 Although I expect that these salaries have gone up in the past four years it is apparent that
11 even in the year 2000 a \$192,000 management fee for BIPCo was not excessive. For
12 example, in 1999 Providence Energy Corp's President made over \$400,000, the Executive
13 VP made about \$250,000, the Senior VP Providence Gas made over \$200,000 and the VP,
14 Business Development made \$186,000. They also have a VP, Public and Government
15 Affairs who made \$176,000. This is a total of \$1,212,000 in management fees.

16

17 Valley Resources Inc. of RI paid its management in 1999 \$235,204 for the President,
18 \$136,496 for the resigned CFO, \$102,900 for the current CFO and Treasurer, \$123,454 for
19 the VP, Operations, \$115,763 for the VP, Information Systems, and \$107,809 for the VP of
20 Marketing for a total of \$826,626.

21

22 Unfortunately, I was unable to get the salaries of the electric company management teams
23 because they are too well hidden. For example, at the time Narragansett Electric's
24 management team was paid by a subsidiary of New England Power (NEP), namely New
25 England Power Service Corporation. The Service Corporation did not file an annual report
26 with the DPUC. I was however able to obtain the 1999 salaries for the Northeast Utilities
27 System officers. The President and CEO made \$2,035,473, the President of Generation
28 made \$500,000, the CFO made \$829,904, the President of the Retail Business Group made
29 \$520,000 and the Secretary and General Counsel made \$494,712 (total \$4,380,089). I
30 realized that Northeast Utilities Systems is a much larger company than BIPCo but BIPCo
31 has a CEO, a COO, and a CFO, all of which should be properly compensated.

32

1 **Q. Did you find any approved salaries paid to part time management teams?**

2 A. Yes. In 1999 the Commission approved a management fee of \$144,000 for three part
3 time owner/managers (\$28,000 each) and a part time owner/general manager (\$60,000) to
4 manage a very small utility that operates only during the summer. This compensation did
5 not include a full time President nor did it require any year round participation. Given the
6 full time commitment and year round requirement and the passage of five more years, I
7 believe that my proposed management fee is very reasonable.

8
9 **Q. Is there any one item that goes the furthest to justify the management fee?**

10 A. Yes, the communications tower. BIPCo's management did not have to erect the tower
11 and deal with the problems in getting it permitted, constructed and leased but they did. As a
12 result of management's efforts, the rate payers are getting about \$140,000 per year revenue
13 at no cost to the ratepayers.

14
15 **Q. What would you like to discuss next?**

16 A. The outside service account (account #5923.0001) is the next account. The balance of
17 this account in the test year (FYE 2004) is much less than it was a few years ago when
18 BIPCo was fighting on many fronts but \$18,000 higher than the previous year. I believe
19 that using an average expenditure level for this account is not meaningful. Therefore, I
20 have prepared the following table to show the detail charges to this account and my estimate
21 of the rate year levels for these same areas.

VENDOR	DESCRIPTION	TEST YEAR AMOUNT	RATE YEAR AMOUNT
McElroy:	PUC/DPU Dockets	\$1,935	\$8,000
	Environmental	1,348	8,000
	General Legal	20,556	24,000
Taubman	Corporate General Counsel	2,453	2,500
B&E:	Tax Services	3,418	3,500
	Audit Prep Fee	15,784	15,000
	Accounting/ Regulatory	16,362	15,000
	RUS Filing Requirements	6,400	5,000
	PUC Annual Report	2,000	2,000
Other Legal	Various	1,151	0
Trion Comm.	Lobbying	11,925	0
Engineering		2,253	2,000
Total		\$85,586	\$85,000

1 I set the general legal costs to reflect a more normal annual level. I increased the legal cost
2 for the PUC/DPU docket and environmental as both of these areas continue to have activity
3 and both are expected to have greater activity in the rate year. Other legal costs that were
4 incurred in the test year were eliminated.

5
6 Tax services (preparing the Federal tax return) and audit prep fee cost are about the same
7 each year. General accounting/administrative/regulatory was a bit high in the test year so I
8 reduced it to more normal levels. RUS financing costs will continue because there is the
9 cost of preparing the calendar year annual filing report. The standard cost for the PUC
10 annual report is \$2,000.

11
12 **Q. Please continue.**

13 A. Although one of the three pension accounts was left at the test year level for the rate
14 year, the next group of accounts that I would like to review are the pension accounts:
15 employee pension (account # 5923.0201), employee pension - new (account # 5923.0301)
16 and profit sharing expense (account # 5927.0001). The first employee pension account was
17 established years ago to record payments made directly to a retired employee (he was the
18 general manager) who retired prior to the current owners buying the company. The
19 Commission has approved this pension amount (\$12,000) in all previous filings.

20
21 The second pension account (with the word new) was initially established to record pension
22 payments for a then recent retiree who had been with BIPCo 41 years and developed a
23 hearing problem. Although he didn't want to retire he agreed to retirement for a pension of
24 \$1,000 per month and he waived any lost hearing claim against the Company. BIPCo
25 considered that to avoid liability for this employee and in light of his years of dedicated
26 service, it was appropriate to establish a retirement plan for the Company that provided
27 \$1,000 per month for any employee who retired with over ninety five years of combined age
28 and years of service.

29
30 At that time only that employee qualified. Since then another employee has retired and
31 qualified for the \$1,000 per month retirement payment. Therefore, for the rate year I have
32 included \$24,000 for the employee pension – new account to address these two retirees.

1 Mr. Wagner, general manager of BIPCo is retiring next year and he has requested a \$1,000
2 per month pension allowance for his 36 years of service. He believes that he will require
3 this amount only until he is 65 years old. BIPCo has agreed to this pension allowance
4 request because it is consistent with the allowance provided for the previous general
5 manager. I have therefore made a \$12,000 rate year adjustment to the employee pension –
6 new account.

7
8 The last pension account is profit sharing. BIPCo has a profit sharing plan that allows the
9 owners of the Company to decide annually if there will be a contribution to the employee
10 profit sharing plan. For the last five years BIPCo has provided 3% of total annual salary
11 amount to the profit sharing plan. For the rate year I calculated the profit contribution at
12 3% of the rate year payroll plus the plan management fee (See Schedule WEE-10).

13
14 BIPCo would like this contribution to be a pension benefit (not profit sharing) and a
15 permanent part of the cost of service. If the Commission approves the rate year amount,
16 BIPCo intends to change the profit sharing plan to an employee/company contribution 401K
17 plan with the company contribution at 3%. It is hoped that this change will eliminate the
18 need for separate pension allowances in the future.

19
20 **Q. How did you calculate the rate year amount for the General Liability Insurance**
21 **account # 5924.0301?**

22 A. I prepared Schedule WEE-11 which shows the test year, interim and rate year
23 calculations of general insurance expense. These calculations result in an adjustment of
24 \$18,310 for the rate year.

25
26 **Q. What is the next account that must be reviewed?**

27 A. Employee benefits (account # 5926.0001) has been evaluated and projected for the rate
28 year on my Schedules WEE-5, 5a, and 5b.

1 **Q. How have you calculated regulatory commission (account # 5928.0001) and rate**
2 **case expense?**

3 A. Regulatory Commission expense is paid yearly to the PUC based upon an assessment of
4 the PUC cost to all utilities. The test year amount of regulatory commission expense was
5 \$7,215. BIPCo expects that this charge will be about the same as the test year level for the
6 rate year. Rate case expense was estimated for this Docket as follows:

7

➤ Test Year, Rate Year, Rate Base, Rate of Return and Rate Design Testimony and Assist others	\$ 65,000
➤ Legal	50,000
➤ Division	50,000
➤ Commission	15,000
	<hr/>
	Total <u>\$180,000</u>

8
9 The total rate case expense of \$180,000 was amortized over three years (\$60,000). It
10 should be noted that \$180,000 is only \$30,000 more than the amount approved by the PUC
11 in the last docket about thirteen years ago. BIPCo is willing to update these estimates near
12 the end of the hearings so that the Commission can use actual costs rather than the above
13 estimates.

14
15 **Q. How much did BIPCo receive as an annual rate case expense reimbursement in the**
16 **last Docket?**

17 A. The rate case expense that was allowed in the last docket (in 1991) was \$150,000
18 (\$50,000 per year over three years). This balance has been fully amortized and collected
19 from the ratepayers. No additional allowance is required for past rate case expense. It
20 should be noted however, that BIPCo has incurred significant regulatory expense over the
21 past thirteen years relating to cable project filings, the RUS financing filing, environmental
22 surcharge filings and fuel adjustment filings. All of these regulatory costs were charged to
23 current operations as incurred and not deferred.

1 **Q. The next account is the environmental expense account # 5935.0901. How did you**
2 **project this account for the rate year?**

3 A. This account has decreased significantly from its high in FY2000 of more than \$70,000
4 to the test year level of about \$31,000 per year. Mr. Wagner has projected that the
5 environmental account should be as follows in the rate year.

6

DESCRIPTION	AMOUNT
Environmental Engineering	\$18,000
Treatment System Operations and Maintenance	6,500
Tank Registration Fees	650
State Fees (Air Operating Permit)	6,667
Emission Tests	11,000
Total	\$ 42,817

7

8 I have used \$40,000 as a conservative level of environmental expenditure in the rate year.

9

10 **Q. It appears that the next account is Clean Air Compliance (account #5935.0902).**
11 **You have calculated this account at a five year average for the rate year level. Do you**
12 **have any additional comments?**

13 A. Yes. This account has had a decreasing trend over the past seven years (In 1997 this
14 account had a balance of \$111,924 and the test year 2004 it was \$43,126). During the last
15 five years the account ranged from a high of \$55,515 to a low of \$14,433. A five year
16 average resulted in a balance of \$40,091 which is approximately the same as the test year
17 \$43,126.

18

19 **Q. The next account is SCR maintenance (account #5935.2101); would you explain**
20 **how you estimated SCR maintenance in the rate year?**

21 A. Certainly. The test year balance of this account reflects the general maintenance of the
22 SCR equipment and the cost of a new set of catalyst as follows:

General Maintenance	\$17,141
New Catalyst	83,130
	\$100,271

23

1 BIPCo has had significant difficulty with the useful life of the catalyst for the SCR
2 equipment. Originally BIPCo was assured that the catalyst would last five years. The first
3 set of catalysts did not last a year. BIPCo was forced to purchase a second set of catalysts
4 for \$83,130 that was expected to have an improved useful life. It appears at this time that
5 the assurances were false.

6
7 BIPCo is beginning to lose faith in its current SCR equipment and does not believe that it is
8 appropriate to spend \$80,000 per year for catalysts. Therefore, BIPCo has negotiated with
9 Southworth Machinery to have new CAT SCR equipment tested on one of BIPCo's CAT
10 engines next summer at no cost to BIPCo (other than installation cost). See the testimony
11 of Mr. McGinnes. Unfortunately BIPCo expects that it will need to purchase catalysts for
12 its other engines in the rate year. The cost is expected to be 75% of the test year cost (about
13 \$62,000). The installation cost for the test SCR is expected to be about \$20,000, therefore
14 the total cost of catalysts in the rate year is estimated to be \$82,000. When you add the
15 cost of general maintenance of \$17,000 the total cost is \$99,000 or about the test year level.
16 I made no rate year adjustment.

17
18 **Q. Would you explain your adjustments to the rate year engine maintenance**
19 **accounts?**

20 A. Yes. First I eliminated the engine maintenance in the test year for each engine. I then
21 discussed the general maintenance with Mr. Wagner who estimated the normal level of
22 general engine maintenance for the rate year and posted it to the general engine maintenance
23 account.

24
25 At Mr. Wagner's request, I used the average general maintenance on all engines of \$40,000
26 per year (\$10,000 per engine per year) which reflects the general maintenance requirements
27 such as oil changes, lubrication, etc. I then added the more intense maintenance of a "top
28 end" and a "major overhauls". These "top" and "major" overhauls are required at different
29 times based on the number of hours on the engine. I requested that Mr. Wagner provide me
30 with a list of the engines that would need maintenance in the rate year and at what level.

1 **Q. How did you calculate the cost of “top” and “major” maintenance?**

2 A. I found that BIPCo will need to a top end on engine # 23 (\$50,000) and a major on
3 engine # 24 (\$100,000). A top end is required every year for a base load primary engine
4 (8,000 hours) and a major overhaul is done on a base load primary engine every other year
5 (16,000 hours). Top and major maintenance is done on the other non primary base load
6 engines less frequently (8,000 hours takes longer than one year for the other than base load
7 primary engines) but every year one of the engines will need this maintenance along with
8 the primary engine. I included \$150,000 in the cost of service for this maintenance.

9
10 **Q. How did you project property tax for the rate year (account #6408.0401)?**

11 A. This account had been rising steadily for years due to property tax increases, the
12 addition of new engines and the SCR equipment and the new sub-station. However in CY
13 2004 the Town of New Shoreham completed a revaluation and BIPCo’s property bill
14 decreased. I determined that the property tax rate for New Shoreham decreased from
15 \$12.90/thousand to \$3.77/thousand. This resulted in a reduction of the property tax amount
16 for BIPCo from \$42,330 in the test year to \$18,443 in the interim year, FY 2005. Using the
17 average increase percentage from prior years, I calculated that the property tax in the rate
18 year would be \$20,103. The adjustment is a reduction from the test year of \$22,227.

19
20 **Q. How did you calculate gross earnings tax (account #6408.0601)?**

21 A. Account gross earnings tax (GRT) is calculated by multiplying gross revenues subject to
22 the gross earnings tax by 4%. Since the FAC already has a provision for GRT, I was able to
23 simply multiply the base revenue (excluding fuel revenue) in the rate year times 4%. The
24 calculation is as follows:

Gross RY Revenue per WEE-2	\$ 2,109,257
Times Gross Receipts Rate	X 0.04
	<hr/>
Gross receipts tax	\$84,370
Test year balance	\$118,843
Adjustment	\$34,473

26

1 **Q. It appears that the next account that must be reviewed is depreciation expense**
2 **(account # 7403.0001). How did you calculate the rate year level for this account?**

3 A. B&E maintains BIPCo's depreciation records on its computer. B&E simply added the
4 new assets projected for FY 2005 and FY 2006 and rolled the depreciation schedules
5 forward to the rate year. See Schedule WEE-9 for the summary list of asset groups and the
6 test year and rate year depreciation.

7
8 While doing this testimony it became obvious that BIPCo has a very difficult cash flow
9 mismatch between substation depreciation (ratepayer contribution) and principal payments
10 to RUS (company disbursements). BIPCo is currently paying principal payments on the
11 substation at about \$60,000 per year (20 year debt) while the depreciation (40 year life) is
12 only about \$30,000 per year. Given BIPCo's limited size and its constant cash flow
13 problems this drain on cash flow is difficult for BIPCo to handle. I have made a \$30,000
14 adjustment to depreciation on Schedule WEE-3 and will change the useful life of this asset if
15 this adjustment is approved.

16
17 **Q. What is the credit balance for Amortization of Federal Income Tax Prepaid?**

18 A. This account (# 7431.06010 is the amortization of the taxes paid as the add-on to
19 Contribution in Aid (CIA). BIPCo returns the taxes paid to the ratepayers as BIPCo is
20 allowed to recover the depreciation of the assets on its federal income tax return. This
21 balance has been about \$24,000 for the last four years before the test year when the balance
22 was \$13,859. I have prepared a Schedule WEE-13 that projects this account through the
23 rate year and adjusted the rate year balance to reflect the actual level for the rate year. (See
24 the rate base section of this testimony for greater detail regarding this issue).

25
26 **Q. How did you calculate the federal income tax (account #7431.0901) and the net**
27 **change in deferred federal income tax (account #7431.0903) for the rate year?**

28 A. The federal income tax calculation is determined after the calculation of the return on
29 equity which is a part of the calculation of the return on rate base. I prepared Schedule
30 WEE-18 to show the calculation. The change in deferred federal income tax is calculated
31 as part of the deferred tax calculation. I have prepared Schedule WEE-13 that shows the
32 calculation of the rate year amount.

1 **Q. There remains only two accounts both labeled dividends. I see that you have left**
2 **them at zero the test year amounts. Do you have any additional comments relating to**
3 **dividends?**

4 A. Yes I do. The first dividend account was established to account for the payment of
5 preferred stock dividends that were authorized by the PUC. Preferred stock dividends
6 ended in 2002. However, BIPCo declared and paid a \$20,000 common stock dividend (the
7 first and only common stock dividend from earnings in Company history).

8
9 The second dividend account was established in 2002 to record the distribution of a dividend
10 paid which was the result of the company selling an engine that was not fully depreciated for
11 about \$90,000. There was a minor gain on the sale of this asset but about \$90,000 of the
12 engine value was un-depreciated. In other words the proceeds from the sale belonged to the
13 stockholders because the ratepayers had not paid for the asset through depreciation. The
14 stockholders chose to distribute about one half of the proceeds and leave the remainder in
15 the company.

16
17 In 2002 the company sold another engine that was not fully depreciated and once again there
18 was a minor gain on the sale of the asset but once again the engine was not fully depreciated
19 and therefore the proceeds were the property of the stockholders. BIPCo's stockholders
20 distributed \$90,000 of the engine sale proceeds. Both of these distributions of engine sale
21 proceeds were treated as dividends but they were actually distributions of owner capital, not
22 distributions of corporate operating profit. The \$20,000 dividend paid in 2001 remains the
23 only common stock dividend relating to corporate earnings ever paid by the Company.

24
25 **Q. Mr. Edge I have just reviewed your expense analysis schedule and I note that we**
26 **missed one account. Would you explain how you projected the overhead line**
27 **subcontractor account # 5583.0003 for the rate year?**

28 A. Yes. This is a new account that was opened to account for overhead line subcontractor
29 labor that is now required with the retirement of one of BIPCo's key employees. Earlier in
30 this testimony I removed the cost of the retired employee from the rate year calculation for
31 payroll. I determined that the starting pay for a lineman is about \$61,000 per year plus
32 benefits for an annual cost of about \$75,200.

1 Unfortunately there are no qualified overhead linemen on the Island. Therefore BIPCo
2 would have to pay significantly more than \$75,000 to get a new lineman to come to the
3 Island plus BIPCo would have to either pay travel and lodging or provide long term lodging
4 on the Island. BIPCo believes that it will be better off in the future to provide overhead line
5 services with outside labor. I have prepared schedule WEE-14 that shows my calculation
6 (\$124,800) of overhead line subcontractor services for the rate year. See Mr. Wagner's
7 testimony for further explanation.

8
9 **Q. Does that conclude your expense analysis testimony?**

10 A. Yes.

1 **RATE BASE**

2
3 **Q. What are the components of rate base?**

4 A. The rate base components approved by the Commission in the last docket were as
5 follows:

ACCOUNT	AMOUNT
Net Utility Plant	\$1,931,488
Working Capital	100,279
Inventory	101,815
Inventory – Fuel	97,323
Prepaid Expenses	27,584
Contribution in Aid	(818,756)
Deferred Taxes	(60,998)
Total Rate Base	\$1,378,735

6
7 **Q. What was the net utility plant at the end of the test year?**

8 A. Per the May 31, 2004 audited trial balance the net utility plant (net of depreciation) is
9 \$4,054,533.

10
11 **Q. What adjustments have you made to arrive at the average net utility plant for the
12 rate year?**

13 A. The adjustments are as follows:

Balance at May 31, 2004	\$4,257,689
FYE 2005 Purchases:	
Engine # 25	609,411
Other Capital Expenditures	49,000
Less Depreciation FYE 2005	(238,787)
Balance at May 31, 2005	4,677,313
FYE May 31, 2006 Purchases:	
Distribution Improvements	315,000
Other Capital Expenditures	45,000
Less Depreciation FYE 2006	(304,040)
Balance at May 31, 2006	\$ 4,733,273

1 The average of the net utility plant in rate base would be the total at May 31, 2005 and May
2 31, 2006 divided by 2 calculated as follows:

Balance at May 31, 2005	\$ 4,677,313
Balance at May 31, 2006	4,733,273
Total	\$ 9,410,586
Divided by 2	\$ 4,705,293

4
5 **Q. Please provide a description of the capital additions (purchases) listed in the above**
6 **net utility plant calculation table for the FYE May 31, 2005 and FYE May 31, 2006.**

7 A. The first item of the FYE 2005 additions for \$609,411 is the purchase of a new CAT
8 engine needed to provide adequate production to satisfy BIPCo's peak summer demand (See
9 Mike Wagner's testimony for greater detail). The next item for \$49,000 represents two
10 capital purchases. The first is the installation of three electric exhaust fans (\$25,000) to
11 reduce the heat build-up in the engine buildings. The second item is for wrapping of three
12 engines (#22, #23, and #25) at a cost of \$8,000 per engine (\$24,000).

13
14 The FYE 2006 additions are \$315,000 for six 4.16kV voltage regulators at a cost of \$53,000,
15 the cost of double circuiting 13 sections of distribution lines to improve the balance of
16 demand on the systems circuits at a cost of about \$237,000 and the cost of engineering and
17 preparation (\$25,000) to implement the Long Term Plan for system improvements either
18 Alternative A or Alternative B of the HDR/SSR Engineering Long Range Distribution
19 Planning Report. The Other Capital additions for 2006 in the amount of \$45,000 are 1) a
20 new roof for building 2 (\$20,000); 2) a new bathroom for building two and tie into the sewer
21 system (\$10,000) and 3) an upgrade of the BIPCo computer system (\$15,000). The
22 computer upgrade will include two new computers, a server, fire wall, and necessary
23 software.

24
25 **Q. Mr. Edge, who would be able to address additional questions relating to the other**
26 **capital expenditures in FYE 2005 and 2006?**

27 A. Mr. Wagner could answer any questions.

1 **Q. How did you calculate working capital?**

2 A. This was a well contested issue in the last docket. The Company proposed the
3 continuation of the "45 day" rule for working capital. The Division, using a review of the
4 balance sheet, and specifically the account receivable and account payable balances,
5 recommended no working capital. The Commission opined that the Company needed a
6 working capital allowance and continued the use of the "45 day" rule. The Commission
7 approved a working capital allowance of \$100,279.

8

9 **Q. Are you recommending the continuation of the "45 day" rule?**

10 A. No, this method has fallen out of favor with regulators. My associate has prepared a
11 lead/lag study, see Schedule DGB-6. He has calculated a working capital requirement of
12 \$190,197.

13

14 **Q. The next item is inventory. How did you calculate the inventory allowance?**

15 A. Due to the minor value of inventory and the fact that it doesn't change much, I simply
16 used the test year-end plant material and operation supplies inventory balance of \$45,525 for
17 the rate year.

18

19 **Q. What did you do for fuel inventory, how did you calculate fuel inventory in the
20 rate base?**

21 A. As stated above, the Commission allows BIPCo to recover the carrying cost of fuel
22 inventory in the FAC. I therefore don't believe that fuel inventory should be included in
23 rate base. Therefore, I have excluded fuel inventory from the rate base calculation and the
24 working capital calculation.

25

26 **Q. Have you included any prepaid expenses in rate base?**

27 A. Yes. Once again, I used the test year-end balance of \$29,643 in rate base. It should be
28 noted that the balance of the prepaid expenses is about \$29,000 each year.

29

30

31

32

1 **Q. How did you calculate the contributions in aid (CIA) for the rate base?**

2 A. The CIA has been recorded on BIPCo's books as a negative asset (See WEE-9). This
3 negative asset has already been used to reduce the utility plant amount shown above.
4 Hence, it is unnecessary to deduct contributions in aid again. The negative asset is
5 amortized over the same useful life as the asset purchased with the CIA funds. Therefore,
6 the depreciation expense charged to the ratepayers has likewise been reduced to reflect the
7 negative depreciation of the negative asset. This results in no P&L impact.

8

9 **Q. How did you calculate deferred federal income taxes?**

10 A. I prepared Schedule WEE-13 that provides the calculation of the average deferred
11 federal income tax for the rate year.

12

13 **Q. Are there any other rate base items?**

14 A. Yes. BIPCo has deferred credits that must be addressed in the rate base. These
15 deferred credits are also addressed on Schedule WEE-13. The rate year average deferred
16 credit calculation was posted to the rate base.

17

18 **Q. Does that conclude your rate base testimony?**

19 A. Yes.

20

21

22

23

24

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32

1 **RATE OF RETURN**

2
3 **Q. What rate of return on rate base have you calculated for the rate year?**

4 A. I calculated the "weighted" cost of debt and equity of 6.57% (See my Schedule WEE-
5 17). This weighted cost of debt and equity was applied to my rate base amount of
6 \$4,604,693 to get a return on rate base of \$ 302,438 (Schedule WEE-15). This return on
7 rate base was then added to the rate year expenses to arrive at the rate year cost of service
8 (See Schedule WEE-1).

9
10 **Q. How did you obtain the cost of debt in your calculation of weighted debt and
11 equity?**

12 A. I was able to use actual fixed interest rates for the cost of debt for the Washington Trust
13 debt and the individual draw downs of the RUS financing. I had to estimate at 6% the cost
14 of additional RUS financing for a new Engine 25 (\$609,411) and \$315,000 of distribution
15 improvements (Schedule WEE-17).

16
17 **Q. How did you calculate the cost of equity?**

18 A. BIPCo considered hiring a cost of capital witness (which would have increased the rate
19 case expense and would have been more expensive for the ratepayers) but realized that the
20 impact of a one half of one percent change in the return on equity given the current capital
21 structure was only about \$1,500. B&E determined that recent returns on equity for Rhode
22 Island regulated utilities have ranged from 10.5% to 11% (and BIPCo is currently at 11.7%).
23 Given the fact that the range of authorized returns allowed to utilities in Rhode Island is so
24 tight, this issue was considered to be insignificant in the overall rate calculation. BIPCo
25 hopes to retain its 11.7% return.

26
27 **Q. Why does BIPCo believe that it should retain its return on equity at 11.7%?**

28 A. In 1991 the return recommended for BIPCo by the Division was 12.7% (the return
29 approved at that time for Narragansett Electric who recently received a rate of 11.0%). The
30 Commission used the Division's recommendation of a 12.7% return on equity less 1% for
31 perceived weaknesses identified in the management of the Company that have now been
32 corrected.

1 I would hope that the Division would recommend no less than 11.7% for BIPCo's ROE,
2 given that BIPCo is much smaller company and a far riskier investment than Narragansett
3 Electric.

4
5 **Q. How did you calculate the average common equity balance for the rate year?**

6 A. First, I used the actual common stock balance of \$178,515 (Common stock \$200,000 –
7 Treasury Stock \$21,485) that will not change through the rate year. I then calculated the
8 average retained earnings balance for the test year using a "13 month" average. I then
9 added the estimated return for the interim year (5/31/2005) and the estimated return for the
10 rate year (5/31/2006). The average rate year common equity is \$863,535 (\$191,515 +
11 \$672,020) (Schedule WEE-17).

12
13 **Q. Does that conclude your rate of return testimony?**

14 A. Yes.

1 **RATE DESIGN**

2
3 **Q. Mr. Edge what rate design issues are appropriate for this case?**

4 A. BIPCo believes that the Island has changed during the past thirteen years and that the
5 travel to the Island has expanded so that May and October (the so-called shoulder months)
6 are much busier than they had been. We completed a limited review of the commercial and
7 large commercial customers and found that their usage in May and October was actually
8 much more like their summer usage than their winter usage. For example we found the
9 following consumption percentages for customers A-F:

10

Months	A	B	C	D	E	F
June	17%	11%	13%	12%	15%	11%
July	23%	24%	15%	14%	21%	33%
August	27%	19%	15%	15%	23%	37%
September	16%	1%	10%	10%	12%	6%
October	8%	1%	10%	9%	6%	3%
November	0%	1%	5%	10%	2%	1%
December	0%	1%	1%	4%	2%	1%
January	0%	0%	0%	2%	3%	1%
February	0%	0%	0%	2%	2%	1%
March	0%	1%	5%	6%	2%	1%
April	0%	27%	11%	7%	3%	1%
May	9%	14%	15%	8%	10%	5%

11
12 Clearly some customers open their business for the summer a little early (April) while others
13 close their business for the summer a little late (November), but on average October and
14 May are more like the summer months (June, July August, and September) than they are like
15 the winter months (November-April). It is for this reason BIPCo is requesting a rate design
16 change in this filing. BIPCo wishes to charge the seasonal rates that are currently charged
17 June through September in the months of May and September. My associate Dave Bebyn
18 has made the calculations to reflect this change in his prefiled testimony.

19
20 **Q. What is the impact of this rate design change?**

21 A. A significant amount of the rate increase (about \$200,000) can be collected from the
22 rate design change reducing the percentage across the board increase required on all tariff
23 rates.

1 **Q. Are there any problems with implementing the shoulder month change in this rate**
2 **filing?**

3 A. Yes there is at least one fairly significant problem. Since this filing will not be filed
4 until mid December, the seven month suspension period will bring the rate relief beyond
5 May 1st 2005. BIPCo may not receive full rate relief until July 2005 and in that case would
6 lose a large portion of the rate increase (over \$110,000 for May 2005) in the calendar year
7 2005. Of course, BIPCo will get the May shoulder month increase in 2006 (within the rate
8 year) but it will be too late to address a problem that will arise with the Rural Utilities
9 Services (RUS).

10
11 **Q. What is the problem?**

12 A. RUS requires BIPCo to file an annual report for the calendar year ending each
13 December. BIPCo had a fairly large loss in FYE 2004 and I expect that BIPCo will not
14 make the covenants of the RUS loan this year (CYE December 31, 2004). Failure to make
15 the required ratios results in RUS demanding an action plan to address the problem. The
16 action plan for this year will be to notify RUS that we have filed for a rate increase that
17 when fully implemented will eliminate the issue. However, without the \$110,000 increase
18 in May 2005 it is obvious to me that BIPCo will once again fall short when the December
19 2005 annual report is filed.

20
21 **Q. What could the Commission do to help BIPCo address this problem?**

22 A. One option would be for the Commission to approve interim rate relief for part of the
23 rate increase (\$110,000) if the parties agree that at least the needed amount to meet RUS
24 loan covenants (about \$110,000 of the \$400,000 plus requested rate relief) will eventually be
25 approved. BIPCo would agree that should there be a shortfall and at least \$110,000 is not
26 approved, then BIPCo would refund the difference to the ratepayers.

27
28 A second option would be to compress the schedule and work toward approving rate relief
29 for May 1st 2005. This would reduce the time for the rate relief review and BIPCo would
30 do everything in its power to facilitate the process. Unfortunately, BIPCo did not have the
31 information, resources or manpower to get this docket filed by October 1st 2004 which
32 would have been required to assure rate relief by May 1st 2005.

1 **Q. Will BIPCo have a loss for May 31st 2005 if the interim rate relief is not allowed?**

2 A. Yes. Even with the interim rate relief I believe that it is likely that BIPCo will suffer a
3 loss for FYE May 1st 2005.

4
5 **Q. Why didn't BIPCo request emergency relief given that the FYE 2005 loss is
6 irreversible and will adversely impact the financial position of the Company?**

7 A. BIPCo believes that the tough legal standard for granting emergency relief is very
8 difficult to meet and did not want to spend ratepayer money and Division and Commission
9 time addressing emergency filling issues.

10
11 **Q. Is there a third option?**

12 A. Yes. BIPCo would be prepared to suffer the consequences of not getting the full
13 interim rate relief by May 1st if BIPCo is allowed interim relief in the form of only the
14 shoulder month rate design change for May 2005 and then the full rate increase in July or
15 August 1st 2005 (but the sooner the better).

16
17 **Q. Mr. Edge, you just made two statements that require further explanation. The
18 first is that your third option requests "only" the rate design change for May 1, 2005
19 and the second is the implementation date. Please explain in more detail your third
20 option.**

21 A. BIPCo would not be requesting the implementation of the full across the board rate
22 increase for May 1st 2005 but rather that BIPCo be allowed to charge the current seasonal
23 rates as of May 1st of 2005 which will generate about \$110,000. The rates would stay at
24 current rates and BIPCo would implement the full rate increase July or August of 2005 when
25 the Commission completes its review.

26
27 **Q. Would the additional monies generated in May 2005 for the third option address
28 any other problems?**

29 A. Yes. In addition to offsetting some of the expected loss for FYE 2005 BIPCo could use
30 the \$110,000 to off-set a significant cash flow problem expected in early 2006.

1 **Q. Why are you expecting a significant cash flow problem in 2006?**

2 A. BIPCo and its vendors suffered through a very bad late winter and spring in 2005 when
3 accounts payable exceeded \$400,000 and certain vendors did not get paid for six months.
4 BIPCo drew down \$50,000 of its line of credit for the first time in a dozen years. Although
5 customers were patient in the beginning they were much less patient when the summer came
6 and everyone expected to be paid first.

7

8 BIPCo is not only a seasonal company but in order to produce electricity BIPCo must buy
9 fuel. Having to buy fuel in advance of using it and then waiting to bill the customer at the
10 end of the month and then waiting a couple of weeks before seeing any measurable amount
11 of collection on the billing only exacerbates the cash flow problem. Add to this the fact that
12 the State of Rhode Island wants 100% of the estimated gross receipts tax by June (long
13 before BIPCo recovers the revenue from the ratepayers) and the fact that BIPCo has to pay
14 fuel excise taxes to the State only to have them refunded months later means that BIPCo has
15 a significant cash flow problem. The extra \$110,000 in May 2005 from the accelerated rate
16 design change would be very helpful.

17

18 **Q. Haven't you requested a working capital allowance to cover these cash shortfalls in**
19 **this filing?**

20 A. Yes we have requested a working capital allowance in rate base but it does not provide
21 cash for these cash flow shortages, it simply provides a return on the monies that are
22 required to meet these cash shortfalls. BIPCo would be happy to forgo the working capital
23 allowance in this filing in exchange for the accelerated interim relief as requested.

24

25 **Q. Mr. Edge before leaving this issue, would you please explain in more detail why**
26 **you think that making the RUS loan covenants for calendar 2005 is so important?**

27 A. Yes. Besides the fact that BIPCo will not make the covenants in calendar 2004 and not
28 making them two years in a row would be difficult to explain to RUS, BIPCo needs to
29 remain a good borrower of RUS in order to borrow the money BIPCo needs to purchase the
30 new CAT engine and to make the improvements needed to the distribution system. BIPCo
31 could finance the engines and possibly the distribution system improvements with other
32 financing but at much higher rates. RUS financing saves money for the ratepayers.

1 **Q. Mr. Edge, are there any other rate design issues that you would like to address at**
2 **this time?**

3 A. Yes. The Town has filed a complaint with the Division to have BIPCo address two
4 areas of concern. The first is a Demand Side Management Study/Program and the second is
5 an Integrated Resources Plan. We believe that both of these studies would be in addition to
6 the recommendations in BIPCo's recent Draft Long Range Distribution System Planning
7 Report and will require additional funds to have experts prepare these studies. In addition,
8 a Demand Side Management program will require money to fund the activities identified in
9 the study. I estimate that the Demand Side Management Study will cost about \$15,000
10 while the Integrated Resources Plan Study will cost between \$80,000 and \$100,000. We
11 expect that the Town will intervene in this case and provide more supplementary testimony
12 for these projects.

13
14 **Q. How would you suggest the funds be generated for these projects?**

15 A. In the past the PUC has allowed BIPCo a separate surcharge for activities such as these.
16 I believe a surcharge that generates about \$50,000 per year for the next five years should
17 cover these activities. Further BIPCo would be agreeable to maintaining these funds in a
18 separate restricted account to be used exclusively for these two projects.

19
20 **Q. How would you recommend the calculation of the surcharge be completed?**

21 A. Simply by dividing the \$50,000 amount required by the rate year estimated annual
22 KWH (11,148,754) would result in a surcharge of \$0.0045 per KWH. This would result in
23 about a \$27.00 additional fee per year for the average residential ratepayer. This surcharge
24 could be reviewed annually and adjusted if necessary.

25
26 **Q. Does that conclude your testimony?**

27 A. Yes.

**COST OF SERVICE SUMMARY
BLOCK ISLAND POWER COMPANY**

Schedule WEE-1

	ADJUSTED TEST YEAR	ADJUSTMENTS	CURRENT RATES RATE YEAR	REVENUE REQUIREMENT	NEW RATES RATE YEAR
TOTAL REVENUE -- WEERY-2	\$ 2,964,853	\$ (855,596)	\$ 2,109,257	\$ 463,171	2,572,428
TOTAL EXPENSES -- WEERY-3	3,080,056	(827,795)	2,252,261	17,729	2,269,990
NET OPERATING INCOME	\$ (115,203)	\$ (27,801)	\$ (143,004)	\$ 445,442	\$ 302,438

Percentage Increase 21.96%

et See WEERY-15 for calculation

COMPARATIVE REVENUE ANALYSIS
BLOCK ISLAND POWER COMPANY

ACCT. #	BUDGET ACCOUNT DESCRIPTION	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ACTUAL	FY 2004 ADJUSTED	INTERIM YEAR	RATE YEAR
REVENUE							
<i>Operating Revenue---Electricity Charges</i>							
4440.0001	Residential sales	\$ 444,219	\$ 446,739	\$ 494,777	\$ 517,464	\$ -	\$ -
4442.0001	Commercial sales	188,812	229,258	227,091	231,167		
4443.0001	Demand Electric	515,573	523,437	567,910	565,676		
4444.0001	Public streets & highway	63,954	72,766	80,145	82,547		
4445.0001	Other public authorities	12,576	12,607	12,422	12,422		
4500.0001	Demand - all rates	147,267	150,133	159,452	153,045		
4600	System Charge	36,558	35,910	37,940	38,728		
	<i>Total Operating Revenue---Electricity Charges</i>	1,408,959	1,470,850	1,579,738	1,601,049	1,635,000	1,697,000
<i>Operating Revenue---Fuel Surcharge</i>							
4440.0003	Residential Fuel	354,600	267,595	334,352	374,056		
4442.0003	Commercial Fuel	134,912	115,380	130,689	137,847		
4443.0003	Demand Fuel	376,642	303,194	360,823	381,473		
4444.0003	Public Authority Fuel	59,392	48,181	61,050	66,737		
	<i>Total Operating Revenue---Fuel Surcharge</i>	925,546	734,350	886,913	960,113		
<i>Operating Revenue---Service Charges</i>							
4451.0002	Removal Non Payment	600	1,175	950	550	550	550
4500	Customer Charge	192,095	196,560	204,135	206,585	210,000	215,000
5431.0201	Conection Charges	879	-	-	-	-	-
	<i>Total Operating Revenue---Service Charges</i>	193,574	197,735	205,085	207,135	210,550	215,550
<i>Other Revenue</i>							
5421.0201	Interest income	4,721	3,399	3,873	1,489	1,489	1,489
5421.0301	Rent - lease	42,646	86,932	147,570	175,719	175,719	175,719
5421.0502	Environment Surcharge	60,956	(1,572)	-	-	-	-
7431.0221	Biller Penalty	18,933	17,036	18,706	15,499	15,499	15,499
	<i>Total Other Revenue</i>	127,257	105,795	170,150	192,708	192,707	192,707
	Miscellaneous Revenue	7,010	11,392	3,913	3,848	4,000	4,000
	TOTAL REVENUE	\$ 2,662,345	\$ 2,520,122	\$ 2,845,799	\$ 2,964,853	\$ 2,042,257	\$ 2,109,257

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR		RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
EXPENSES					
Operating Expense---Power Production					
5546.0001	Supervision P/R (Payroll) Only	\$ 16,742	(1)	\$ 2,281	\$ 19,023
5547.0001	Fuel	807,262	(3)	(807,262)	-
4500.0100	Fuel Discounts	(8,497)	(3)	8,497	-
5547.0101	Fuel handl.plant P/R Only	3,276	(1)	447	3,723
5547.0102	Fuel Procurement P/R Only	10,108	(3)	(10,108)	-
5547.0301	Inventory change	8,555	A	(881)	7,674
5547.0401	Fuel procurement	86,104	(3)	(86,104)	-
5548.0001	Watchman P/R Only	115,866	(1)	15,787	131,653
5548.1001	Lubrication	17,159	A	399	17,558
5549.0001	Freight	1,911	A	(324)	1,587
5549.0201	Inside maint. P/R Only	66,065	(1)	9,002	75,067
5549.0401	Misc. Costs Power Gen Exp	5,907	A	(1,191)	4,716
5549.1001	Misc cost	250	TY	-	250
5550.0101	Auto repair	3,612	A	2,025	5,637
5550.0201	Purchased power	889	A	259	1,148
5570.0001	Maint station equip. P/R	-	(1)	-	-
5905.0001	Miscellaneous	588	A	(365)	223
5920.0101	Contributions	-	TY	-	-
5933.0001	Accounting	28,303	(7)	6,848	35,151
5935.0905	UREA EXPENSE	36,034	(3)	(36,034)	-
Total Operating Expense---Power Production		1,200,135		(896,724)	303,411
Operating Expense---Distribution					
5581.0001	Supervision - P/R Only	17,356	(1)	2,365	19,721
5583.0001	Overhead lines - P/R Only	33,260	(1)	(18,091)	15,169
5583.0002	Overhead lines	8,950	A	(1,347)	7,603
5583.0003	Overhead lines Sub	5,150	(22)	119,650	124,800
5584.0001	Underground line P/R Only	-	(1)	-	-
5585.0001	ST Lights & Sign P/R only	157	(1)	21	178
5586.0001	Meters - P/R Only	78	(1)	11	89
5586.0002	Meters	962	A	(606)	356
5587.0001	Customer install. P/R	196	(1)	26	222
5588.0001	Misc. Distrib. P/R	556	(1)	75	631
5588.0002	Misc. Distrib. Expense	4,428	A	950	5,378
5935.0301	Lease - motor vehicle	26,895	(8)	-	26,895
Total Operating Expense---Distribution		97,987		103,055	201,042
Operating Expense---Customer Service					
5902.0001	Meter reading - P/R Only	10,290	(1)	1,402	11,692
5903.0001	Rec. & collection - P/R	14,732	(1)	2,007	16,739
5916.0001	Conservation/Education	349	A	222	571
Total Operating Expense---Customer Service		25,370		3,631	29,002
Operating Expense---Administrative					
5903.0002	Bad Debt	14,686	A	(8,356)	6,330
5920.0201	Office salaries - P/R	15,244	(1)	2,077	17,321
5920.0211	Management Fee	192,000	(9)	20,000	212,000

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR		RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Operating Expense - Administration cont't.					
5920.0212	Management Fee Bonus	-	TY	-	-
5920.0205	Accrued Vacation	-	(1)	-	-
5920.0301	Staff training - P/R	-	(1)	-	-
5920.0401	Vacation pay - P/R	29,810	(1)	(9,121)	20,689
5920.0501	Employee Bonus - P/R	3,821	(1)	521	4,342
5920.0502	Bonus-Non P/R	5,000	(1)	681	5,681
5920.0601	Holiday pay - P/R	2,365	(1)	322	2,687
5920.0701	Holiday not worked - P/R	5,086	(1)	693	5,779
5920.0801	Sick leave pay - P/R	8,823	(1)	(4,736)	4,087
5920.0901	Personal day - P/R	3,047	(1)	415	3,462
5921.0001	Office supplies and expen	37,585	A	910	38,495
5921.0201	Trash disposal	7,045	TY	-	7,045
5923.0001	Outside Services	85,586	(10)	(586)	85,000
5923.0201	Employee pension	12,000	TY	-	12,000
5923.0301	Employee pension * New	24,000	(23)	12,000	36,000
5924.0301	General liability ins.	101,609	(12)	18,310	119,919
5926.0001	Employee benefits	127,693	(13)	10,571	138,264
5927.0001	Profit sharing expense	14,296	(11)	(313)	13,983
5928.0001	Reg comm exp	7,215	TY	-	7,215
5928.0002	Rate case expense	1,835	(14)	60,000	61,835
5930.0001	Travel and misc. expense	1,002	A	765	1,767
5930.0101	Directors Meetings	2,153	A	2,619	4,772
5935.0901	Environmental	31,063	(15)	8,937	40,000
5935.0902	Clean air compliance	43,126	A	(3,035)	40,091
Total Operating Expense---Administrative		776,091		112,674	888,765
Maintenance Expense---Distribution System					
5550.0102	Backhoe Repair	-	TY	-	-
5590.0101	Supervision - P/R Only	17,203	(1)	2,344	19,547
5592.0001	Station equip	-	A	2,150	2,150
5593.0001	Overhead lines - P/R Only	21,561	(1)	(7,039)	14,522
5593.0501	Tree Trimming	10,466	A	(5,743)	4,723
5593.2001	Transformer Expense	2,100	TY	-	2,100
5594.0001	Underground P/R	76	(1)	10	86
5594.0002	Maint Underground Lines	117	A	280	397
5596.0001	Street lights&signals P/R	140	(1)	19	159
5596.0002	Maint of Street Lights	279	A	(131)	148
5597.0001	Meters- P/R only	907	(1)	124	1,031
Total Maintenance Expense---Distribution System		52,849		(7,985)	44,863
Maintenance Expense---Generation System					
5553.0201	Supervision - P/R Only	15,980	(1)	2,177	18,157
5553.0501	Maint. of Gen & Elect Plt	227	A	627	854
5554.0001	Transportaion Equip	-	A	973	973
5554.0101	Gasoline	-	TY	-	-
5555.0001	Misc.	-	TY	-	-
Total Maintenance Expense---Generation System		16,207		3,777	19,984

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR		RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Maintenance Expense---General					
5552.0001	Maintenance of Struct P/R	-	(1)	-	-
5552.0002	Maint. of Structures	10,078	A	3,966	14,044
5591.0001	Structures	-	TY	-	-
5935.0101	maint general plant	3,089	A	(1,076)	2,013
5935.0201	Small tools	206	A	774	980
5935.0801	Haz. Waste Store/Remov/Hd	7,926	A	(2,334)	5,592
5935.2090	SCR Maint	100,272	(16)	-	100,272
5935.2101	General Maintenance	112	A	98	210
5935.2108	Generator #21 Maintenance	496	(24)	(496)	0
5935.2111	Generator # 22 Install	1,989	(4)	(1,989)	-
5935.2113	Generator #22 Maintena	31,163	(24)	(31,163)	0
5935.2117	Engine #23 Maint	1,161	(24)	48,839	50,000
5935.2122	Engine #24 Maint	62,999	(24)	37,001	100,000
	General engine maintenance		(24)	40,000	40,000
Total Maintenance Expense---General		219,491		93,620	313,110
Taxes					
6408.0101	Payroll taxes	36,142	(2)	(1,658)	34,484
6408.0201	RI Sales taxes	7,375	A	2,364	9,739
6408.0401	Property taxes	42,330	(17)	(22,227)	20,103
6408.0501	Registrations	1,762	A	260	2,022
6408.0601	RI gross earnings tax	118,843	(18)	(34,473)	84,370
Total Taxes		206,451		(55,734)	150,717
Depreciation					
	Substation true up	-	(6)	30,000	30,000
7403.0001	Depreciation expense	230,451	(6)	(3,690)	226,761
Total Depreciation		230,451		26,310	256,761
Other Deductions					
5913.0001	Advertising	-	TY	-	-
5929.0000	Finance Charges	-	TY	-	-
7431.0003	Interest on loan #39903	41,771	(5)	(41,771)	-
7431.0004	Interest on loan #42729	414	(5)	(414)	-
7431.0005	Interest on Digger	484	(5)	(484)	-
7431.0007	RUS LOAN INTEREST	172,675	(5)	(172,675)	-
7431.0201	Interest - other	30	(5)	(30)	-
7431.0601	Amort.of Fed.Income tax prepaid	(13,859)	(19)	7,786	(6,073)
7431.0701	IRS Penalty	-	TY	-	-
7431.0901	Federal Income Tax	-	(20)	31,623	31,623
7431.0903	Net Change in Deferred Tax	50,137	(21)	(31,755)	18,382
7439.0001	Misc Other expense	129	A	(9)	120
7500.0001	EPA Penalty	-	TY	-	-
7600.0001	Loss (Gain) on Sale of Asset	-	TY	-	-
8503.0001	Miscellaneous expense	4	A	550	554
8505.0001	Condo fees	3,240	(4)	(3,240)	-
Total Other Deductions		255,024		(210,419)	44,605

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR	RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Dividends				
8506.0001	Dividends	-	TY	-
9999.9997	Dividends	-	TY	-
Total Dividends		-	-	-
TOTAL EXPENSES				
		\$ 3,080,056	\$ (827,795)	\$ 2,252,261

TY = Item left at test year level for the rate year.

A = Five year average used for rate year.

(1) = Payroll adjustment WEE-4.

(2) = Payroll tax adjustment WEE-6.

(3) = Fuel items eliminated WEE Testimony page 10.

(4) = Other items eliminated WEE Testimony page 10.

(5) = Interest related items eliminated WEE Testimony page 10.

(6) = Depreciation WEE Testimony page 24 and Schedule WEE-9.

(7) = Adjustment for accounting WEE Testimony page 12

(8) = Lease - motor vehicle WEE Testimony page 13

(9) = Management fee WEE Testimony pages 15-17

(10) = Outside service adjustment WEE testimony page 17

(11) = Profit sharing expense WEE testimony page 19

(12) = General Liability Insurance WEE page 19 and Schedule WEE-11

(13) = Employee benefits were calculated on Schedules WEE-5, 5a and 5b

(14) = Rate case expense WEE Testimony page 20

(15) = Environmental expense WEE Testimony page 21

(16) = SCR maintenance WEE Testimony pages 21-22

(17) = Property tax WEE Testimony page 23 and Schedule WEE-12

(18) = Gross earnings tax WEE Testimony page 23

(19) = Amortization of Federal Income Tax - WEE Testimony page 24 and Prepaid Schedule WEE-13

(20) = Federal Income tax Schedule WEE - 18

(21) = Net change in Deferred Federal Income Tax WEE Testimony page 24 and Schedule WEE - 13

(22) = Overhead lines Subcontractors WEE Testimony pages 25-26 and Schedule WEE-14

(23) = Adjustment for Mike Wagner pension WEE Testimony page 19

(24) = Engine Maintenance WEE Testimony pages 22-23

**RATE YEAR PAYROLL EXPENSES
BLOCK ISLAND POWER COMPANY**

Schedule WEE-4

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR	Retired Employee Removal (A)	Percentage Increase (B)	ADJUSTED RATE YEAR
EXPENSES					
<i>Operating Expense---Power Production</i>					
5546.0001	Supervision P/R (Payroll) Only	\$ 16,742		\$ 2,281	\$ 19,023
5547.0101	Fuel handl.plant P/R Only	3,276		446	3,723
5547.0102	Fuel Procurement P/R Only	10,108		1,377 C)	11,486
5548.0001	Watchman P/R Only	115,866		15,787	131,653
5549.0201	Inside maint. P/R Only	66,065		9,002	75,067
5570.0001	Maint station equip. P/R	0		0	0
<i>Operating Expense---Distribution</i>					
5581.0001	Supervision - P/R Only	17,356		2,365	19,721
5583.0001	Overhead lines - P/R Only	33,260	(19,911)	1,819	15,169
5584.0001	Underground line P/R Only	0		0	0
5585.0001	ST Lights & Sign P/R only	157		21	178
5586.0001	Meters - P/R Only	78		11	89
5587.0001	Customer install. P/R	196		27	222
5588.0001	Misc. Distrib. P/R	556		76	631
<i>Operating Expense---Customer Service</i>					
5902.0001	Meter reading - P/R Only	10,290		1,402	11,692
5903.0001	Rec. & collection - P/R	14,732		2,007	16,739
<i>Operating Expense---Administrative</i>					
5920.0201	Office salaries - P/R	15,244		2,077	17,321
5920.0301	Staff training - P/R	0		0	0
5920.0401	Vacation pay - P/R	29,810	(11,602)	2,481	20,689
5920.0501	Employee Bonus - P/R	3,821		521	4,342
5920.0502	Bonus-Non P/R	5,000		681	5,681
5920.0601	Holiday pay - P/R	2,365		322	2,687
5920.0701	Holiday not worked - P/R	5,086		693	5,779
5920.0801	Sick leave pay - P/R	8,823	(5,226)	490	4,087
5920.0901	Personal day - P/R	3,047		415	3,462
<i>Maintenance Expense---Distribution System</i>					
5590.0101	Supervision - P/R Only	17,203		2,344	19,547
5593.0001	Overhead lines - P/R Only	21,561	(8,780)	1,741	14,522
5594.0001	Underground P/R	76		10	86
5596.0001	Street lights&signals P/R	140		19	159
5597.0001	Meters- P/R only	907		124	1,031
<i>Maintenance Expense---Generation System</i>					
5553.0201	Supervision - P/R Only	15,980		2,177	18,157
<i>Maintenance Expense---General</i>					
5552.0001	Maintenance of Struct P/R	0		0	0
	<i>Capitalized Labor</i>	14,913		0	0
		\$ 432,657	\$ (45,518)	\$ 50,718	\$ 422,943

A) See WEERY-4b

B) 13.63% of Test Year See WEERY-4a

C) Account eliminated on Schedule WEE-3 - fuel related account

**RATE YEAR PAYROLL
BLOCK ISLAND POWER COMPANY**

Employee	Test Year Payroll	May 2005 payroll (d)	May 2006 payroll (e)
Alpers	\$ 38,874	\$ 40,817	\$ 42,858
Foote	33,214	36,203	38,013
Fowler	39,620	41,601	43,681
Hiccox (a)	58,423	34,127	37,198
Martin	38,458	61,345	64,412
Mazzola (b)	45,581	-	-
Millikin (c)	62,322	65,438	68,710
Milner	35,361	37,129	38,986
Savoie	80,803	84,844	89,086
Wagner/Replacement			
	<u>\$ 432,657</u>	<u>\$ 401,503</u>	<u>\$ 422,943</u>

Test Year Total Payroll \$ 432,657
 Adjustment for Capitalized Labor \$ (14,913)
 Retired Employee Adjustment \$ (45,518)
\$ 372,226 (G)

Rate Year Total Payroll \$ 422,943 (H)

Percentage Increase 13.63% (H) / (G)

- (a) - Hiccox was hired after end of test year to replace Mazzola. Her 2005 pay was based on a percentage of Mazzola test year dollars (\$13.00 Hiccox vs \$14.65 Mazzola)
- (b) - Hiccox was hired after end of test year to replace Mazzola.
- (c) - Millikin left at end of test year. His hours are anticipated to be replaced by outside consultants, as a result no amount has been budgeted for his hours in the rate year payroll. See WEERY-4b
- (d) - Calculated a 5% increase over the Test Year (except for Foote who got a 9% increase).
- (e) - Calculated a 5% increase over FY 2005 (except for Hiccox who got a 9% increase).

RECLASSIFY RETIRED EMPLOYEE TIME
BLOCK ISLAND POWER COMPANY

Schedule WEE-4b

Reclass Milkkin Salary

	<u>Test Year Hours</u>		<u>Test Year Amount</u>
5920.0401 vacation	444	25%	\$ 11,602
5920.0801 sick	200	11%	5,226
5583.0001 overhead	762	44%	19,911
5593.0001 over lines	336	19%	8,780
	<u>1,742</u>	<u>100%</u>	<u>\$ 45,518</u>

RATE YEAR EMPLOYEE BENEFITS
BLOCK ISLAND POWER COMPANY

Schedule WEE-5

5926.0001 Employee benefits

Test Year Benefits	\$	127,693	See WEERY-5a
Rate Year Benefits	\$	<u>138,264</u>	See WEERY-5b
Rate Year Adjustment	\$	<u>10,571</u>	

TEST YEAR EMPLOYEE BENEFITS
BLOCK ISLAND POWER COMPANY

Employee	plan	# of Months benefits were received between June03-Mar04	# of Months benefits were received between Apr04-May04	Plan rate between June03-Mar04	Plan rate between Apr04-May04	Test Year
Medical						
Alpers	Individual	10	2	\$ 401.25	\$ 453.63	\$ 4,919.76
Foote	Ind. Ichild	10	2	641.99	725.79	7,871.48
Fowler	Family	10	2	1,063.31	1,202.10	13,037.30
Martin	S/S	10	2	942.94	1,066.02	11,561.44
Mazzola	S/S	10	2	942.94	1,066.02	11,561.44
Millken	S/S	10	2	942.94	1,066.02	11,561.44
Milner	Family	10	2	1,063.31	1,202.10	13,037.30
Savoie	Family	10	2	1,063.31	1,202.10	13,037.30
Wagner	Family	10	2	1,063.31	1,202.10	13,037.30
Edwards	S/S	10	2	942.94	1,066.02	11,561.44
McGinnes	Individual	10	2	401.25	453.63	4,919.76
					Total Medical	\$ 116,105.96
Dental						
Alpers	Individual	10	2	\$ 32.69	\$ 33.59	\$ 394.08
Foote	Family	10	2	97.05	99.68	1,169.86
Fowler	Family	10	2	97.05	99.68	1,169.86
Martin	Family	10	2	97.05	99.68	1,169.86
Mazzola	Family	10	2	97.05	99.68	1,169.86
Millken	Family	10	2	97.05	99.68	1,169.86
Milner	Family	10	2	97.05	99.68	1,169.86
Savoie	Family	10	2	97.05	99.68	1,169.86
Wagner	Family	10	2	97.05	99.68	1,169.86
Edwards	Does not Participate					0.00
McGinnes	Individual	10	2	32.69	33.59	394.08
					Total Dental	\$ 10,147.04
Slate	Medical Quarterly Reimb			436.5	quarterly rate	1,746.00
					Variance	(305.67)
					Total Benefit	\$ 127,693.33

RATE YEAR EMPLOYEE BENEFITS
BLOCK ISLAND POWER COMPANY

Employee	plan	# of Months benefits June05-Mar06	# of Months benefits Apr06-May06	Plan rate between June05-Mar06	Plan rate between Apr06-May06	Test Year
Medical						
Alpers	Individual	10	2	\$ 521.67	\$ 599.93	\$ 6,416.60
Footo	Ind. Ichild	10	2	834.66	959.86	10,266.30
Fowler	Family	10	2	1,382.42	1,589.78	17,003.70
Hiccox	Individual	10	2	521.67	599.93	6,416.60
Martin	S/S	10	2	1,225.92	1,409.81	15,078.85
Mazzola	S/S					
Milliken	S/S					
Milner	Family	10	2	1,382.42	1,589.78	17,003.70
Savoie	Family	10	2	1,382.42	1,589.78	17,003.70
Wagner	Family	10	2	1,382.42	1,589.78	17,003.70
Edwards	S/S	10	2	1,225.92	1,409.81	15,078.85
McGinnes	Individual	10	2	521.67	599.93	6,416.60
				Total Medical		\$ 127,688.61
Dental						
Alpers	Individual	10	2	\$ 35.10	\$ 36.68	\$ 424.38
Footo	Family	10	2	104.17	108.85	1,259.36
Fowler	Family	10	2	104.17	108.85	1,259.36
Hiccox	Individual	10	2	35.10	36.68	424.38
Martin	Family	10	2	104.17	108.85	1,259.36
Mazzola	Family					
Milliken	Family					
Milner	Family	10	2	104.17	108.85	1,259.36
Savoie	Family	10	2	104.17	108.85	1,259.36
Wagner	Family	10	2	104.17	108.85	1,259.36
Edwards	Does not Participate					0.00
McGinnes	Individual	10	2	35.10	36.68	424.38
				Total Dental		\$ 8,829.31
Slate	Medical Quarterly Reimb			436.5 quarterly rate		1,746.00
				Total Benefit		\$ 138,263.92

two year increase 05 - 07

2002/2003

2003/2004

2004/2005

2005/2006

2006/2007

Employee	plan	2002/2003	2003/2004	2004/2005	2005/2006	2006/2007	two year increase 05 - 07
Medical							
Individual	\$ 340.34	\$ 401.25	\$ 453.63	33%	\$ 521.67	\$ 599.93	32%
Ind. Ichild	544.55	641.99	725.79	33%	834.66	959.86	32%
Family	901.91	1,063.31	1,202.10	33%	1,382.42	1,589.78	32%
S/S	799.81	942.94	1,066.02	33%	1,225.92	1,409.81	32%
Dental							
Individual	\$ 30.74	\$ 32.69	\$ 33.59	9%	\$ 35.10	\$ 36.68	9%
Family	91.32	97.05	99.68	9%	104.17	108.85	9%

RATE YEAR PAYROLL TAX
BLOCK ISLAND POWER COMPANY

Employee	RATE YEAR PAYROLL	FICA TAX	MEDICARE	RIES & JDF TAX	RATE YEAR PAYROLL TAX
Alpers	\$ 42,838	\$ 2,657	\$ 621	\$ 266	\$ 3,545
Footo	38,013	2,357	551	266	3,174
Fowler	43,681	2,708	633	266	3,608
Hiccox	37,198	2,306	539	266	3,112
Martin	64,412	3,994	934	266	5,194
Mazzola	0	0	0	0	0
Millkin	0	0	0	0	0
Millner	68,710	4,260	996	266	5,522
Savoie	38,986	2,417	565	266	3,248
Wagner	89,086	5,523	1,292	266	7,081
	\$ 422,943	\$ 26,222	\$ 6,133	\$ 2,128	\$ 34,483

Test Year Payroll Tax \$ 36,141.60
 Rate Year Payroll Tax \$ 34,483.18
 Rate Year Adjustment \$ (1,658.42)

EXPENSES LEFT AT TEST YEAR LEVELS
BLOCK ISLAND POWER COMPANY

Schedule WEE-7

ACCT. #	BUDGET ACCOUNT DESCRIPTION	FY 2000 ACTUAL	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ACTUAL	ADJUSTED TEST YEAR
EXPENSES						
<i>Operating Expense---Power Production</i>						
5549.1001	Misc cost	1,774	3,024	204	201	250
5920.0101	Contributions	350	375	3,625	-	-
<i>Total Operating Expense---Power Production</i>		2,124	3,399	3,829	201	250
<i>Operating Expense---Administrative</i>						
5920.0212	Management Fee Bonus	13,800	20,000	20,000	28,000	-
5921.0201	Trash disposal	3,243	2,499	3,391	6,289	7,045
5923.0201	Employee pension	13,533	13,599	13,666	12,416	12,000
5928.0001	Reg comm exp	-	462	6,879	5,883	7,215
<i>Total Operating Expense---Administrative</i>		30,576	36,561	43,936	52,588	26,260
<i>Maintenance Expense---Distribution System</i>						
5550.0102	Backhoe Repair	285	2,049	709	(279)	0
5593.2001	Transformer Expense	-	-	-	-	2,100
<i>Total Maintenance Expense---Distribution System</i>		285	2,049	709	(279)	2,100
<i>Maintenance Expense---Generation System</i>						
5554.0101	Gasoline	5,201	4,967	347	-	-
5555.0001	Misc.	-	-	-	963	-
<i>Total Maintenance Expense---Generation System</i>		5,201	4,967	347	963	0
<i>Maintenance Expense---General</i>						
5591.0001	Structures	-	419	-	-	-
<i>Total Maintenance Expense---General</i>		0	419	0	0	0
<i>Other Deductions</i>						
5913.0001	Advertising	-	-	372	-	-
5929.0000	Finance Charges	-	-	221	3	-
7431.0701	IRS Penalty	7,044	804	-	-	-
7500.0001	EPA Penalty	-	-	-	895	-
7600.0001	Loss (Gain) on Sale of Asset	-	-	15,740	(5,000)	-
<i>Total Other Deductions</i>		7,044	804	16,332	(4,102)	0
<i>Dividends</i>						
8506.0001	Dividends	8,625	20,000	90,000	-	-
9999.9997	Dividends	45,031	-	-	-	-
<i>Total Dividends</i>		53,656	20,000	90,000	0	0
TOTAL EXPENSES		98,886	68,199	155,154	49,372	28,610

**EXPENSES ADJUSTED FOR FIVE YEAR AVERAGE
BLOCK ISLAND POWER COMPANY**

Schedule WEE-8

ACCT. #	BUDGET ACCOUNT DESCRIPTION	FY 2002 ACTUAL	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ACTUAL	ADJUSTED TEST YEAR	5 YEAR AVERAGE	RATE YEAR ADJUSTMENT
EXPENSES								
<i>Operating Expense---Power Production</i>								
5547.0301	Inventory change	10,502	5,086	11,569	2,659	8,555	7,674	(881)
5548.1001	Lubrication	16,967	14,524	17,931	21,209	17,159	17,558	399
5549.0001	Freight	1,269	1,895	902	1,957	1,911	1,587	(324)
5549.0401	Misc. Costs Power Gen Exp	2,321	2,398	9,949	3,004	5,907	4,716	(1,191)
5550.0101	Auto repair	10,675	3,643	6,378	3,877	3,612	5,637	2,025
5550.0201	Purchased power	880	668	1,482	1,821	889	1,148	259
5905.0001	Miscellaneous	-	38	490	-	588	223	(365)
	<i>Total Operating Expense---Power Production</i>	42,614	28,253	48,702	34,527	38,622	38,544	(78)
<i>Operating Expense---Distribution</i>								
5583.0002	Overhead lines	-	-	21,208	7,855	8,950	7,603	(1,347)
5586.0002	Meters	-	-	510	305	962	355	(606)
5588.0002	Misc. Distrib. Expense	3,157	2,595	12,277	4,435	4,428	5,378	950
	<i>Total Operating Expense---Distribution</i>	3,157	2,595	33,995	12,595	14,340	13,336	(1,003)
<i>Operating Expense---Customer Service</i>								
5916.0001	Conservation/Education	-	267	953	1,285	349	571	222
	<i>Total Operating Expense---Customer Service</i>	0	267	953	1,285	349	571	222
<i>Operating Expense---Administrative</i>								
5903.0002	Bad Debt	2,517	-	-	14,450	14,686	6,331	(8,356)
5921.0001	Office supplies and expen	34,353	37,643	37,233	45,661	37,585	38,495	910
5930.0001	Travel and misc. expense	3,036	3,871	737	189	1,002	1,767	765
5930.0101	Directors Meetings	6,500	5,800	2,535	6,874	2,153	4,772	2,619
5935.0902	Clean air compliance	36,616	14,433	50,768	55,515	43,126	40,091	(3,035)
	<i>Total Operating Expense---Administrative</i>	83,021	61,746	91,273	122,688	98,553	91,456	(7,097)
<i>Maintenance Expense---Distribution System</i>								
5592.0001	Station equip	753	3,021	6,978	-	-	2,150	2,150
5593.0501	Tree Trimming	5,735	1,647	1,493	4,273	10,466	4,723	(5,743)
5594.0002	Maint Underground Lines	685	-	-	1,183	117	397	280
5596.0002	Maint of Street Lights	-	-	36	428	279	149	(131)
	<i>Total Maintenance Expense---Distribution System</i>	7,173	4,668	8,508	5,884	10,862	7,419	(3,443)

**EXPENSES ADJUSTED FOR FIVE YEAR AVERAGE
BLOCK ISLAND POWER COMPANY**

Schedule WEE-8

ACCT. #	BUDGET ACCOUNT DESCRIPTION	FY 2002 ACTUAL	FY 2001 ACTUAL	FY 2002 ACTUAL	FY 2003 ACTUAL	ADJUSTED TEST YEAR	5 YEAR AVERAGE	RATE YEAR ADJUSTMENT
<i>Maintenance Expense---Generation System</i>								
5553.0501	Maint. of Gen & Elect Plt	1,034	-	2,014	994	227	854	627
5554.0001	Transportation Equip	-	3,114	1,750	-	-	973	973
	<i>Total Maintenance Expense---Generation System</i>	1,034	3,114	3,764	994	227	1,827	1,600
<i>Maintenance Expense---General</i>								
5552.0002	Maint. of Structures	13,283	5,865	8,566	32,427	10,078	14,044	3,966
5935.0101	maint general plant	962	2,981	1,737	1,298	3,089	2,013	(1,076)
5935.0201	Small tools	719	2,059	1,547	367	206	980	774
5935.0801	Haz. Wast Store/Remov/Hd	4,396	8,459	5,291	1,888	7,926	5,592	(2,334)
5935.2101	General Maintenance	-	-	406	534	112	210	98
	<i>Total Maintenance Expense---General</i>	19,360	19,365	17,547	36,514	21,411	22,839	1,429
<i>Taxes</i>								
6408.0201	RI Sales taxes	7,570	13,287	5,895	14,570	7,375	9,740	2,364
6408.0501	Registrations	1,896	1,885	1,714	2,854	1,762	2,022	260
	<i>Total Taxes</i>	9,466	15,171	7,609	17,424	9,137	11,761	2,625
<i>Other Deductions</i>								
7439.0001	Misc Other expense	(53)	89	342	90	129	119	(9)
8503.0001	Miscellaneous expense	1,532	-	1,032	201	4	554	550
	<i>Total Other Deductions</i>	1,478	89	1,374	291	132	673	541
	TOTAL EXPENSES	167,304	135,268	213,725	232,202	193,632	188,426	(5,206)

**DEPRECIATION EXPENSE
BLOCK ISLAND POWER COMPANY**

Schedule WEE-9

Asset Group	TEST YEAR ASSETS	ADJUSTED TEST YEAR	RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR	RATE YEAR ASSETS
Access Electric	\$ 87,252	\$ 3,345	\$ (33)	\$ 3,312	\$ 87,252
Aid in Const.	181,697	6,618	(3)	6,615	181,697
Comm. Equipment	262,680	17,124	-	17,124	262,680
Fuel System	374,609	21,981	-	21,981	374,609
Furniture and Fixtures	1,327	-	-	-	1,327
Land and Land Rights	79,610	-	-	-	79,610
Lines	190,978	7,460	336	7,796	190,978
Meters	159,663	3,464	148	3,612	159,663
Office Furniture and Equip.	87,684	2,529	(444)	2,085	87,684
Oil Pollution	63,005	-	-	-	63,005
Overhead Dev.	588,906	11,736	431	12,166	588,906
Poles	199,892	4,753	394	5,147	199,892
Generation Equipment	2,547,578	113,139	5,915	119,054	3,180,989
Street lighting/signs	16,292	326	-	326	16,292
Structure Imp.	263,189	2,339	(502)	1,837	263,189
Structure Imp.	1,661,363	40,475	1,951	42,426	1,686,363
Tool Shop and Garage	25,431	322	(0)	322	25,431
Transportation Equip.	460,056	8,886	-	8,886	460,056
Underground	744,886	28,113	171	28,283	744,886
Vaults	28,971	902	(27)	875	28,971
Negative Fixed Assets	(861,209)	(43,060)	-	(43,060)	(861,209)
	<u>7,163,860</u>				<u>7,822,271</u>
<i>Depreciation Expense</i>		230,451	8,337	238,787	

**TEST YEAR NET UTILITY PLANT
BLOCK ISLAND POWER COMPANY**

Schedule WEE-9a

Asset Group	ENDING ASSET COST	TEST YEAR ACCUMULATED DEPRECIATION	TEST YEAR NET ASSETS
Access Electric	\$ 87,252	\$ 64,317	\$ 22,935
Aid in Const.	181,697	42,640	139,057
Comm. Equipment	262,680	59,194	203,486
Fuel System	374,609	132,207	242,402
Furniture and Fixtures	1,327	1,327	0
Land and Land Rights	79,610	60,000	19,610
Lines	190,978	92,341	98,637
Meters	159,663	104,924	54,740
Office Furniture and Equip.	87,684	85,370	2,314
Oil Pollution	63,005	63,005	0
Overhead Dev.	588,906	447,965	140,941
Poles	199,892	136,321	63,571
Prime Movers	2,547,578	850,747	1,696,831
Street lighting/signs	16,292	13,965	2,327
Structure Imp.	263,189	251,773	11,417
Structure Imp.	1,661,363	193,607	1,467,756
Tool Shop and Garage	25,431	24,577	854
Transportation Equip.	460,056	350,415	109,641
Underground	744,886	449,692	295,194
Vaults	28,971	12,670	16,301
Negative Fixed Assets	(861,209)	(530,884)	(330,325)
<i>NET UTILITY PLANT</i>	<u>7,163,860</u>	<u>2,906,172</u>	<u>4,257,688</u>

Annual Report Reconciliation (page 110):

Net Utility Plant	\$ 4,054,533
Non-Utility Plant - Tower	274,355
Accumulated Depreciation	<u>(71,200)</u>
	<u>\$ 4,257,688</u>

RATE YEAR PROFIT SHARING EXPENSE
BLOCK ISLAND POWER COMPANY

Employee	Test Year Payroll	May 2005 payroll (d)	May 2006 payroll (e)
Alpers	\$ 38,874	\$ 40,817	\$ 42,858
Footo	33,214	36,203	38,013
Fowler	39,620	41,601	43,681
Hiccox		34,127	37,198
Martin	58,423	61,345	64,412
Mazzola	38,458	0	0
Millkin	45,581	0	0
Milner	62,322	65,438	68,710
Savoie	35,361	37,129	38,986
Wagner	80,803	84,844	89,086
	\$ 432,657	\$ 401,503	\$ 422,943

Rate Year Total Payroll \$ 422,943

Profit Sharing 3%

Payroll portion of Profit Sharing \$ 12,688

Profit Sharing Plan Management Fees \$ 1,295

Rate Year Profit Sharing \$ 13,983

ANALYSIS OF GENERAL INSURANCE EXPENSE
BLOCK ISLAND POWER COMPANY

Test Year Insurance \$ 101,609
Rate Year Insurance \$ 119,919
Rate Year Adjustment \$ 18,310

Policy	Actual 2004		Test Year		Actual 2005		Estimated 11% 2006		FY 2005		Rate Year		FY 2006 Prepaid Amount
	Premium less rebates	6/1/03-5/31/04	Expense	6/1/03-5/31/04	Premium less rebates	6/1/04-5/31/05	Expense	6/1/05-5/31/06	Premium less rebates	6/1/05-5/31/06	Expense	6/1/05-5/31/06	
Commercial Policy	53,616.00	49,649.88	52,973.69	3,323.81	56,998.00	3,966.12	56,747.82	63,267.78	58,587.70	4,216.29	62,803.99	4,680.08	
Umbrella Policy	22,304.00	20,654.12	22,245.05	1,590.93	23,637.00	1,649.88	23,538.39	26,237.07	24,296.25	1,748.49	26,044.74	1,940.82	
Business Auto	23,742.00	21,985.74	23,448.55	1,462.81	25,713.00	1,756.26	25,567.20	28,541.43	26,430.15	1,902.06	28,332.20	2,111.28	
Workers Comp	693.00	1,974.71	2,246.19	271.48	4,269.00	-	1,974.71	4,738.59	1,974.71	-	1,974.71	-	
Contractors Equipment	693.00	641.74	695.52	53.78	693.00	51.26	693.00	769.23	712.33	51.26	763.59	56.90	
	100,355.00	94,906.19	101,609.00	6,702.81	111,310.00	7,423.52	108,521.13	123,554.10	112,001.13	7,918.10	119,919.23	8,789.09	

Policy	2002		2003		2004		2005	
	Premium less rebates	6/1/02-5/31/03	Expense	6/1/02-5/31/03	Premium less rebates	6/1/03-5/31/04	Premium less rebates	6/1/04-5/31/05
Commercial Policy	35,435.00	44,933.00	53,616.00	56,998.00	22,304.00	23,637.00	23,742.00	25,713.00
Umbrella Policy	10,350.00	19,775.00	22,304.00	23,637.00	23,742.00	25,713.00	25,713.00	25,713.00
Business Auto	16,026.00	21,507.00	23,742.00	25,713.00	23,742.00	25,713.00	25,713.00	25,713.00
Workers Comp	3,326.00	3,670.00	1,974.71	4,269.00	1,974.71	4,269.00	4,269.00	4,269.00
Contractors Equipment	-	727.00	693.00	693.00	693.00	693.00	693.00	693.00
	65,137.00	90,612.00	102,328.71	111,310.00	111,310.00	111,310.00	111,310.00	111,310.00
		Incr due to 9/11	13%	9%				

ANALYSIS OF PROPERTY TAX
BLOCK ISLAND POWER COMPANY

Schedule WEE-12

	Test Year	FY 2005	Rate Year
6408.0401 Property taxes	42,329.75	18,443.31	20,103.21
percentage increase			9%

	2000	2001	2002	2003	2004
6408.0401 Property taxes	28,669.22	29,856.57	32,344.73	37,184.81	42,329.75
		4%	8%	15%	14%

	CY 2001 Assessment	CY 2002 Assessment	CY 2003 Assessment	Revaluation year CY 2004 Assessment
Auto Tax	257.65	142.11	158.29	128.46
Sewer-Bond	1034.39	1,073.90	1,028.37	223.34
Property	31926.44	34,436.52	38,145.86	15,094.28
	33,218.48	35,652.53	39,332.52	15,446.08
		7%	10%	
Tangible value	1,349,500	1,349,500	1,509,100	1,522,300
Date assessed	12/31/2000	12/31/2001	12/31/2002	12/31/2003

ANALYSIS OF RATE BASE ITEMS
BLOCK ISLAND POWER COMPANY

Schedule WEE-13

Deferred Federal Income Tax

	FIT Asset	FIT Liability	Total
Test Year Balance	14,732.79	(141,788.26)	(127,055.47)
FY 2005 Amortization	2,675.23	(25,110.42)	(22,435.19)
FY 2005 Balance	12,057.56	(116,677.84)	(104,620.28)
Rate Year Amortization	2,151.92	16,230.34	18,382.26
Rate Year Balance	9,905.64	(132,908.18)	(123,002.54)
FY 2005 Balance	5,598.49	(153,308.52)	(147,710.03)
Rate Year Balance	3,894.89	(175,048.38)	(171,153.49)
Average	4,746.69	(164,178.45)	(159,431.76)

Deferred Credits

	Prepaid Income Tax	Deferred Rental Income	Deferred Tower Rental Income	Total
Test Year Balance	(43,097.85)	(2,000.00)	(199,999.00)	(245,096.85)
FY 2005 Amortization	10,526.79	-	16,667.00	27,193.79
FY 2005 Balance	(32,571.06)	(2,000.00)	(183,332.00)	(217,903.06)
Rate Year Amortization	6,073.35	-	16,667.00 *	22,740.35
Rate Year Balance	(26,497.71)	(2,000.00)	(166,665.00)	(195,162.71)
FY 2005 Balance	(32,571.06)	(2,000.00)	(183,332.00)	(217,903.06)
Rate Year Balance	(26,497.71)	(2,000.00)	(166,665.00)	(195,162.71)
Average	(29,534.39)	(2,000.00)	(174,998.50)	(206,532.89)

Rate year amortization

* Included in lease income

ANALYSIS OF OVERHEAD LINE SUBCONTRACTORS
BLOCK ISLAND POWER COMPANY

Schedule WEE-14

Cost of service per week	\$ 2,400
Times	<u>52 weeks</u>
Projected cost	<u><u>\$ 124,800</u></u>

Payments to date:

Date	Halpin Paid to Date	# of Weeks
6/6/2004		1
6/13/2004	4,000	2
6/20/2004	3,600	3
6/27/2004	1,200	4
7/4/2004	1,870	5
7/11/2004	1,870	6
7/18/2004	1,870	7
7/25/2004	1,870	8
8/1/2004		9
8/8/2004		10
8/15/2004	2,200	11
8/22/2004	2,200	12
8/29/2004	2,200	13
9/5/2004	2,200	14
9/12/2004	1,980	15
9/19/2004	1,980	16
9/26/2004	4,680	17
10/3/2004	4,680	18
	38,400	
	/18 weeks	
Average Cost per Week	<u>2,133.33</u>	
	2,133.33	
	x 52	
Rate Year Expense	<u><u>110,933.16</u></u>	

RETURN ON RATE BASE
BLOCK ISLAND POWER COMPANY

Schedule WEE-15

Total Rate Year Rate Base	\$	4,604,693
Weighted Return on Rate Base		<u>6.57%</u>
Net Utility Profit	\$	<u><u>302,438</u></u>

Allocation of Net Utility Profit

Interest	0.0455	69% x a	\$	209,431
Equity	<u>0.0202</u>	<u>31% x a</u>		<u>93,008</u>
	<u><u>0.0657</u></u>	<u><u>100%</u></u>	<u><u>\$</u></u>	<u><u>302,438</u></u>

**RATE YEAR RATE BASE
BLOCK ISLAND POWER COMPANY**

Schedule WEE-16

Description	AVERAGE
Net Utility Plant	\$ 4,705,293
Additions:	
Working Capital	190,197
Inventory	45,525
Inventory--Fuel	-
Prepaid Expenses	29,643
Deductions:	
Contributions in Aid	-
Deferred Credits	(206,533)
Deferred Taxes	(159,432)
Net average Rate Year base	\$ 4,604,693

CAPITAL STRUCTURE
BLOCK ISLAND POWER COMPANY

Schedule WEE-17

	5/31/2005	5/31/2006	Average	Weighted Percentage	Rate	Weighted Factor
Debt:						
WTC LOAN	\$ 372,057	\$ 255,570	\$ 313,814	0.0627	7.750%	0.0049
1st RUS Draw Down	871,533	847,453	859,493	0.1718	5.915%	0.0102
2nd RUS Draw Down	368,644	358,124	363,384	0.0726	5.622%	0.0041
3rd RUS Draw Down	169,058	164,248	166,653	0.0333	5.649%	0.0019
4th RUS Draw Down	297,623	288,967	293,295	0.0586	5.449%	0.0032
5th RUS Draw Down	556,935	538,817	547,876	0.1095	4.412%	0.0048
6th RUS Draw Down	212,047	205,134	208,591	0.0417	4.392%	0.0018
7th RUS Draw Down	649,345	628,292	638,819	0.1277	4.444%	0.0057
Engine	609,411	568,784	589,098	0.1178	6.000%	0.0071
Distribution	-	315,000	157,500	0.0315	6.000%	0.0019
Debt			<u>\$ 4,138,521</u>	<u>0.8274</u>		<u>0.0455</u>
Equity:						
COMMON STOCK	\$ 191,515	\$ 191,515	\$ 191,515	0.0383	11.700%	0.0045
R/E - 12month ave. *	<u>634,880</u>	<u>709,161</u>	<u>672,020</u>	0.1343	11.700%	<u>0.0157</u>
Equity			<u>\$ 863,535</u>	<u>0.1726</u>		<u>0.0202</u>
Total Debt & Equity			<u>\$ 5,002,056</u>	<u>1.00</u>		<u>0.0657</u>

*** R/E - 12month roll forward:**

FY 2004	<u>\$ 634,880</u>	See Schedule 17b
FY2005	<u>\$ 634,880</u>	BIPCo hopes to break even in the FYE 2005
FY2006	<u>\$ 709,161</u>	2005 retain earnings plus 11.7%

RUS DRAWDOWNS
BLOCK ISLAND POWER COMPANY

Year Acquired	Asset Description	Acquisition Cost	Adjustment **	Adjusted Cost	7/26/1996 1st Draw Down	4/9/1997 2nd Draw Down	6/28/1997 3rd Draw Down	12/6/1997 4th Draw Down	10/21/1998 5th Draw Down	1/23/1999 6th Draw Down	3/16/1999 7th Draw Down	Total Used	Total Unused
	Engines/SCR's												
	"B" Engine #22	\$ 525,000			\$ 370,500							\$ 370,500	
	"B" Engine #23	525,000			390,000							390,000	
	"B" Engine #24	525,000										-	
	SCR #22	200,000			135,500	6,963						135,500	
	SCR #23mis.	200,000										6,963	
	SCR #24	200,000					182,000	321,000				321,000	
	SCR #21 and #23							117,500	117,500	25,000	368,000	510,500	
	Generation Interconnect *						182,000	321,000	117,500	25,000	368,000	1,916,463	58,537
		2,175,000	(200,000)	1,975,000	506,000	396,963	182,000	321,000	117,500	25,000	368,000	1,916,463	58,537
	Tanks												
		350,000			340,000							340,000	10,000
	Soft Costs												
	Engineering	100,000											
	Legal (general)	140,000											
	Legal(environ)	50,000											
	Accounting	90,000											
	Project Manager	75,000											
	Permitting	100,000											
		555,000	(550,000)	5,000									5,000
	Distribution Costs												
		96,000		96,000	90,000								6,000
	Distribution												
		150,000	750,000	900,000					477,500	200,000	316,000	993,500	(93,500)
	Substation												
		89,000		89,000									89,000
		5,000		5,000									5,000
		340,000		1,090,000					477,500	200,000	316,000	993,500	500
	Total Additions	\$ 3,420,000	-	\$ 3,420,000	\$ 936,000	\$ 396,963	\$ 182,000	\$ 321,000	\$ 595,000	\$ 225,000	\$ 684,000	\$ 3,249,963	\$ 80,037

* RUS instructed BIPCo to charge part of the substation costs to generation.

** RUS approved a reclassification of BIPCo's borrowing to increase the funds available for a new substation.

Calculation of Average Capital
BLOCK ISLAND POWER COMPANY

Schedule WEE-17b

Retained Earnings--12 Months Average

	Total Capital	Retained Earnings
June 30, 2003	\$ 609,709	\$ 418,194
July 31, 2003	794,540	603,025
August 31, 2003	1,028,747	837,232
September 30, 2003	1,030,598	839,083
October 31, 2003	974,768	783,253
November 30, 2003	1,049,229	857,714
December 31, 2003	992,855	801,340
January 31, 2004	921,334	729,819
February 28, 2004	867,010	675,495
March 31, 2004	679,234	487,719
April 30, 2004	615,309	423,794
May 31, 2004	353,406	161,891
	9,916,739	\$ 7,618,559
	/12	/12
FY 2000 12 Month Average	\$ 826,395	634,880
Capital stock		200,000
Premium		13,000
Treasury Stock		(21,485)
		191,515
Check		\$ 826,395

FEDERAL TAX CALCULATION
BLOCK ISLAND POWER COMPANY

Schedule WEE-18

Net Utility Profit	\$	302,438
Less: Interest Expense		<u>209,431</u>
Net Income after Interest	\$	<u>93,008</u>
Federal Income Tax rate		<u>34%</u>
Federal Income Tax	\$	<u>31,623</u>