

Rebuttal Testimony
Of
Walter E. Edge Jr. MBA, CPA

For
Block Island Power Company

Docket # 3655

April 2005

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 B&E Consulting,
3 21 Dryden Lane, Providence, Rhode Island 02904.

4

5 **Q. Are you the same Walter E. Edge Jr. that has previously filed prefiled direct and**
6 **interim testimony in this Docket #3655?**

7 A. Yes.

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9 **Q. What is the purpose of your rebuttal testimony?**

10 A. I have read the prefiled testimony of Mr. Stan Faryniarz for the Town of New Shoreham
11 and I would like to offer a few comments relating to his testimony.

12

13 **Q. Mr. Edge did you also read the prefiled testimonies of Mr. Thomas S. Catlin, Mr.**
14 **Lafayette K. Morgan, and Mr. Bruce R. Oliver for the Division of Public Utilities and**
15 **Carriers?**

16 A. Yes I have. However, at my request the Division and BIPCo entered into negotiations
17 to reach a stipulation on rate base, rate of return, revenue requirement and rate design.

18 After BIPCo provided some additional information, and after additional discussions, the
19 Division and BIPCo reached an agreement on rate base, rate of return, revenue requirement
20 and rate design. A stipulation is currently being prepared.

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22 BIPCo accepted the rate design changes offered by Mr. Oliver, the Division's rate design
23 witness for this preceding. (It should be noted that Mr. Oliver did the last BIPCo rate design
24 that has been in place for thirteen years).

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26 In addition, I found that Mr. Oliver's positions on Integrated Resource Planning (IRP) and
27 Demand Side Management (DSM) for BIPCo insightful and more reasonable given BIPCo's
28 operational size and financial capability, than the more demanding requirements suggested
29 by Mr. Faryniarz for the Town.

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Q. Mr. Edge what comments do you have relating to Mr. Faryniarz testimony?

A. I have many comments that I have summarized as follows: (Note: the following comments are presented in the same order as the issues are listed in the testimony of Mr. Faryniarz.)

1. It is ludicrous to compare the average retail rates of BIPCo and Narragansett Electric Company. Given Narragansett Electric’s size, it has significant efficiencies of scale. Even more important Narragansett Electric is not located on an island, isolated from the New England Power grid as BIPCo is.
2. It is important to point out that while the price of fuel has in fact “escalated dramatically” as pointed out by Mr. Faryniarz, the fuel efficiency of BIPCo’s new engines has also escalated dramatically. This is explained in Mr. McGinnes’ originally prefiled testimony page 4 which shows that the fuel savings from the new engines in the test year compared to the generation equipment in place when the current owners purchased the Company was in excess of \$340,000. In fact, even with the very high fuel prices in the test year, fuel procurement costs only rose about \$16,000 from FYE 2000 to FYE 2004 which is only about 4.4% per year on average (the peak demand is up 3.3% causing at least part of the increase in fuel costs). In other words, the fuel efficiency of the current generators has nearly off-set the increase in fuel cost in the last five years.
3. On page 14 line 10 of Mr. Faryniarz’ testimony he states that fuel prices have “doubled in the last few years”. However BIPCo’s costs are up less than 25% in the last few years. This means that the fuel savings from an underwater cable may not be nearly as significant as Mr. Faryniarz would lead the reader to believe on page 14 of his prefiled testimony.
4. I agree that BIPCo has had available to it in the past low cost borrowing from RUS. However, I am very concerned about BIPCo’s recent losses and the fact that BIPCo did not achieve its RUS financing ratios in the last calendar year (2004) and may not

1 reach them again this calendar year (2005). I am not sure that RUS will be
2 interested in loaning BIPCo additional funds given recent history.

3 5. I am concerned that Mr. Faryniarz may have understated the reasons why the cable
4 project failed the last time it was considered.

5 He is correct in that the cost to make land fall on the mainland and connect to
6 Narragansett Electric's system was overly burdensome but there were other equally
7 as daunting issues, not the least of which was the fact that there are so few year
8 round customers on the Island and the fact that weather plays such a large part in the
9 revenue success of any given year.

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11 BIPCo found that the underwater survey showed numerous sunken obstructions that
12 had to be investigated or avoided in laying the cable. This determination added
13 significantly to the cost of the project. Also, the cost of the land fall on Block Island
14 and the connection to the BIPCo system was very costly. Transmission costs were
15 also more than anticipated. In addition, the cost of copper skyrocketed such that the
16 cost of the cable itself was going to be much more than originally estimated.

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18 **Q. Well Mr. Edge do you think that it is waste of time to re-evaluate the cable option?**

19 A. No I do not. However, I would like to see the Town apply for a grant to study the cable
20 option. It may be possible for the Town to build the cable and finance it with low cost
21 municipal bonds. Then the Town could lease it to BIPCo and that arrangement might make
22 some sense, but I would have to see some numbers from the study before I could be sure that
23 it would work.

24
25 **Q. I'm sorry Mr. Edge for the interruption would you please continue with your**
26 **comments?**

27 A. Certainly.

28 6. Mr. Faryniarz also does not discuss the fact that BIPCo would have to maintain its
29 engines as back-up in case the cable fails as it apparently did on Fox Island (26
30 failures in six years). Apparently Fox Island could go without power during the

1 cable failures (they have no other source of power) but Block Island is a small town
2 with the normal municipal services, medical facilities and many small businesses
3 that in my opinion could not go without power during cable failures.

4 7. With all due respect, I find it hard to believe that those businesses that make all of
5 their money in just a few summer months will be willing to “cycle their loads” to off
6 peak while their competitors receive full power. I find this option not very likely.

7 8. I agree with Mr. Faryniarz that BIPCo needs distribution system improvements
8 which are the next logical step in BIPCo’s thirteen year step-by-step program to
9 improve its overall system and operating efficiency. BIPCo started by cleaning up
10 the soil, removing the unused fuel tanks and improved the tanks it utilizes, improving
11 the generation equipment, purchasing new SCR equipment to clean up the air, and
12 building a new substation. All of this work cost millions of dollars and has resulted
13 in much more reliable electricity for the island.

14 9. I disagree that an interruptible rate program can be “implemented in the least amount
15 of time” unless the “least amount of time” is two years. After the “proof of concept
16 trial program” is completed and if it works, BIPCo would have to determine the rate
17 impact (lost revenue) of such a program for the interruptible customers as well as the
18 rate increase for other customer classes. Further BIPCo would have to determine
19 the expense savings if any. After that BIPCo would have to file for a rate change
20 with the PUC. I would expect that many of BIPCo’s other customer classes that
21 may get an increase in rates from the implementation of an interruptible rate design
22 may object to the interruptible rates. I expect that this new rate design could take a
23 couple of years to implement. I also doubt that many (if any) customers would want
24 an interruptible rate, which is more suited to manufacturing facilities than hotels,
25 restaurants, etc.

26 10. A careful review of the table on page 24 of Mr. Faryniarz’ testimony shows that
27 October consumption is more like the summer peak than the winter valley.

28 11. The Division and the Town have concluded that the demand-metered commercial
29 customers should be increased greater than the overall percentage increase. BIPCo
30 has agreed to this change.

- 1 12. A surcharge for reasonable IRP and DSM programs agreed to by all parties may be
2 an appropriate mechanism for generating the needed monies to support the level of
3 IRP and DSM activity considered reasonable by the Commission. However, BIPCo
4 should not (and will not) do any IRP or DSM work that is not fully funded by the
5 surcharge. BIPCo simply does not have staff to do this work and therefore would
6 have to hire consultants. BIPCo does not have the funds to pay consultants to study
7 these programs.
- 8 13. I strongly disagree with Mr. Faryniarz' seven year amortization proposal (page 30)
9 for the collection of IRP and DSM costs from ratepayers. BIPCo has a very serious
10 cash flow problem given the seasonality of its business. Anything that exacerbates
11 the problem such as requiring expenditures in one year and collecting revenue seven
12 years later is impossible. When one considers that \$70,000 is 70% of BIPCo's
13 authorized return on equity one can see that Mr. Faryniarz' proposal is not
14 reasonable for a company the size of BIPCo.
- 15 14. I also disagree that BIPCo should collect any monies for DSM from its ratepayers
16 and send it to the State Energy Office. BIPCo is exempt from the legislation and it
17 makes no sense to me to give away ratepayer money to the State when BIPCo's
18 ratepayers pay the highest rates in the State.
- 19 15. I do not disagree with Mr. Faryniarz' suggestion to load the summer rates with the
20 IRP and DSM surcharge. Collection of this surcharge this summer would provide a
21 quick start for the programs.
- 22 16. Mr. Faryniarz' suggestion of sequestering the funds for the exclusive use by BIPCo
23 for IRP and DSM objectives is reasonable. However not allowing BIPCo access to
24 this income until "these activities once they have been undertaken and managed
25 properly; that is that measurable preset goals and objectives are realized before
26 BIPCo" will assure that nothing will be done. The Commission can not order the
27 Company to use stockholder funds to do projects that management does not believe
28 are necessary (management rights). However, if the Commission provides ratepayer
29 dollars for a given purpose then the Commission can order how those funds can be
30 used.

1 17. After all of the data responses we responded to I was surprised that Mr. Faryniarz
2 concluded that BIPCo did not need the new engine on pages 37 and 38 until I got to
3 page 39 only to find out that the Town (his client) “is reluctant to recommend denial
4 of rate base recognition of the proposed new diesel”. Management is in the best
5 position to determine the need for the new engine and the proper use of back-up
6 permitted engines.

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

9 A. Yes.

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