

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-1. Referring to the response to DIV 1-07, please provide calculations showing the \$6,000 interest assessment.

Response: See the attached assessment from the State of RI Division of Taxation and my letter requesting that the interest be waived. To date we have not received a response to my letter nor have we received a follow-up request for payment of the interest from the Division of Taxation. Please note that I requested the calculation of the assessed amount in my letter (near the end) and I have not received that calculation either.

Prepared by: WEE

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DEPARTMENT OF ADMINISTRATION
DIVISION OF TAXATION
ONE CAPITOL HILL
PROVIDENCE, RI 02908**

Tuesday, July 17, 2007

050161650

**BLOCK ISLAND POWER COMPANY
P O BOX 518
BLOCK ISLAND, RI 02807**

**PUBLIC SERVICE CORPORATION GROSS EARNINGS TAX FOR THE YEAR
ENDED 12-31-05.**

TAX	INTEREST	PENALTY	TOTAL
\$0.00	\$6,336.00	\$0.00	\$6,336.00

REQUEST FOR HEARING ON THIS DETERMINATION, STATING REASONS THEREFORE, IN WRITING, MUST BE MADE TO THE TAX ADMINISTRATOR WITHIN THIRTY DAYS FROM THE DATE OF THIS NOTICE. PLEASE REMIT ONE COPY OF BILL WITH PAYMENT.

CREDIT RECEIVABLE

24-11-130

August 27, 2008

Mr. Charlie Larocque
Acting Chief Revenue Agent
Department of Administration
Division of Taxation
One Capital Hill
Providence RI 02908

Dear Mr. Larocque:

Block Island Power Company (BIPCo) is in receipt of a notice from the Division of Taxation (Division), stating that BIPCo owes the State of Rhode Island \$6,336.00 in interest relating to its late payment of gross receipts tax for the calendar year ending December 31st 2005. This is the first time in the past decade (and maybe longer) that BIPCo has been charged interest on its late payment of gross receipts tax.

In light of the facts relating to BIPCo's unique circumstances, BIPCo asks that the Division waive the interest as they have repeatedly done in the past. The relevant facts are as follows:

1. BIPCo is a very small regulated public electric utility that is authorized by the Rhode Island Public Utilities Commission (PUC) to earn approximately \$80,000 per year of profit. Yet it pays gross receipts tax (in lieu of income tax) of approximately \$175,000 per year. Clearly this is a substantial level of taxation that in the end is paid by the ratepayers of BIPCo. Please note that BIPCo has the highest electric rates in Rhode Island and New England and some of the highest rates in the Nation, in part as a result of the size of its gross receipts tax burden.
2. In spite of the significant size of the gross receipts tax burden, BIPCo has always paid its gross receipts taxes each year.
3. Further exacerbating BIPCo's problem is its summer seasonality. The fact that gross receipts taxes are due March 15th (40%) and June 15th (60%) of each year makes it impossible for BIPCo to pay its gross receipts taxes on time because BIPCo receives over 70% of its revenue in July – October.

As of March 15th, BIPCo will have collected less than 5% of its annual revenue, yet it is required to pay 40% of its gross receipts taxes. By June 15th, BIPCo has collected less than 20% of its annual revenue, yet it is required to pay the remaining 60% of its gross receipts taxes. Given its small size, BIPCo simply is not in a position to advance the State revenue that it doesn't have.

4. If this gross receipts tax situation were not enough to allow the Division to waive the interest on the gross receipts tax, I would suggest that the situation that exists for BIPCo with regard to the fuel excise tax also be considered. As the Division is aware, BIPCo is required to pay fuel excise taxes at the point of purchase of the fuel it uses to produce electricity. Of course, BIPCo is allowed to receive a full refund of these fuel excise taxes because the fuel is not used for transportation over the roads. However, in order to receive the refund BIPCo has to file a request for refund from the Division.

Although the Division has on many occasions quickly processed the paperwork relating to the refunds, BIPCo often waits months before the refunds are received. I have attached a schedule showing the requests for refunds made during 2005 and the dates that the refunds were received. It is easy to see from the schedule that on October 31, 2005 the Division paid BIPCo \$132,008.10 of refunds, some of which went back to fuel purchases from April 22nd of 2005. These refunds were paid by the State to BIPCo without interest. Clearly if BIPCo had received the fuel excise refunds earlier it could have paid its gross receipts taxes earlier.

5. One might ask why BIPCo has not requested legislation to change the fuel excise tax law to eliminate the need for BIPCo to pay the fuel excise tax in the first place. This would significantly reduce BIPCo's cash flow problems, reduce unnecessary work by the Division in processing the refunds and save the ratepayers of BIPCo additional interest costs throughout the year.

In fact, a couple of years ago, the Division (at BIPCo's request) provided language that BIPCo could use to ask for a change of the law that the Division could support. Of course, as one might expect, the legislators changed the language and the Division could not support the new language.

Undaunted, BIPCo tried again last year to change the law and the effort failed. This time the change failed not because of the language, but rather because a legislator asked "Wouldn't this exemption create a loss of revenue (interest) for the State that it currently earns on the money before it is refunded to BIPCo?" Of course the answer was yes.

Given the State's financial woes, the thought of losing the interest earned at BIPCo's expense killed the legislation. The result is that the State refunds hundreds of thousands of fuel excise tax dollars without interest to BIPCo and now wants to charge gross receipts tax interest to BIPCo for monies owed to the State that were delayed. This is simply unfair.

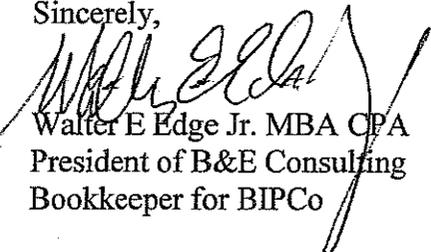
It is my hope that the above information will provide the Division with enough reasons to allow the Division to waive the gross receipts interest payment for CY 2005 and all subsequent years. Please feel free to contact me at 401-785-0800 if you have any additional questions.

Before closing I would like to make just a few additional points. First, I was surprised and disappointed that the Division did not provide the calculation that it used to arrive at the \$6,336.00 amount owed by BIPCo for late payment of its CY 2005 gross receipts payments. Second, I do not know what is meant by the notation at the bottom of the notice that states "CREDIT RECEIVABLE 24-11-130".

My last point is to note, as I started, that BIPCo is a publicly regulated entity and BIPCo is currently working on a rate filing that will be filed with the PUC. If this interest is not waived, BIPCo will have to add this new interest expense (BIPCo believes that it is unavoidable) as a new annual cost of doing business. I expect that this fact will become a public matter, if by no one else, then by the *Block Island Times*. The *Times* likes to present all new issues in our rate filing to its readers. The *Times* will ask for clarification by BIPCo and the above listed information will have to be provided. BIPCo would like to avoid this if at all possible.

Thank you in advance for your attention to this matter and as I stated earlier if I can be of any additional help please do not hesitate to call.

Sincerely,



Walter E Edge Jr. MBA CPA
President of B&E Consulting
Bookkeeper for BIPCo

Cc: Owners, Mike McElroy

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-2. Referring to the response to DIV 1-11, where does the restricted account appear on the Company's balance sheet?

Response: The restricted cash account is included in the "cash and cash equivalent" line item on the balance sheet under current assets. Please note that the credit (liability) for the customer deposits is also shown as a "current" liability. When they are equal they will off-set each other in the current ratio calculation which is appropriate.

Prepared by: WEE

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-3. Referring to the response to DIV 1-14, please provide documentation supporting the accrued pension liability as of May 31, 2007.

Response: See Attached.

Prepared by: DGB

Retirement Obligation
Block Island Power Company
5/31/07

Attachment for response to DIV 2-3

G/L # 3283.0001

Balance per General Ledger at 5/31/07	(465,739.15)
Balance per detailed analysis at 5/31/07	<u>(465,739.15)</u>
Variance	<u><u>-</u></u>

	Obligation at 5/31/07	Current	long term
Edwards	\$ -	\$ -	\$ -
Slate	\$ 79,307.70	\$ 3,444.14	\$ 75,863.56
Brown	\$ 101,782.18	\$ 4,499.17	\$ 97,283.01
Millikin	\$ 152,135.83	\$ 6,862.95	\$ 145,272.88
Wagner	\$ 132,513.44	\$ 5,941.80	\$ 126,571.64
	\$ 465,739.15	\$ 20,748.06	\$ 444,991.09

	Age	year of expectance	# of years expected	# of months expected
Edwards	over 75			
Slate	67	2015	8	96
Brown	64	2018	11	132
Millikin	55	2027	20	240
Wagner	59	2023	16	192

Slate

Compound Period: Monthly

Nominal Annual Rate: 5.000 %
 Effective Annual Rate ...: 5.116 %
 Periodic Rate: 0.4167 %
 Daily Rate: 0.01370 %

CASH FLOW DATA

Event	Start Date	Amount	Number Period	End Date
1 Loan	05/31/2007	79,307.70	1	
2 Payment	06/01/2007	1,000.00	96 Monthly	05/01/2015

AMORTIZATION SCHEDULE - Normal Amortization

Date	Payment	Interest	Principal	Balance
2007 Totals	0.00	0.00	0.00	79,307.70
2008 Totals	12,000.00	3,444.14	8,555.86	70,751.84
2009 Totals	12,000.00	3,340.94	8,659.06	62,092.78
2010 Totals	12,000.00	2,897.94	9,102.06	52,990.72
2011 Totals	12,000.00	2,432.25	9,567.75	43,422.97
2012 Totals	12,000.00	1,942.76	10,057.24	33,365.73
2013 Totals	12,000.00	1,428.19	10,571.81	22,793.92
2014 Totals	12,000.00	887.32	11,112.68	11,681.24
2015 Totals	12,000.00	318.76	11,681.24	0.00
Grand Totals	96,000.00	16,692.30	79,307.70	0.00

Brown

Compound Period: Monthly

Nominal Annual Rate: 5.000 %
 Effective Annual Rate ...: 5.116 %
 Periodic Rate: 0.4167 %
 Daily Rate: 0.01370 %

CASH FLOW DATA

Event	Start Date	Amount	Number Period	End Date
1 Loan	05/31/2007	101,782.18	1	
2 Payment	06/01/2007	1,000.00	132 Monthly	05/01/2018

AMORTIZATION SCHEDULE - Normal Amortization

Date	Payment	Interest	Principal	Balance
007 Totals	0.00	0.00	0.00	101,782.18
008 Totals	12,000.00	4,499.17	7,500.83	94,281.35
009 Totals	12,000.00	4,544.76	7,455.24	86,826.11
010 Totals	12,000.00	4,163.35	7,836.65	78,989.46
011 Totals	12,000.00	3,762.40	8,237.60	70,751.86
012 Totals	12,000.00	3,340.94	8,659.06	62,092.80
013 Totals	12,000.00	2,897.94	9,102.06	52,990.74
014 Totals	12,000.00	2,432.25	9,567.75	43,422.99
015 Totals	12,000.00	1,942.76	10,057.24	33,365.75
016 Totals	12,000.00	1,428.19	10,571.81	22,793.94
017 Totals	12,000.00	887.32	11,112.68	11,681.26
018 Totals	12,000.00	318.74	11,681.26	0.00
and Totals	132,000.00	30,217.82	101,782.18	0.00

Millikin

Compound Period: Monthly

Nominal Annual Rate: 5.000 %
 Effective Annual Rate ...: 5.116 %
 Periodic Rate: 0.4167 %
 Daily Rate: 0.01370 %

CASH FLOW DATA

Event	Start Date	Amount	Number Period	End Date
1 Loan	05/31/2007	152,135.83	1	
2 Payment	06/01/2007	1,000.00	240 Monthly	05/01/2027

AMORTIZATION SCHEDULE - Normal Amortization

Date	Payment	Interest	Principal	Balance
2007 Totals	0.00	0.00	0.00	152,135.83
2008 Totals	12,000.00	6,862.95	5,137.05	146,998.78
2009 Totals	12,000.00	7,241.88	4,758.12	142,240.66
2010 Totals	12,000.00	6,998.46	5,001.54	137,239.12
2011 Totals	12,000.00	6,742.55	5,257.45	131,981.67
2012 Totals	12,000.00	6,473.57	5,526.43	126,455.24
2013 Totals	12,000.00	6,190.85	5,809.15	120,646.09
2014 Totals	12,000.00	5,893.62	6,106.38	114,539.71
2015 Totals	12,000.00	5,581.21	6,418.79	108,120.92
2016 Totals	12,000.00	5,252.82	6,747.18	101,373.74
2017 Totals	12,000.00	4,907.62	7,092.38	94,281.36
2018 Totals	12,000.00	4,544.76	7,455.24	86,826.12
2019 Totals	12,000.00	4,163.35	7,836.65	78,989.47
2020 Totals	12,000.00	3,762.40	8,237.60	70,751.87
2021 Totals	12,000.00	3,340.94	8,659.06	62,092.81
2022 Totals	12,000.00	2,897.94	9,102.06	52,990.75
2023 Totals	12,000.00	2,432.25	9,567.75	43,423.00

Millikin

Date	Payment	Interest	Principal	Balance
2024 Totals	12,000.00	1,942.76	10,057.24	33,365.76
2025 Totals	12,000.00	1,428.19	10,571.81	22,793.95
2026 Totals	12,000.00	887.32	11,112.68	11,681.27
2027 Totals	12,000.00	318.73	11,681.27	0.00
Grand Totals	240,000.00	87,864.17	152,135.83	0.00

Wagner

Compound Period: Monthly

Nominal Annual Rate: 5.000 %
 Effective Annual Rate ...: 5.116 %
 Periodic Rate: 0.4167 %
 Daily Rate: 0.01370 %

CASH FLOW DATA

Event	Start Date	Amount	Number Period	End Date
1 Loan	05/31/2007	132,513.44	1	
2 Payment	06/01/2007	1,000.00	192 Monthly	05/01/2023

AMORTIZATION SCHEDULE - Normal Amortization

Date	Payment	Interest	Principal	Balance
2007 Totals	0.00	0.00	0.00	132,513.44
2008 Totals	12,000.00	5,941.80	6,058.20	126,455.24
2009 Totals	12,000.00	6,190.85	5,809.15	120,646.09
2010 Totals	12,000.00	5,893.62	6,106.38	114,539.71
2011 Totals	12,000.00	5,581.21	6,418.79	108,120.92
2012 Totals	12,000.00	5,252.82	6,747.18	101,373.74
2013 Totals	12,000.00	4,907.62	7,092.38	94,281.36
2014 Totals	12,000.00	4,544.76	7,455.24	86,826.12
2015 Totals	12,000.00	4,163.35	7,836.65	78,989.47
2016 Totals	12,000.00	3,762.40	8,237.60	70,751.87
2017 Totals	12,000.00	3,340.94	8,659.06	62,092.81
2018 Totals	12,000.00	2,897.94	9,102.06	52,990.75
2019 Totals	12,000.00	2,432.25	9,567.75	43,423.00
2020 Totals	12,000.00	1,942.76	10,057.24	33,365.76
2021 Totals	12,000.00	1,428.19	10,571.81	22,793.95
2022 Totals	12,000.00	887.32	11,112.68	11,681.27
2023 Totals	12,000.00	318.73	11,681.27	0.00

Wagner

Date	Payment	Interest	Principal	Balance
Grand Totals	192,000.00	59,486.56	132,513.44	0.00

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-4. For each of the last three fiscal years, what was the accrual to the pension liability account and the actual disbursements for pensions?

Response: See attached.

Prepared by: DGB

PENSION ACCRUAL & EXPENSES
BLOCK ISLAND POWER COMPANY

Attachment for
response to DIV 2-4

ACCT. #	BUDGET ACCOUNT DESCRIPTION	FY 2005 ACTUAL	FY 2006 ACTUAL	FY 2007 ACTUAL
5923.0201	Employee Pension Paid	36,873	60,000	67,000
	Pension Accrual	(11,135)	(12,579)	121,904

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-5. Referring to the response to DIV 1-16, what was the total acreage of Lot 37 and the acreage of Lot 37 transferred?

Response: Before the transfer, lot 37 was 7.513 acres. The acreage transferred was .758 acres, or about 10%.

Prepared by: WEE

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-6. Referring to the response to DIV 1-24, what was Mr. Edwards' age at the time of retirement?

Response: Mr. Edwards was over 75 years old. His birth day was June 29, 1927 and he is now 80 years old.

Prepared by: WEE

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-7. Referring to the response to DIV 1-30, please provide the funding and expenditures since May 2007.

Response: See attached.

Prepared by: DGB

ANALYSIS OF SCR & ENGINE MAINT. RESERVE Attachment for the response to DIV 2-7
(PAYABLE)/RECEIVABLE FROM RATEPAYERS
BLOCK ISLAND POWER COMPANY
May 2008

	funding	5935.2090	5935.2108	5935.2111	5935.2113	5935.2117	5935.2122	5935.2124	3283.0002	3190.0002
	Balance	SCR	Generator	Generator	Generator	Generator	Generator	Generator	Reserve	Asset
		Maint	#21 Maint	#22 Install	#22 Maint	#23 Maint	#24 Maint	#25 Maint	Balance	Balance
Beginning Balance									(188,062.20)	188,062.20
Jun-07	26,417.11	-	164.78	-	150.00	3,837.66	125.00		(210,201.87)	210,201.87
Jul-07	36,976.45	2,508.35			37.93	37.93	37.93	37.95	(244,518.23)	244,518.23
Aug-07	37,148.20	234.73			1,953.08	-	-	-	(279,478.62)	279,478.62
Sep-07	30,490.90				1,073.16	2,909.68	5,306.02	4,095.20	(296,585.46)	296,585.46
Oct-07	8,910.58				262.88	973.28	3,641.06		(300,618.82)	300,618.82
Nov-07	-				-	-	-		(300,618.82)	300,618.82
Dec-07	-				-	-	-		(300,618.82)	300,618.82
Jan-08	-				-	-	-		(300,618.82)	300,618.82
Feb-08	-				-	-	-		(300,618.82)	300,618.82
Mar-08	-				-	-	-		(300,618.82)	300,618.82
Apr-08	-				-	-	-		(300,618.82)	300,618.82
May-08	-				-	-	-		(300,618.82)	300,618.82
Capitalized									(300,618.82)	300,618.82
	139,943.24	2,743.08	164.78	-	3,477.05	7,758.55	9,110.01	4,133.15	(300,618.82)	300,618.82

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-8. Referring to the response to DIV 1-30, please explain how the funding amount per month is determined.

Response: BIPCo uses the amount of revenue granted for SCR & Engine Maintenance in the last filing divided by the revenue requirement approved in the last filing to calculate the percentage of each dollar billed that relates to SCR & Engine Maintenance. The funding level is then calculated by taking the percentage for SCR times the total revenue (less fuel revenue) for the month. Fuel revenue (a pass through) was not part of the revenue requirement calculation in the last docket.

Prepared by: DGB

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-9. Referring to the response to DIV 1-31, please explain what the “engine #24 overhaul” (item 1916) in the Prime Movers account represents. The response should also explain the reason that this item was capitalized and why it is being amortized over three years.

Response: That item is a May 3, 2006 major overhaul of engine 24 that cost BIPCo \$130,946. Major overhauls cost a significant amount of money, extend the useful life of the engine by more than a year and can be capitalized under proper accounting treatment. Major overhauls however can also be expensed as a proper accounting treatment if in the regulatory environment the revenue for the activity is collected from the ratepayers in the form of “pay-as-you-go” funding. Pay-as-you-go funding was available to BIPCo in CY 2006.

Nevertheless, BIPCo was concerned that there was no way that it could achieve its Operating Times Interest Earned Ratio (OTIER) needed to be in compliance with its RUS Loan covenants if this item was expensed in the calendar year 2006. In fact, after capitalizing this item BIPCo just made its RUS required OTIER for CY 2006 but missed its Times Interest Earned Ratio (TIER) for CY 2006. BIPCo was required to explain what happened to RUS.

BIPCo elected to capitalize the CY 2006 major overhaul instead of charging it to the pay-as-you-go account. This resulted in the pay-as-you-go account ending the test year with a balance of \$188,062. Had BIPCo charged the account for the major overhaul the balance after two years would have only been \$57,116 or about 14% of the total two year financing approved in the last docket. Because BIPCo carried the \$188,062 balance forward in this docket the ratepayers have not been harmed and BIPCo was able to make its CY 2006 OTIER.

Prepared by: WEE

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-10. Referring to the response to DIV 1-31, why is the "2008 bucket truck" (item 1943) in the Transportation Equipment account being depreciated over five years while all the other equipment in this account is depreciated over twenty years?

Response: The depreciation rate of over twenty years is simply not appropriate for a bucket truck that will be used on Block Island where the air is salty and vehicles have a shorter life expectancy. Further, BIPCo hopes to replace a bucket truck every five years to avoid costly maintenance and for safety reasons.

Prepared by: WEE

BLOCK ISLAND POWER COMPANY -- Docket No. 3900
Data Requests of the Division of Public Utilities & Carriers -- Set II

DIV 2-11. Referring to the response to DIV 1-31, why is the amortization of the "15 Year Life" contributions not credited to depreciation expense?

Response: It does not relate to a fixed asset. The 15 year life amount is the amount charged over and above the cost of the project to pay for the Federal Income Taxes due in the year that the project is completed. I might add that the effect on the ratepayers is the same either way.

Prepared by: WEE