

**Prefiled Direct Testimony**

**of**

**Albert R. Casazza, MD, MBA  
President**

**for**

**Block Island Power Company**

**Docket # \_\_\_\_\_**

**NOVEMBER 2007**

1 **Q. Please state your name and relationship to BIPCO for the record.**

2 A. My name is Albert R. Casazza, MD, MBA. I am the President of BIPCO and have been  
3 since 2004. In addition to my position at BIPCo, I retired as the Associate Physician in  
4 Chief for the Regional Network at Memorial Sloan Kettering Cancer Center in December  
5 2006, having served in that position for 11 years.

6

7 **Q. Dr. Casazza, have you testified as a witness prior to this docket?**

8 A. Yes. I have testified as a witness in support of a number of filings for Block Island  
9 Power Company (BIPCO).

10

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

12 A. I received my Bachelors of Arts Degree from Princeton University, and my Doctor of  
13 Medicine Degree from Columbia University. I also received a Masters Degree in Business  
14 Administration (MBA) with honors from the University of Connecticut with a concentration  
15 of studies in Finance. I have held significant administrative and executive positions for 35  
16 years. In addition to my position at BIPCo, I am the Associate Physician in Chief for the  
17 Regional Network at Memorial Sloan Kettering Cancer Center.

18

19 **Q. What are your functions at BIPCO?**

20 A. I am responsible as President for all of the operations of BIPCo. I supervise the CFO,  
21 COO and general manager. I am involved in every major and many minor decisions of the  
22 power company. I provide a liaison from the power company to the Town and serve on the  
23 joint IRP & DSM committee. Because I previously served as treasurer of BIPCo, I am still  
24 very active in all financial and financing activities of BIPCo including activities with RUS  
25 and Washington Trust.

26

27 **Q. What accomplishments have you achieved since becoming President?**

28 A. We have installed a budgetary procedure, including a Budget committee that meets  
29 every three months to maintain the financial integrity of the Company. I have also been  
30 involved in establishing a new employee defined contribution tax deferred profit sharing  
31 plan, and I have been involved in improving employee relations and efficiency.

1 Additionally, I have implemented a spread sheet work plan to make sure that all of the  
2 mandated environmental measurements and other requirements are made in a timely  
3 fashion. I have also worked hard to establish a good working relationship with the Town  
4 and the State. Finally, with the approval of the RUS and the Washington Trust Company I  
5 have implemented a sale of a small portion of BIPCo property that has improved our  
6 debt/equity ratio as suggested by the PUC.

7

8 **Q. Is BIPCo in compliance with the most recent Commission order?**

9 A. Yes we are.

10

11 **Q. Would you please review the items that have been addressed to be in compliance  
12 with the last Commission order in Docket #3655?**

13 A. Certainly, the following items have been addressed as follows:

14

15 ***Compensation of President, CFO and COO***

16 At the request of the Commission, 90 days after the Commission order in Docket #3655,  
17 BIPCo filed a Management Compensation Filing which included the expert testimonies of  
18 Walter E. Edge Jr. MBA and Matthew M. Bodah, Ph.D. BIPCo was gratified when the  
19 Commission accepted this filing as compliant. Although BIPCo could have paid more to  
20 management than the amount approved by the Commission in Docket # 3655 in the form of  
21 dividends, BIPCo's board decided to comply with the compensation level that it agreed to in  
22 the stipulation with the Division and adopted in the Commission order. Therefore, BIPCo  
23 paid only the approved salary level and paid no dividends in the rate year.

24

25 ***Free Electricity to a Retired Employee***

26 The Commission ordered that this practice be discontinued it has been discontinued.

27

28 ***Replacement for Mr. Wagner as General Manager***

29 BIPCo has promoted Dave Milner, a long term employee, to the position of general  
30 manager. Mr. Milner has run the Company well, with only minor outages. He has  
31 complied with regulatory requirements and has earned the trust and admiration of the  
32 workers.

1 ***Set-up and Participate in the IRP Working Group***

2 I participated on the IRP committee that was ordered by the PUC to study the long term  
3 needs of Block Island for electricity and to suggest ways that would meet those needs in the  
4 best manner. The committee's consultant, HDR, looked at three main areas: conservation,  
5 renewable energy and an underwater cable to the mainland. Renewable energy proposals  
6 focused on wind energy as it was the thought of the committee that photovoltaic was not  
7 practical and other types such as wave energy were too experimental. However, BIPCo  
8 understands that the State may be looking to site a small, experimental wave energy project  
9 near Block Island and that Block Island may obtain a small amount of free electricity if this  
10 project is in fact installed. BIPCo is keeping an eye on these developments.

11

12 ***Conservation:***

13 The consultants found that the islanders in general were well informed about conservation  
14 but the commercial base of customers had shown little incentive to either conserve or  
15 replace capital items that were more efficient in the use of electricity. The reason proposed  
16 for this was that the commercial season was too short to provide a quick "pay back" on the  
17 capital investment. I did remind ratepayers in the requisite mailings about the \$0.01  
18 surcharge, that conservation required no capital outlay, and the benefit was immediate. I  
19 would like to think that these reminders were effective as there was no increase in the use of  
20 electricity this summer as compared to last year.

21

22 ***Cable:***

23 The consultant showed that an underwater cable would be prohibitively expensive if no  
24 grant money could be obtained. The calculations in the report show that a capital outlay of  
25 in excess of \$18 million would be required and the rate for electricity with the cable would  
26 not drop below that of diesel generated until the 15<sup>th</sup> year. The committee felt that such a  
27 long wait did not justify such a large expenditure. However, the RUS issued a notice that  
28 grant money was available and BIPCo has applied for a \$5 million grant to help offset the  
29 cost of a potential cable.

30

31

1 If the grant is obtained, BIPCo will look at new scenarios and present them to see if the  
2 cable is financially feasible. BIPCo management, ownership and influential ratepayers  
3 believe that an underwater cable would best suit the needs of the island over the long term as  
4 fuel transport, storage, and combustion would be practically eliminated from the island's  
5 environment.

6

7 ***Renewable Energy:***

8 If the cable is not feasible, the consultants recommended installation of windmills coupled  
9 with conservation. BIPCo management has visited several sites having windmills and is  
10 studying how to integrate such use into the current production and distribution processes of  
11 the company. The problem of where to locate such windmills on the Island, what the costs  
12 would be, and when the pay back would occur have not been settled. However, BIPCo is  
13 following the efforts of the State of R.I. to locate off-shore a windmill project. One of the  
14 proposed locations is off the coast of Block Island. BIPCo believes that such a project may  
15 provide Block Island and BIPCo the opportunity to tap into this wind generation with  
16 significantly less capital investment.

17

18 BIPCo is committed to the PUC, DPUC, Town of New Shoreham, and its ratepayers to  
19 determine and implement the processes and programs that would best suit the long term  
20 needs of all the peoples of Block Island.

21

22 ***Concern Regarding the BIPCo Debt/Equity Ratio***

23 As noted above, the property sale has improved our debt/equity ratio. In addition, BIPCo  
24 Board's decision to not authorize or pay dividends in FYE May 31, 2006 and 2007 further  
25 improved the debt to equity ratio. Now, BIPCo is hoping for a slowdown in its capital  
26 intensive programs which were needed to significantly improve the service that it provides  
27 to its ratepayers. During the next few years BIPCo hopes to pay down some of the debt that  
28 was incurred to purchase four new engines, new SCR units, and a \$1.1 million dollar sub-  
29 station. All of these efforts are intended to reduce the debt/equity ratio.

30

31 ***Notification of the Ratepayers of the \$0.01 Surcharge for the IRP/DSM Fund***

32 BIPCo added an insert with its summer bills that explained the surcharge.

1 ***BIPCo Was Required To Establish a Reserve Balance Sheet Account for SCR and Engine***  
2 ***Activities***

3 BIPCo established this balance sheet account as directed by the Commission and has  
4 continued to maintain it. The test year ending balance of this account was amortized back  
5 to the benefit of the ratepayers in Mr. Edge's calculation of rate year revenue requirement  
6 for the SCR/Engine reserve account.

7  
8 **Q. Dr. Casazza, are there any other comments that you would like to make in this**  
9 **testimony?**

10 A. Yes. As I stated above, BIPCo hopes to slow down its purchases of capital assets for a  
11 few years while it pays off debt and lowers the debt to equity ratio, however BIPCo's  
12 finance committee has identified a project that may be worth the expenditure of a few  
13 dollars to investigate. BIPCo recently had a problem with a meter at one of its larger  
14 customers. That problem resulted in BIPCo replacing the meter with a new (same type)  
15 meter.

16  
17 BIPCo's general manager pointed out that, to his knowledge, BIPCo has never done a  
18 complete meter replacement program and that some meters in the system are probably over  
19 40 year old. Mr. Edge further noted that about 70 percent of BIPCo's meters were fully  
20 depreciated. It was suggested that BIPCo do a meter replacement program.

21  
22 The discussion ensued and the result was that BIPCo's finance committee needed the answer  
23 to the question "What type of meters should BIPCo use for its meter replacement program?"  
24 BIPCo could consider replacing all of the meters with the same type meters at a reasonably  
25 small cost of approximately \$100,000 (if done with in-house labor). A second option could  
26 be radio read meters that could be read by a "drive by" meter reader, saving meter reading  
27 time and cost. A third approach would be the possibility of a central tower that would be  
28 able to read all of the meters on the island, possibly eliminating the need for all meter reader  
29 time and cost. A fourth possibility is meters that would be tied into the phone system and  
30 the monthly reads would be called in to BIPCo automatically. The problem is that each of  
31 these options has advantages and disadvantages and BIPCo does not have the expertise to  
32 evaluate these options.

1 **Q. What are you suggesting?**

2 A. I have asked Mr. Edge to put \$10,000 into the revenue requirement for this filing for the  
3 money to have an expert in this field come to the island and review these options and to  
4 provide BIPCo with the answers to our questions. I believe that a new meter system could  
5 result in some annual savings in BIPCo's operating costs while at the same time may result  
6 in additional revenue if it is found that any of the meters are operating slowly. BIPCo  
7 would be happy to restrict this money, for this purpose only, and any amounts collected in  
8 subsequent years would be applied to the cost of implementing the selected best option.

9

10 **Q. Has the BIPCo Board of Directors approved the filing of this rate case?**

11 A. Yes they have.

12

13 **Q. Is BIPCo expecting to have a surplus in FYE 2007?**

14 A. As of this writing we have a surplus of approximately \$40,000. However, BIPCo has  
15 prepared its FYE May 31<sup>st</sup> 2008 budget and we are currently looking at a substantial loss.  
16 We are meeting regularly to find any costs that we can either eliminate or defer. We had a  
17 loss of over \$20,000 of summer electric sales, the reduced rental income from the  
18 communications tower due to consolidation in the cell phone industry and we will not have  
19 the one time pole rental catch-up that was available last year. These items have been very  
20 difficult to begin to off-set with reduced expenses.

21

22 **Q. When does BIPCo need the rate increase?**

23 A. In our last Docket BIPCo was unable to file its rate request until December 17, 2004  
24 because it was dealing with thirteen years of history. BIPCo has made an effort to file this  
25 rate request in a timely manner allowing the Division a full suspension period. BIPCo  
26 needs to have rate relief by June 1<sup>st</sup> of 2008 or sooner if possible.

27

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

29 A. Yes.