

Rebuttal Testimony

of

Walter E. Edge Jr. MBA, CPA

for

Block Island Power Company

Docket # 3900

March 2008

1 Q. Are you the same Walter E. Edge Jr. who filed prefiled direct testimony in this
2 docket?

3 A. Yes.

4

5 Q. What is the purpose of your rebuttal testimony?

6 A. BIPCo has requested that I comment on the pre-filed testimonies of Mr. David J. Effron
7 for the Division and Mr. Richard La Capra for the Town. This testimony will provide my
8 updates, observations, comments, recommendations and when necessary adjustments to my
9 initial prefiled testimony relating to the Effron and La Capra testimonies.

10

11 **General Comments:**

12

13 Q. Mr. Edge, you stated in your prefiled testimony that you were making every effort
14 to keep the cost of this rate filing as inexpensive for the ratepayers as possible and in
15 fact you had estimated a significant reduction of over \$100,000 in rate case expense in
16 this docket compared to the amount spent in the last docket. How are you doing?

17 A. Thanks to the Division's knowledge of the Company and the experience of Mr. Effron,
18 the Division needed responses to only 43 data requests to provide them with all of the
19 information they needed to develop their positions for this rate case. Their requests and our
20 responses were completed in December 2007 and we were still in good shape regarding my
21 original estimate of rate case expense for this docket.

22

23 Using the information obtained and Mr. Effron's knowledge of how to prepare revenue
24 requirement testimony, Mr. Effron was able to recommend about seventeen revenue
25 requirement related adjustments in the areas of expenses, rate base, rate of return, and capital
26 structure. Although I do not agree with all of Mr. Effron's recommended adjustments, I
27 found that they were well supported by his calculations and his assumptions and conclusions
28 were presented in a complete set of revenue requirement schedules. The Division's efforts
29 to keep rate case costs as reasonable as possible, without sacrificing their thorough review of
30 the filing, was greatly appreciated by BIPCo and BIPCo's ratepayers.

31

32

1 Q. Were you able to keep rate case expense down in January and February?

2 A. Unfortunately no. The Town requested responses to 144 data requests. It took a
3 significant amount of time and money to complete the responses. Many of the data
4 responses were never used in the Town's testimony, and in my opinion many of the other
5 Town requests were a waste of time. BIPCo did not object to any of the Town's data
6 requests because the Town's attorney would have had to respond to BIPCo's objection and
7 then BIPCo would have replied to the Town's response and the rate case expense would
8 have been even higher.

9

10 Q. Mr. Edge, what was the result of the Town's 144 data requests?

11 A. The Town's witness only identified five areas of concern to the Town. The Town has
12 not presented any reasonable revenue requirement rate year adjustments for this rate filing,
13 nor has the Town prepared any revenue requirement schedules similar to Mr. Effron's
14 schedules.

15

16 In fact, three of the Town's issues could have been addressed without making any data
17 requests. These three issues are:

18

- 19 1) The Town's request to continue the \$.01 surcharge,
- 20 2) The Town's request for BIPCo to upgrade the distribution system, and
- 21 3) The Town's request that BIPCo be ordered to do a new rate design study.

22

23 The other two Town issues are presented as a rambling of redundant opinions and comments
24 regarding what the Town's witness didn't like about the property transfer, how the proceeds
25 from that transfer (that no longer exist) should be used, and the compensation for the
26 President, Chief Financial Officer (CFO) and the Chief Operating Officer (COO). There
27 are no meaningful schedules to support any adjustments for these two issues. More over,
28 the Town's conclusions and recommendations regarding the property transfer are impossible
29 and wrong. I will explain later in this testimony why their conclusions and
30 recommendations are impossible and wrong.

31

32

1 **Officer Compensation – Town testimony:**

2

3 **Q. What are the Town’s recommendations regarding officer compensation?**

4 **A.** The Town’s conclusions regarding the compensation to the three officers of BIPCO are

5 1) that the Commission was wrong when it accepted BIPCo’s compensation compliance

6 filing, 2) that the Division was wrong when it calculated the management compensation

7 level in the last docket (which was used in the stipulation signed by all of the parties,

8 including the Town), and 3) Dr. Matthew Bodah was wrong in his analysis of the

9 appropriate compensation levels as set forth in BIPCo’s approved compensation compliance

10 filing.

11

12 **Q. Do you agree that the Commission, Division and Dr. Bodah were all wrong?**

13 **A.** No I do not agree. I believe that only party that is clearly wrong on this matter is the

14 Town because they signed the stipulation in the last docket and yet they just can’t give up

15 this issue. I too (like Mr. La Capra) wish that this issue could be finalized but although the

16 Commission, Division and BIPCo believe that BIPCo’s compensation filing was reasonable

17 and addressed the Commission’s concerns in the last BIPCo rate docket, the Town wants to

18 drag this issue out and litigate it all over again.

19

20 The Town’s recommendations on page 35 and 36 of Mr. La Capra’s testimony are:

21

22 1. “that the Commission allow no more in revenue requirements than \$135,000 to cover
23 all of the expenses that I have identified above as attributable to payments and
24 benefits for the three owner/officers.”

25

26 2. “I also recommend that the Commission disallow the voluntary annual payment that
27 the owners agreed to make to a fellow owner Mr. Edwards, who was not an
28 employee for the past 13 years and who was not part of the Company’s pension plan
29 for employees.”

30

31 3. “I suggest the \$135,000 be recognized to maintain the status quo from Docket No.
32 3655 settlement, pending **further remedial directives from the Commission and**
33 **compliance by BIPCo management with those directives.”** (Please note that this
34 statement is misleading in that the \$135,000 that he is recommending does not
35 maintain the status quo with Docket 3655.) (emphasis added)

36

1 4. "My first recommendation is intended to serve as a placeholder, **pending an**
2 **overhaul of the manner in which the Company's officers/owners receive**
3 **payments and other benefits from the Company**". In other words, the Town is
4 recommending another study because they don't like the results of the last study.
5 (emphasis added)
6

7 **Q. Did Mr. La Capra make any calculations showing the effect of his compensation**
8 **reform recommendations?**

9 A. No. Mr. La Capra makes no calculations showing the results of this new compensation
10 approach. He merely provides examples of what might be done. More importantly, Mr. La
11 Capra never provides in his testimony what credentials, if any, that he has for making his
12 compensation recommendations. Clearly, if Mr. La Capra had the same qualifications as
13 Dr. Bodah he would have presented them.
14

15 **Q. Do you have any problems with Mr. La Capra's compensation recommendation?**

16 A. Yes, I have many problems with Mr. La Capra's recommendations. Mr. La Capra
17 rejects the fact that the Commission has already ordered BIPCo to support how it
18 compensates its managers by requesting a compensation study in the last docket. Ordering
19 another compensation study (when the Town presents no credible testimony) is a clear waste
20 of time and money.
21

22 It must be noted that when BIPCo made its compensation compliance filing in the last
23 docket with Dr. Bodah, the Town claimed in a lengthy written filing that BIPCo's
24 compliance filing was not in compliance with the Commission's Order in the last docket.
25 The Town requested hearings to address the same compensation concerns that they are now
26 suggesting in this docket. The Commission rejected the need for hearings and issued an
27 order stating that BIPCo's compensation compliance filing was in compliance with the
28 previous Commission Order.
29

30 **Q. Why then, if the Commission has already addressed this issue, does the Town still**
31 **believe that officer compensation needs to be addressed?**

32 A. It appears to me that the Town does not like the previous decision of the Commission.

1 Even though the Town signed the stipulation, it seems that the Town doesn't want to accept
2 the method of calculating officer compensation calculated by the Division and agreed to by
3 all of the parties in the stipulation and approved by the Commission in the last docket.
4 The Town, as it has shown in this docket and in past dockets, doesn't mind wasting
5 Commission, Division, and Company time (and ratepayer money) lobbying for
6 reconsideration of a decision that has already been made.

7

8 BIPCo is perfectly within its management rights to pay its officers as it does. Although I
9 don't totally agree with the amount calculated by the Division (and approved by the
10 Commission) in the last docket, I believe that the Commission and the Division were correct
11 in approving the compensation method proposed by BIPCo in this docket and the last
12 docket.

13

14 **Q. What is wrong with the Town's officer compensation testimony?**

15 A. If the Town wants BIPCo to use a different officer compensation model, it is their
16 responsibility to provide an expert compensation witness like Dr. Bodah. That witness will
17 have to testify in support of the Town's position and respond to all cross examination
18 relating to management rights and compensation of officers.

19

20 **Q. What would the compensation expert witness address?**

21 A. He or she would have to complete a study similar to the one completed by Dr. Bodah.
22 He or she would have to address all of the appropriate calculations and present his/her
23 proposed salary level for each of BIPCo's officer position. The expert would have to
24 explain how the Commission can order change in the officer compensation model without
25 infringing on BIPCo's management rights and would also address related employee vs.
26 consultant issues. Mr. La Capra's testimony does not even come close to satisfying these
27 requirements.

28

29 **Q. What has Mr. La Capra provided through his testimony?**

30 A. Mr. La Capra made a number of compensation suggestions. But in the end, he simply
31 requested that the Commission order BIPCo to make a new compensation filing using an
32 hourly basis for compensation of officers.

1 **Q. Why does the Town think that it can bring up this issue again?**

2 A. The Commission's Order relating to the compensation compliance filing opened the
3 door to allow any party to present expert testimony regarding officer compensation. The
4 Town has not presented the type of expert testimony suggested in the Commission's Order.
5 In fact, the Town's testimony recommends that the Commission order yet another review by
6 BIPCo of BIPCo's officer compensation methodology.

7

8 The Town tells the Commission that it should "adopt to reform the Company's practices of
9 payments to affiliates and to **hopefully put this issue to rest in future rate filings**" page
10 36, (emphasis added). The Division and BIPCo are in support of the Commission's
11 previous decision as to the appropriate methodology for compensating BIPCo's officers.

12

13 **Q. Can the Town order BIPCo to change its compensation model?**

14 A. No they can not and I find it unbelievable that the Town expects BIPCo, at its own
15 expense, to present expert testimony in support of an "hourly" compensation model which
16 BIPCo considers totally inappropriate for the President, CFO and COO of BIPCo. Further,
17 it is unbelievable that the Town believes that it can usurp BIPCo's management rights and
18 make BIPCo's officers file time reports. I know of no President, CFO, or COO of any "for
19 profit" company (or any other company for that matter) that files a time report. And I know
20 of no President, CFO, or COO that is paid hourly. The Town's proposal is absurd because
21 how the officers are paid clearly falls within the definition of management rights.

22

23 **Q. Did the Commission address officer compensation in the last docket?**

24 A. Yes. The Commission can and did in the last docket set the level of officer's
25 compensation (and will again in this docket), but I believe, based upon my more than thirty
26 years of ratemaking experience, that the Commission should not order BIPCo to change its
27 method of payment of its officers nor require management to prepare time reports.

28

29 **Q. Has Dr. Bodah updated his compensation report?**

30 A. Yes, because his report was prepared in 2005, Dr. Bodah has updated his report, and the
31 updated report is attached hereto as Exhibit WEE-1-rebuttal. As can be seen, it
32 substantiates the rate year compensation requests made by BIPCo in this docket.

1 **Rate Case Expense:**

2

3 **Q. Did the excessive number of Town data requests and the subject matter of the data**
4 **requests increase BIPCo's rate case expense to where you are now concerned whether**
5 **BIPCo will be able to complete this rate filing for the amount (\$125,000) of rate case**
6 **expense filed in your direct testimony?**

7 A. Yes. I am increasing my initial requested for rate case expense to \$165,000 (still
8 \$60,000 below the \$225,000 spent in the last docket) to address the added cost caused by the
9 Town.

10

11 **Overview:**

12

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

14 A. I would like to review the revenue requirement adjustments made by the Division. To
15 make it easier for the readers of this testimony, I will review the issues in the same order as
16 they are shown on Mr. Efron's Schedules DJE-2 through DJE-8. As for the two issues that
17 the Town addressed that are the same as the Division (property transfer and officer
18 compensation), I will further address the Town's arguments at the same time.

19

20 The three issues that the Town raised (continuance of the \$.01 surcharge, the upgrade to the
21 distribution system, and a new rate design) that were not addressed by the Division will be
22 addressed at the end of this testimony. At that time I will also address certain incorrect and
23 misleading statements in the Town's testimony.

24

25 **Management Fees:**

26

27 **Q. Do you agree with Mr. Efron's calculation of management fees?**

28 A. I agree that Mr. Efron's calculation is reasonable but I can't agree totally with his
29 conclusion. However, it is important to note that BIPCo no longer pays its officers through
30 a "Management Fee" approach as was done prior to the last docket. Managers such as the
31 President, CFO and COO are paid individually for the services they provide using a salary
32 type compensation basis.

1 Mr. Effron has accepted as his starting point the \$135,000 combined salary level agreed to
2 by all parties in the last docket for the President, CFO, and COO. The \$135,000 was
3 approved by the Commission in the last docket. Mr. Effron then increased the \$135,000
4 amount by an annual inflation rate of 2.5% per year through the rate year for a rate year total
5 of \$146,038. On its surface this calculation appears to be a reasonable and an appropriate
6 calculation given the Commission's acceptance of the \$135,000 in the last docket and the
7 subsequent approval of BIPCo's compensation compliance filing. However, I would like to
8 make a few additional comments.

9
10 1) In the test year, BIPCo actually paid the President \$72,000, the CFO \$48,000 and the
11 COO \$48,000 for a total compensation to officers of \$168,000. Therefore, the
12 Division is suggesting that the President, CFO and COO take a 13% cut in pay in the
13 rate year.

14
15 2) The salary ranges calculated by Dr. Bodah in the 2005 compliance filing included a
16 "low end compensation level" for an electric company of BIPCo's size of \$82,905
17 for the President; \$51,371 for the CFO; and \$50,862 for the COO for a total of
18 \$185,138. These amounts are much higher in Dr. Bodah's updated 2008 report
19 attached hereto.

20
21 **Q. Why did BIPCo choose to increase the President, CFO and COO salaries to a level**
22 **10% less than the "low end" of Dr. Bodah's salary ranges?**

23 A. BIPCo has for a number of years been trying to get Commission approval to raise the
24 officer's salary levels to \$72,000 for the President and \$48,000 for each of the other two
25 officers. Even though Dr. Bodah's original study justified compensation ranges greater
26 than these amounts, BIPCo felt that until the Commission approved the previously requested
27 salaries, it would be inappropriate to increase the officer salaries to the low range of Dr.
28 Bodah's original levels. BIPCo believes that the President, CFO, and COO have
29 accomplished significant improvements for this Company over the past dozen years and that
30 these three officers should not be asked to take a 13% cut in pay (from combined current
31 salaries of \$168,000 to the Division recommended \$146,038). Therefore I have made no
32 adjustment to the officer compensation from my originally prefiled amount of \$168,000.

1 Q. Mr. Edge what is the Town's position on officer compensation?

2 A. I have previously presented the Town's position at length in this testimony. However,
3 in summary, the Town recommends the payment of "no more than \$135,000" to maintain
4 the "status quo" from Docket 3655. It should be further noted here that the Town is still
5 looking for a complete revamp of the BIPCo's compensation method to its officers. BIPCo
6 strenuously objects to any interference with its management rights and finds the Town's
7 proposal totally unacceptable.

8

9 **Pension Expense:**

10

11 BIPCo has presented its case for Mr. Edward's pension. BIPCo feels that its proposal is fair
12 and reasonable. The Commission knows that Mr. Edwards served the Company and the
13 ratepayers well for about 17 years (the last 13 of which as President). BIPCo is happy to
14 have the Commission decide the issue of Mr. Edward's pension (that was specifically
15 adopted by BIPCo's Board of Directors), without additional testimony.

16

17 **Production Maintenance (SCR and Engine Maintenance Reserve):**

18

19 ➤ The Town did not opine on this issue.

20

21 ➤ The Division adjusted the allowance for SCR and Engine Maintenance from
22 \$238,917 to \$200,000 because \$200,000 was closer to the level of spending on these
23 activities (SCR and Engine Maintenance) in the fiscal years 2006 and 2007.

24

25 **Q. Did the Division take into consideration all of the facts relating to the SCR and**
26 **Engine Maintenance expenditures in fiscal years 2006 and 2007?**

27 A. I don't believe so. During its review of this specific issue, the Division appears to have
28 ignored the fact that BIPCo actually spent an additional \$130,000 for a "major" engine
29 overhaul (which was capitalized (not expensed) during the fiscal year 2006).

30

31

1 This additional engine maintenance cost should have been considered by the Division in its
2 calculation of the average level of engine maintenance cost for the fiscal years 2006 and
3 2007. If the Division had recognized this additional \$130,000 of engine maintenance cost,
4 the average level of engine maintenance cost for 2006 and 2007 would have been about
5 \$265,000; not \$200,000.

6

7 **Q. Why did BIPCo capitalize the \$130,000 major overhaul rather than charging the**
8 **cost to the SCR and Engine Maintenance reserve account?**

9 A. BIPCo had no option. BIPCo capitalized this major overhaul (and did not charge it to
10 the SCR Engine Maintenance reserve) in order to avoid a negative operating ratio (Times
11 Interest Earned Ratio (TIER)) for its RUS calendar year 2006 Form 7 report. The
12 Division's proposal to allow only a \$200,000 amount for this activity could result in a
13 shortfall in BIPCo's rate year profit and could cause difficulty in BIPCo making its RUS
14 operating ratios for calendar year 2008 and/or 2009. BIPCo believes that its original
15 estimate of \$238,917, which is based upon the expertise of its General Manager and his
16 knowledge of the engines and the SCR units, should be accepted by the Commission.

17

18 **Q. Is there any other reason why the Commission should consider accepting BIPCo's**
19 **original \$238,917 position for SCR and Engine Maintenance?**

20 A. Yes, I believe so. BIPCo has maintained excellent records of the debits and credits
21 relating to the SCR and Engine Maintenance reserve and was able to reduce its request for
22 SCR and Engine Maintenance expense in this filing by over \$62,000 in the rate year by
23 using the unspent reserve. Of course, the unspent reserve was \$188,000 only because
24 BIPCo had to capitalize the major overhaul of \$130,000 as noted above.

25

26 The fact that this item is controlled through a restricted general ledger account means that,
27 should BIPCo's estimate be overstated, the remaining balance would be available for the
28 next rate filing (as it was for this rate filing). This option provides no risk to the ratepayers.
29 However, a default on the approximate \$4,000,000 in RUS loans as a result of BIPCo
30 having to spend \$38,917 more on engine maintenance in the rate year than proposed by the
31 Division would be much more severe for the Company and the ratepayers.

32

1 **Prior Year Rate Case Expense:**

2

3 ➤ Once again the Town did not opine on this issue.

4

5 ➤ The Division recommends that the annual amortization of the overage in rate case
6 expense (\$15,169) from the last docket not be allowed in this docket.

7

8 **Q. What is BIPCo's position on this issue?**

9 A. The rate case costs that BIPCo is recommending be amortized in the rate year are
10 appropriate rate case expenses which were caused by the intervention of the Town in the last
11 rate filing. According to Generally Accepted Accounting Principles (GAAP), BIPCo will
12 have to amortize this expense in the rate year and the expense will be charged to the
13 Company's profit and loss. The loss of this \$15,169 in setting rates will negatively impact
14 the RUS TIER ratio and therefore the elimination of this legitimate expenditure would put
15 BIPCo, its stockholders and its ratepayers at risk.

16

17 BIPCo is further bothered by the fact that the overage in rate case expense was the direct
18 result of the Town's actions in the last docket that by any definition was overreaching and
19 bothersome with little or no results. BIPCo has observed that the Town's action in this
20 docket have been the same as they were in the last docket and BIPCo is now worried about
21 the cost that it will incur in this rate filing. Therefore, I have increased the rate case
22 expense for this filing to \$165,000 as noted above.

23

24 **Lobbying:**

25

26 ➤ The Town did not opine on this issue.

27

28 ➤ The Division eliminated the lobbying cost.

29

30

31

1 Q. What is BIPCo's position relating to the \$3,825 lobbying cost included in the rate
2 year?

3 A. BIPCo believes that in the past the money was well spent, primarily in an effort to
4 legislatively get BIPCo exempt from paying fuel excise taxes at point of purchase of fuel.
5 Although BIPCo gets a full refund of the fuel excise tax, the cash flow costs are significant.
6 Should BIPCo eventually win this issue (the fight to date has been funded by the
7 stockholders with no eventual benefit to them) the working capital cost to the ratepayers
8 could be reduced. BIPCo's efforts to date have gotten very close to success failing last year
9 in committee as the result of only one question.

10

11 If BIPCo finally wins the legislative fuel excise tax battle for the ratepayers, BIPCo then
12 wants to fight the bigger gross receipts tax (GRT) issue legislatively. BIPCo has made the
13 State Division of Taxation aware of the fact that the State collects an inordinate amount of
14 GRT (in lieu of State Income Tax) from BIPCo. BIPCo's State Income Tax in the rate year
15 would be less than \$10,000. However, BIPCo paid in the test year \$184,452 of GRT.

16

17 If the Commission, Division, and Town would like to reduce BIPCo's rates substantially,
18 BIPCo could use support and assistance when it fights to become legislatively exempt from
19 GRT. BIPCo would then pay much lower State Income Taxes, all to the benefit of the rate
20 payers. Given the current financial position of the State of Rhode Island, BIPCo expects
21 that the GRT battle will be very difficult.

22

23 **Meter Replacement Survey:**

24

25 ➤ The Town did not opine on this issue.

26

27 ➤ The Division amortized the BIPCo requested amount over three years.

28

29 Q. What is BIPCo's position on this issue?

30 A. BIPCo accepts the Division's position.

31

32

1 **Condo Fees:**

2

3 **Q. What is BIPCo's position on this issue?**

4 A. BIPCo accepts the Division adjustment for condo fees. The Town did not opine.

5

6 **Depreciation:**

7

8 ➤ The Town did not opine on this issue.

9

10 ➤ The Division recommends that the last year of a three year amortization of the
11 engine major overhaul which would be expensed in the rate year be amortized over
12 another three years. Also, the Division wants the new bucket truck depreciated over
13 twenty years.

14

15 **Q. Do you agree with the Division's adjustments?**

16 A. No, I do not. For the first issue, the Division is taking one of BIPCo's utility plant
17 assets, and pulling it out of BIPCo's depreciation schedules, and then treating this one utility
18 asset differently from all of other utility assets. The Division asserts that this one asset
19 should be depreciated for another two years at a reduced depreciation rate because the asset
20 will be fully depreciated in the rate year as filed and if BIPCo does not file again for three
21 years the Company will over collect on this asset.

22

23 **Q. What is wrong with the Division's argument?**

24 A. Every year some of BIPCo's utility plant assets reach the last year of their depreciation
25 life and I have never seen where the RIPUC has taken that last year of depreciation, divided
26 it by three, and extended the lesser amount of depreciation for two more years. This
27 approach is totally inconsistent with the depreciation rules in establishing rates.

28

29 **Q. What about Mr. Effron's point that the amount depreciated in the rate year will
30 not be depreciated in subsequent years?**

31 A. Mr. Effron is correct. However, rates are set for one year, the rate year, and there are
32 always assets that will be depreciated for the last time in the rate year.

1 However, there are also always new assets that are only partially depreciated in the rate year.
2 That is just a fact of life and these utility plant depreciation situations exist in every rate
3 filing.

4

5 **Q. If BIPCo does not come in for rate relief for three years won't the ratepayers**
6 **overpay for the asset that Mr. Effron is adjusting?**

7 A. No they won't. The asset that Mr. Effron has adjusted was depreciated 1/3 in FYE
8 2007 and 1/3 in FYE 2008 and if the Commission accepts my position regarding this asset it
9 will be depreciated 1/3 in the FYE 2009. Prior to FYE 2007 this asset did not exist and
10 therefore this asset is not in BIPCo's current base rates and the ratepayers have not paid any
11 of the cost of this major overhaul to date.

12

13 Using Mr. Effron's three year analysis, if BIPCo did not come in for rate relief for three
14 years and the Division adjustment is rejected, then the ratepayers would pay 1/3 of the cost
15 in 2009, 1/3 of the cost in 2010 and 1/3 of the cost in 2011. In other words the ratepayers
16 would have paid the correct amount for the asset but in different years than when the asset
17 was depreciated. This is the way the depreciation of utility plant assets works in every rate
18 case.

19

20 **Q. What adjustment have you made for the depreciation of the capitalized engine**
21 **overhaul?**

22 A. Based upon my analysis above, no adjustment is required.

23

24 **Q. Mr. Edge what is your position regarding Mr. Effron's depreciation adjustment of**
25 **the new bucket truck?**

26 A. I think that Mr. Effron has a good point in that the new bucket truck should last longer
27 than five years. However, the bucket truck that BIPCo replaced (after 14 years) was larger
28 and much more expensive than the bucket truck BIPCo just purchased. The old truck didn't
29 last twenty years and this less expensive smaller new bucket truck will likewise not last
30 twenty years.

31

1 It is important to remember that BIPCo operates on an island and the salt water in the air is
2 very corrosive on vehicles. I think that a compromise of a ten year depreciation life is
3 reasonable for the new bucket truck. I made a \$4,300 adjustment to Mr. Effron's
4 adjustment which is an \$8,600 adjustment to my original prefiled testimony.

5
6

7 **Taxes Other Than Income Taxes:**

8

9 ➤ The Town did not opine on this issue.

10

11 ➤ Mr. Effron calculated his adjustment for taxes other than income taxes (actually his
12 GRT adjustment) on his schedule DJE-5 in the amount of \$17,804.

13

14 **Q. Mr. Edge, how have you handled Mr. Effron's adjustment to taxes other than**
15 **income taxes (GRT calculation)?**

16 A. It was necessary for me to recalculate Mr. Effron's adjustment because I had a number
17 of changes to Mr. Effron's other adjustments in the operation and maintenance expense,
18 depreciation, income taxes and return on rate base. In addition, I disagree with Mr. Effron's
19 reduction of the miscellaneous revenue from his GRT calculation. BIPCo is required to pay
20 gross receipts tax on all of its revenues, including miscellaneous revenue.

21

22 **Q. What is the largest difference between Mr. Effron's GRT adjustment and your**
23 **GRT amended adjustment?**

24 A. The largest item is Mr. Effron's elimination of miscellaneous revenue from the GRT
25 calculation. This one adjustment was \$7,727 (calculated as \$185,439 miscellaneous
26 revenue times 4.167%) which is 43% of Mr. Effron's GRT adjustment. This one item
27 reduces Mr. Effron's adjustment from \$17,804 to \$10,077. See my Schedule WEE-1
28 Rebuttal.

29

30

31

32

1 **Federal Income Tax Expense:**

2

3 ➤ The Town did not opine on these issue.

4

5 ➤ Mr. Effron calculated the Federal Income Tax expense by starting with the equity
6 return on rate base (taxable income base). He grossed up the “income base” after
7 subtracting the lower bracket credit for federal income taxes (a step that I missed) to
8 arrive at the Taxable Income of \$92,880.

9

10 He applied the tax rate of 34% and arrived at the income tax expense at the full rate
11 and then subtracted out, once again, the lower tax bracket credit. His federal income
12 tax adjustments which included the elimination of the deferred federal income taxes
13 (\$21,759) and his adjustment of the current FIT (\$9,681) reduced the federal income
14 tax expense to \$19,829 from my prefiled testimony amount of \$50,801.

15

16 **Q. Do you agree with Mr. Effron’s calculation?**

17 A. I agree with Mr. Effron that my FIT calculation was incorrect because I failed to gross
18 up the “income base” for the federal income taxes. This will be corrected in this rebuttal
19 testimony and the attached schedules. However, I have made a number of changes to Mr.
20 Effron’s suggested adjustments which will result in a change in the amount of FIT, but I will
21 use Mr. Effron’s method of calculation.

22

23 **Q. What about Mr. Effron’s elimination of deferred federal income taxes?**

24 A. I agree conceptually with Mr. Effron’s adjustment. However, I must point out that the
25 reality is that this is a GAAP basis expense that will have to be reflected on the RUS Form 7
26 and it will adversely impact the RUS TIER ratios. If the Commission could allow this
27 expense, but restrict the revenue, it would be very helpful.

28

29

30

31

32

1 **Rate Base Adjustments:**

2

3 ➤ The Town did not opine on these issue.

4

5 ➤ Mr. Effron made three adjustments to rate base. He reduced depreciation expense in
6 his review of expense accounts, which increased rate base. He also identified two
7 additional accrued accounts on the balance sheet as deferred credits, significantly
8 reducing rate base.

9

10 **Q. Do you agree with Mr. Effron's rate base adjustments?**

11 A. No. I did not agree with all of Mr. Effron's depreciation adjustments, so I can not agree
12 with his rate base adjustments to reflect his reduction in rate year depreciation.

13

14 **Q. Do you agree with his deferred credit adjustments?**

15 A. No, I do not. Mr. Effron reduced rate base for the monies included in the restricted
16 DSM/IRP cash account, which is the money collected from the \$.01 DSM/IRP summer
17 surcharge established by the Commission in the last docket. There is currently only a little
18 over \$19,000 in the account and BIPCo has not requested that this surcharge be continued.
19 Therefore even if the Commission were to accept the Division's adjustment, the \$52,492
20 amount would have to be reduced to \$19,363.

21

22 **Q. Should the Commission accept the Division's adjustment to reduce rate base by
23 the DSM/IRP funds?**

24 A. Absolutely not. BIPCo has no control over how these funds are spent and makes a
25 deposit of these funds into a restricted bank account mandated by the Commission. Unless
26 these funds can be made available for BIPCo's operations they are not a source of funds
27 provided by the ratepayers for BIPCo's use and therefore have no basis as a rate base
28 reduction.

29

30 **Q. Are the Accrued Maintenance funds appropriately a reduction of rate base?**

31 A. Yes. I agree with Mr. Effron that the Accrued Maintenance Reserve account is an
32 appropriate item to be reflected as a deferred credit, reducing rate base.

1 **Q. Do you agree with the amount used by Mr. Effron for his adjustment?**

2 A. No, I can't agree to the balance used by Mr. Effron of \$300,618 (which is the balance at
3 a single point in time). It is also the largest balance I have ever seen in this account. As I
4 discussed earlier in this testimony, this account had an \$188,000 balance at the end of the
5 test year, which would be a more appropriate balance than the \$300,615 balance used by Mr.
6 Effron. However, this account should be reflected as a reduction in rate base using an
7 average of either the beginning of the year and the end of the year balances or using a test
8 year twelve month average in the same manner as other deferred debts and credits are
9 reflected in the rate base.

10

11 I have calculated the test year twelve month average of this account and included a new rate
12 base schedule to reflect this adjustment (See Schedule WEE-13 Rebuttal). It is important to
13 note again at this time that the test year balance of this account would have been only about
14 \$58,000 if it were not for RUS financing requirements.

15

16 **Rate of Return:**

17

18 ➤ The Town did not opine on these issue.

19

20 ➤ The Division accepted BIPCo's cost of debt but reduced the common equity return
21 from the 10.7% requested by BIPCo to 10.5%.

22

23

24 **Q. Is BIPCo accepting Mr. Effron's adjustment to change the return on common
25 equity to 10.5%?**

26 A. Yes. The difference between the Division's proposed 10.5% return on rate base and
27 BIPCo's requested 10.7% return on rate base is about \$2,000, which BIPCo would like to
28 receive, but BIPCo's management can't justify spending ratepayer money to try to win this
29 small issue.

30

31

32

1 **Property Transfer:**

2

3 ➤ The Town has acknowledged that the proceeds from the property transfer are no
4 longer available because the proceeds were used by BIPCo to pay old accounts
5 payable. Further, the Town recognized that BIPCo's current financial position
6 makes it difficult to amortize the gain on the transfer of this property to the
7 ratepayers over some future period (commonly used approach in these matters).
8 Nevertheless, the Town inconceivably recommends that BIPCo, as soon as possible,
9 be ordered to upgrade its distribution system and use the entire gain on the transfer of
10 property to start the distribution work, even though the money has already been spent
11 and is no longer available.

12

13 ➤ The Division also recognizes that the proceeds of the property transfer are gone and
14 that amortization of the Division's calculation of what the Division believes the
15 ratepayer portion of the calculated gain is unwise given the financial position of the
16 Company. The Division suggests that when the Company is in a position to pay
17 dividends, BIPCo should consider passing what the Division believes to be the
18 ratepayer share of the gain to the ratepayers.

19

20 Therefore, for this filing the Division has reduced BIPCo's equity by the amount of
21 \$414,089, which is ½ of the net proceeds received at the closing of the property
22 transfer. The Division split the net proceeds from the closing equally between the
23 ratepayers and the stockholders. The Division then used a zero basis return on that
24 portion of BIPCo's equity that the Division assigned to the ratepayers.

25

26 **Q. What are the issues regarding BIPCo's transfer of property (land and buildings)?**

27 **A.** There are many issues and questions that need to be answered as follows:

- 28 1. Were the assets transferred 1) Utility or 2) Non-Utility assets?
29 2. Did RUS make a Determination of Utility vs. Non-Utility assets before approving
30 the BIPCo property transfer?
31 3. How do the ratepayers gain ownership in the assets included in rate base?
32 4. Does BIPCo's loan agreement with RUS prohibit distributions to stockholders and
33 ratepayers of the proceeds of this property transfer?

- 1 5. Is land treated the same as depreciable assets when calculating the amount of
2 ownership by the ratepayers?
3 6. How should the gain on the transfer of the original small building and the subsequent
4 leasehold improvements be treated for ratemaking purposes?
5 7. Is the Town correct in thinking that ownership of the buildings and the leasehold
6 improvements transferred to the ratepayers because revenues and expenditures
7 relating to the buildings that were on BIPCo's land were charged to above the line
8 operating accounts?
9 8. Why did the Division reduce Equity when the normal adjustment for contributed
10 capital is to reduce rate base?
11 9. If the Commission decides that some portion of the gain on the property transfer is
12 attributable to the ratepayers, how should the ratepayer portion of the gain be treated
13 in this docket?
14 10. What is the appropriate gain on the transfer of the property?
15 11. If the Commission, the Division, the Town, the Rural Utility Services (RUS) and
16 Washington Trust all knew that BIPCo was transferring this property to improve its
17 debt/equity ratio (at the Commission's request) and to pay off old accounts payable
18 (which BIPCo did and no monies were paid to the owners) where would BIPCo get
19 the cash to pay the ratepayers any of the proceeds of the property transfer?
20

21 ***1) Utility vs. Non-Utility Assets:***

22

- 23 **Q. What is the difference in treatment if the assets transferred are 1) Utility assets or**
24 **2) Non-Utility assets?**

25 A. In general, the gain on the transfer of non-utility assets is the sole property of the
26 stockholders. The gain on the transfer of utility assets must be reviewed to determine if any
27 of the gain belongs to the ratepayers. I have addressed both of these alternatives in the
28 following testimony.

29

30 ***2) RUS' Determination of Utility vs. Non-Utility Assets:***

31

- 32 **Q. Were the assets transferred 1) Utility or 2) Non-Utility assets according to RUS?**

33 A. According to RUS, BIPCo's largest creditor, and a federal utility regulator, the assets
34 were Non-Utility assets. (See letter dated May 30, 2007 from RUS, Exhibit WEE-2-
35 Rebuttal). RUS would not have allowed BIPCo to make the property transfer had RUS
36 determined that the assets being transferred were Utility assets used currently in the
37 production of electricity or assets that would be needed in the future to provide electricity on
38 Block Island.

1 Based upon the RUS finding, the assets transferred were Non-Utility assets and therefore the
2 entire gain goes to the benefit of the stockholders, not the ratepayers. Nevertheless, the
3 owners chose to leave all of the profit from the asset transfer in the Company and to use the
4 cash from the transfer to pay outstanding bills.

5

6 **Q. Were there other RUS requirements?**

7 A. Yes. RUS has a mortgage on all of BIPCo's property, and BIPCo's RUS loan requires
8 that the proceeds from any sale or transfer of capital assets must be either used to pay down
9 the RUS loan or used to purchase additional capital assets. In other words, even though
10 RUS concluded that the assets being transferred were Non-Utility assets, BIPCo could not
11 obtain a partial release of the mortgage, complete the property transfer, and use the proceeds
12 to pay old accounts payable until BIPCo identified capital assets that had been purchased by
13 BIPCo without using RUS borrowing.

14

15 **Q. Was BIPCo able to satisfy the requirement?**

16 A. Yes. BIPCo was able to identify a sufficient number of assets (which had an original
17 cost in excess of \$1,000,000) that were not purchased using RUS financing. RUS
18 subsequently reviewed BIPCo's Form 219 filings and the supporting documentation. RUS
19 concluded that BIPCo had identified sufficient capital assets (purchased without RUS
20 financing) to satisfy this requirement. This allowed BIPCo to obtain a partial release,
21 transfer the property, and then transfer all of the proceeds from the RUS project account to
22 BIPCo's general fund (to pay specifically identified accounts payable).

23

24 **Q. Was RUS aware that BIPCo intended to take the proceeds from the property
25 transfer and pay off the specifically identified accounts payable?**

26 A. Yes. RUS approved the use of the proceeds of the property transfer to pay these
27 specific accounts payable, which exceeded \$1,000,000.

28

29 **Q. Was the RUS process extensive?**

30 A. Yes. During this extensive process, RUS concluded that the land and buildings
31 transferred were Non-Utility assets (not used in the utility business and not needed for future
32 expansion.) BIPCo agrees with this finding.

1 **3) *How Ratepayers Gain Ownership off Assets Included in Rate Base:***

2

3 **Q. Mr. Edge, do you agree that the profit from certain utility assets should be shared**
4 **between the stockholders and the ratepayers?**

5 A. Yes, I do. It is widely recognized that depreciation charged to the ratepayers for utility
6 assets purchased by the stockholders results in a transfer of partial ownership of those asset
7 to the ratepayers. As the ratepayer ownership increases, the value of the asset is removed
8 form rate base. For example, if we assume that a utility purchased a \$100,000 depreciable
9 utility asset with a useful life of 10 years, after five years there would be only a \$50,000
10 balance for that asset in rate base. If the asset was then sold for \$60,000; the utility would
11 have a \$10,000 profit. That profit would accrue 50% to the ratepayers who paid \$50,000
12 through depreciation and 50% to the stockholders who either purchased the asset with equity
13 or debt. This example is the same whether utility asset is a \$100,000 asset or a \$10,000,000
14 asset.

15

16 **Q. Is this true regardless of how the asset was purchased (using equity or debt)?**

17 A. Yes. Depreciation is the ratepayer's only way of paying the stockholders back for their
18 investment (equity) or to pay the principal portion of a loan used to buy a utility asset. As
19 the ratepayers continue to pay depreciation, they continue to acquire a larger percentage of
20 ownership. If the utility asset is fully depreciated, then the net gain from the sale of that
21 asset is entirely owned by the ratepayers.

22

23

24 **4) *RUS Restrictions:***

25

26 **Q. Does BIPCo's loan agreement with RUS prohibit distributions to stockholders and**
27 **ratepayers of the proceeds of this property transfer?**

28 A. Yes. Under BIPCo's RUS loan Section 6.8 "Limitation on Distributions" BIPCo "shall
29 not in any calendar year make any Distributions (exclusive of any Distributions to the
30 estates of deceased natural patrons) to its members, stockholders or customers except
31 as follows:"

32

1 **“(a) Equity above 30%. If after giving effect to any such distribution, the**
2 **Equity of the Borrower shall be greater than or equal to 30% of its Total**
3 **Assets;”**
4

5 Please note that this section is not applicable because BIPCo’s equity in this filing is 25.97%
6 per Mr. Effron’s Schedule DJE-8.
7

8 **“(b) Equity above 20%. If after giving effect to any such Distribution, the**
9 **Equity of the Borrower shall be greater than or equal to 20% of its Total Assets**
10 **and the aggregate of all Distributions made during the calendar year when**
11 **added to such Distribution shall be less than or equal to 25% of the prior years**
12 **margins.”**
13

14 BIPCo can not comply with either of these two requirements in subsection (b). If the
15 Commission accepts the Division’s adjustment to equity, the first requirement will not be
16 met because the Division’s adjustment reduces the shareholder Equity from 25.95% to
17 17.85% which is less than 20%. The second requirement in subsection (b) can not be met
18 because BIPCo has a negative margin (loss) in the most recent calendar year, so any
19 distribution would exceed 25% of the prior year margins.
20

21 **Q. Therefore, is it your opinion that the Division’s adjustment would require BIPCo**
22 **to get RUS approval?**

23 A. Yes, and I believe that obtaining RUS approval to allow BIPCo to reduce equity for any
24 reason will be impossible to get for two reasons. The first reason is the fact that RUS
25 agreed to the property transfer knowing that it was losing part of its mortgaged security for
26 BIPCo’s approximate \$4,000,000 of RUS loans (RUS has first security position on all of
27 BIPCo’s assets). However, offsetting that negative was the fact that if the proceeds were
28 used exclusively to pay the specific accounts payable, then BIPCo would be able to
29 significantly improve its overall financial position, its cash position and improve its
30 debt/equity ratio. I believe it is virtually certain that if BIPCo now asks to reduce its equity
31 below 20%, RUS will say no.
32
33
34

1 The second reason that I believe will make the RUS approval of the Division's adjustment
2 highly unlikely is the fact that BIPCo had a loss from operations in each of the last two
3 calendar years. My understanding is that these losses put BIPCo in technical default on its
4 RUS loans.

5

6 I believe that because (1) BIPCo has never been late paying its RUS loan payments and (2)
7 BIPCo filed this rate increase request to address the losses in the past two years, these two
8 actions by BIPCo should help provide favorable consideration from RUS regarding the
9 technical default. However, I also believe that the two consecutive years of losses and the
10 resulting technical default status will make any request to RUS to allow BIPCo to reduce its
11 equity impossible.

12

13 **Q. Is it therefore your understanding that the Division proposed equity adjustment**
14 **will not be allowed by RUS?**

15 A. Yes.

16

17 ***5. Treatment of Land for Determining Ownership of the Gain on the BIPCo Property***
18 ***Transfer:***

19

20 **Q. Is land treated the same as depreciable assets when calculating the amount of**
21 **ownership by the ratepayers?**

22 A. No. Since land is never depreciated, ownership of land and the gain on the sale of that
23 land never transfers to the ratepayers.

24

25 **Q. What if the land is included in rate base, does that result in the transfer of**
26 **ownership to the ratepayers?**

27 A. No its does not. By definition, only the value of utility assets that are owned by the
28 stockholders is included in rate base. The return on rate base allows for only two items 1)
29 payment of interest and 2) return on investment. There is no element of the return on rate
30 base relating to the purchase of ownership by the ratepayers.

31

1 **Q. So Mr. Edge, are you saying that none of the profit on the land portion of the**
2 **BIPCo property transfer should be credited to the ratepayers?**

3 A. Yes, that is correct. All of the gain on the sale of the land, whether the land is a Utility
4 Asset or a Non-Utility Assets is the property of the stockholders. To assign any of the gain
5 on the sale of land to the ratepayers would be totally inappropriate and inconsistent with rate
6 base rate of return ratemaking fundamentals.

7

8 **6. *Gain on Leasehold Improvements:***

9

10 **Q. How should the gain on BIPCo's property transfer of the original small building**
11 **and the subsequent leasehold improvements (including the garage) be treated for**
12 **ratemaking purposes?**

13 A. First, we need to determine if the assets transferred were Utility or Non-Utility assets
14 but we know that RUS has already determined that these assets are Non-Utility assets. The
15 original building and the leasehold improvements (including the garage) were never used as
16 Utility assets. Therefore they are by definition Non-Utility assets. The gain on the transfer
17 of Non-Utility assets belongs to the stockholders, not the ratepayers.

18

19 Further, BIPCo's fixed asset records suggest that the purchase price of the land (Lots 38 and
20 the transferred portion of Lot 37) and a very small house were all debited to the land
21 account. Although the total cost of Lot 38 and the small building (the cost of both was
22 \$1,456) may have been included in rate base since 1961, land is not depreciated. Therefore,
23 the ratepayers have never gained any ownership of the land or the original small house.

24

25 **Q. Who paid for the leasehold improvements?**

26 A. The leasehold improvements (including the garage) were all done by the various entities
27 that leased the small house and the garage. The garage was actually built by one of the
28 tenants. Neither BIPCo, nor its ratepayers, paid for these leasehold improvements. None
29 of these leasehold improvements were ever included in rate base. Therefore, the profit on
30 the sale of these Non-Utility assets belongs to the stockholders.

31

32

1 **8. Ownership of the Small House and the Leasehold Improvements:**

2

3 **Q. Is the Town correct in thinking that ownership of the buildings and the leasehold**
4 **improvements transferred to the ratepayers because revenues and expenditures**
5 **relating to the buildings that were on BIPCo's land were charged to above the line**
6 **accounts?**

7 A. No, the Town is incorrect.

8

9 **Q. Mr. Edge can you provide the Commission with some history relating to the assets**
10 **transferred?**

11 A. Yes, I can. To help understand why the ratepayers have no ownership in the building
12 and the leasehold improvements it is important to review the history of these assets.

13

14 In 1958 and 1961, when Lots 37 (purchased for \$5,000) and 38 and the small house
15 (purchased for \$1,456) were purchased, BIPCo's management was not sophisticated enough
16 to differentiate between Utility and Non-Utility assets. Therefore, all of the land purchased
17 and the small house (even that portion of the land and the small house which were not used
18 as Utility assets) were apparently included in rate base. However, there was no depreciation
19 taken, and therefore there was no transfer of ownership from the stockholders to the
20 ratepayers.

21

22 **Q. Does the inclusion of the assets in rate base suggest that the assets were Utility**
23 **assets?**

24 A. One might think so, but since the assets were clearly never used as Utility assets, the
25 inclusion in rate base of these assets was an error but it does not make them Utility assets.

26

27 **Q. How could the error have been corrected?**

28 A. BIPCo could have been ordered by the Commission to remove the Non-Utility assets
29 from rate base (which would have saved the ratepayers less than \$200 per year). However,
30 the Commission never ordered that these Non-Utility assets be removed from rate base.

31 (Note: The Commission ordered that the second floor of the BIPCo office building had to be
32 removed from rate base because it was a non-utility asset.)

1 **Q. Did the Commission take any other action?**

2 A. Yes, the Commission decided that since the land and small house were included in rate
3 base and the ratepayers were paying about \$200 per year in return on rate base for the use of
4 the land and buildings, that any Non-Utility net revenues (profit) generated from leasing the
5 land or small house must all be applied to the benefit of the ratepayers. From that day
6 forward, all revenues and related expenditures were treated as above the line activities to the
7 sole benefit of the ratepayers.

8

9 **Q. Did the ratepayers benefit from the Commission's decision to allow the revenues
10 and expenses of the rental property to be charged as above the line activity?**

11 A. Yes they certainly did. BIPCo's ratepayers benefited by tens of thousands of dollars
12 each year for every year that the current owners have owned the Company.

13

14 Now, after receiving all of those benefits, the Town is requesting that the Commission order
15 BIPCo to take the proceeds (that (1) were the property of the stockholders and (2) no longer
16 exist) from the transfer of the Non-Utility assets and invest these phantom monies to
17 upgrade BIPCo's distribution system. The justification given for the proposed adjustment,
18 that would provides 100% of the gain from the property transfer to the ratepayers, is that the
19 assets were included in rate base and that the revenue and expenses for the leases of this
20 property was booked as above the line transactions. Based upon my previous testimony and
21 the regulatory history of this property, the Town's adjustment is simply wrong and
22 moreover, it is unreasonable.

23

24 **9. Treatment of Ratepayer Gain if any:**

25

26 **Q. If the Commission decides that some portion of the gain on the property transfer is
27 attributable to the ratepayers, how should the Commission treat the gain in this
28 docket?**

29 A. My testimony above clearly shows that none of the gain from the property transfer
30 belongs to the ratepayers and to decide differently would cause a number of problems with
31 RUS and I believe put BIPCo's \$4,000,000 of RUS loans at risk.

32

1 Q. **If an adjustment is made regarding the property transfer, is there a better way to**
2 **reflect it in this docket?**

3 A. Yes. BIPCo would prefer that any ratepayer portion of the property transfer gain be
4 reflected as contributed capital, reducing rate base and not equity. All other ratepayer
5 contributed capital items (such as the SCR/Engine Maintenance reserve balance) are
6 reflected as a reduction of rate base rather than a reduction of equity.

7

8 Q. **Are there any other reasons that BIPCo would prefer the reduction of rate base**
9 **rather than a reduction of equity for any gain assigned to the ratepayers on the**
10 **property transfer?**

11 A. Yes. Although the rate base reduction approach may result in a lesser revenue
12 requirement for BIPCo, on an overall basis, the rate base adjustment is much better for
13 BIPCo in this docket.

14

15 Q. **Why?**

16 A. The use the rate base reduction approach eliminates many of my concerns regarding the
17 RUS ratios and BIPCo's equity under the RUS loan agreement. In other words, the
18 reduction of rate base approach may not have to be approved by RUS.

19

20 ***10. Actual Gain on Property Transfer:***

21

22 Q. **What is the appropriate gain on the transfer of the property?**

23 A. Both the Division and the Town have used \$828,196 for the gain, which represents the
24 net proceeds from the closing on the property transfer. Unfortunately, BIPCo has incurred
25 additional costs relating to the property transfer for activities required by the Town Planning
26 and Zoning Board.

27

28 The additional zoning and planning costs that have already been incurred, as well as the
29 additional zoning and planning costs that are expected to be incurred to complete the
30 process, will substantially decrease the gain on the property transfer. I have calculated
31 these additional costs on my Schedule WEE-14b Rebuttal. Since these costs will be shared
32 by the buyer and the seller 50/50, I have reflected only ½ of the current costs to date.

1 I will update the future planning and zoning costs at the close of this docket. It is important
2 to note that all of these additional expenses have been accounted for as below the line costs
3 and therefore have not been charged to the ratepayers. The reason for this is that it is
4 BIPCo's position that the entire property transfer is a Non-Utility activity, and therefore,
5 none of the proceeds or the related costs should be charged to the ratepayers.

6

7 **Q. Why is BIPCo dealing with Zoning and Planning?**

8 A. BIPCo needs to file with the Town's Zoning Board to retain its "Special Use" zoning
9 permit to operate an electric company on its remaining land. In addition, there are sub-
10 division issues that have to be addressed by the Town's Planning Board.

11

12 ***11. If the Commission, the Division, the Town, the Rural Utilities Service (RUS) and the***
13 ***Washington Trust Company all knew that BIPCo was transferring this property to***
14 ***improve its debt/equity ratio (at the Commission's request) and to pay off old accounts***
15 ***payable (which BIPCo did and no monies were paid to the owners) where would BIPCo***
16 ***now get the cash to pay the ratepayers any of the proceeds of the property transfer (or to***
17 ***improve the distribution system) now or in the future:***

18

19

20 **Q. Mr. Edge, have you given any consideration to where BIPCo could get the money**
21 **if the Commission orders that BIPCo has to pay some of the proceeds of the property**
22 **transfer to the ratepayers?**

23 A. BIPCo does not have the money. BIPCo made every effort to keep everyone informed
24 through out the property transfer. BIPCo explained why the property transfer was needed
25 and how the transfer would improve the debt/equity ratio. BIPCo provided a listing of how
26 the money would be used and over and over again stated that none of the proceeds would be
27 paid to the stockholders. BIPCo received approval from RUS and the Washington Trust
28 Company. BIPCo provided an informational filing to the Division and the Commission
29 explaining the entire transaction (attached hereto as Exhibit WEE-3-Rebuttal). BIPCo
30 emphasized that it was important to the BIPCo's financial position to make the property
31 transfer which provided an infusion of cash to pay nearly \$1,000,000 of accounts payable.
32 BIPCo was able to complete the transaction without adversely impacting the provision of
33 electricity service on Block Island.

34

1 I believe that the questions that should be asked are: 1) Why would anyone think that
2 BIPCo had or will have any additional funds to pay the ratepayers? 2) Why would BIPCo
3 have to pay the ratepayers anything given that BIPCo owned the assets transferred?
4

5 **Q. Mr. Edge, in summary what is your position relating to who is entitled to the gain**
6 **on BIPCo's recent property transfer?**

7 A. First, the land transferred was never depreciated and therefore no ownership transferred
8 to the ratepayers. Second, the leasehold improvements transferred were never used as
9 Utility assets, were never in rate base, and were never depreciated, so no ownership of these
10 assets transferred to the ratepayers. Therefore, ownership of all the property transferred
11 was clearly and always the stockholders, the entire net gain on the property transfer
12 belonged solely to the stockholders.
13

14 **Q. Mr. Edge, have you addressed all of the Division's adjustments?**

15 A. Yes I have. I would now like to address the three additional matters (not adjustments)
16 suggested by the Town.
17
18

19 *Town additional Issues:*
20

21 **Q. How many additional issues are there?**

22 A. Three.
23

24 **Q. What are they?**

25 A. As I stated earlier in this testimony they are as follows:
26

- 27 1. The Town's request to continue the \$.01 surcharge,
- 28 2. The Town's request for BIPCo to upgrade the distribution system and
- 29 3. The Town's request that BIPCo be ordered to do a new rate design study.
30
31
32

1 ***Surcharges:***

2
3 **Q. What is BIPCo's position regarding the continuance of the \$.01 surcharge/**

4 A. I believe that the ratepayers already have the highest rates in RI. Moreover, from the
5 interviews completed by HDR it is evident that BIPCo's ratepayers are very familiar with
6 conservation. Further, Mr. McGinnis has been appointed the Green Operating Officer for
7 the BIPCo lives full time on the island, and is available to work with the Town on all
8 conservation matters. There is no need to continue to burden the ratepayers with the
9 surcharge.

10
11 ***Distribution System:***

12
13 **Q. What is BIPCo's position regarding the upgrade of BIPCo's distribution system?**

14 A. BIPCo is in favor of upgrading its distribution system. However, BIPCo has spent over
15 \$4,000,000 during the last few years upgrading BIPCo's generators, SCR system, and
16 substation. BIPCo has also made some improvements to its distribution system. Because
17 BIPCo only generates about \$5,000,000 of annual revenue (about half of which is the
18 reimbursement of fuel costs), BIPCo believes that it has shown a significant commitment to
19 its ratepayers. As a result of these significant improvements, BIPCo now finds itself
20 overextended regarding its borrowing capability (debt/equity ratio).

21
22 **Q. If the Town and the Company agrees that the distribution system is the next item
23 to be upgraded, then what is the problem?**

24 A. The problem is that the Town doesn't want to pay for the distribution improvements.
25 The Town's recommendation is to pay for the improvements with proceeds from the
26 property transfer. But those proceeds no longer exist. Therefore the Town's
27 recommendation is impossible.

28
29 **Q. What has BIPCo done in an effort to complete the distribution system upgrades?**

30 A. First, it is important to note that BIPCo decided to postpone the distribution upgrade for
31 a year or so to allow the BIPCo's financial position to improve (specifically the debt/equity
32 ratio). Second, BIPCo filed for a grant to pay for the upgrades.

1 Third, BIPCo looked to find other ways to improve its debt/equity ratio in order to improve
2 BIPCo's ability to borrow the money needed to complete the distribution upgrade. BIPCo
3 is constantly looking for ways to improve the financial position of the company while at the
4 same time improving service to its ratepayers.

5

6 **Q. How did BIPCo improve its debt/equity ratio?**

7 A. One approach that provides additional equity is to transfer one or more non-utility assets
8 that have appreciated in value. BIPCo decided to transfer a little more than one acre of non-
9 utility land and a couple of small non-utility buildings at the back of the property that were
10 never used as utility assets. Further, these assets were not expected to be used in the future
11 for electric production.

12

13 **Q. Did the property transfer result in an increase in BIPCo's equity?**

14 A. Yes, it did.

15

16 **Q. Did the property transfer address any other problems faced by BIPCo?**

17 A. Yes it did. BIPCo was facing a significant cash flow problem. To address these
18 problems, BIPCo's stockholders decided to leave all of the net proceeds from the property
19 transfer in the company to pay bills, even though the gain belonged to the stockholders.

20

21 **Q. What is the Town's recommendation?**

22 A. The Town recommends that the phantom proceeds from the property transfer (although
23 non-existent) now be used to complete the initial phase of the distribution upgrade. This is
24 the Town's way of suggesting that 100% of the gain on the property transfer, which is solely
25 owned by the stockholders, be transferred to the ratepayers. The Town provides no legal,
26 regulatory or reasonable justification for their proposed adjustment.

27

28 **Q. What would the Town's recommended approach do to BIPCo's financial position?**

29 A. The Town's recommendation would once again decimate the debt equity ratio, which
30 will make it nearly impossible to borrow funds to complete the distribution upgrade.

31

32

1 Q. Do you have any further comments regarding this issue?

2 A. Yes, I find the Town's reasoning simply mind boggling. They want the improvements
3 done as soon as possible, but when the company makes an effort to get the funds by
4 improving its debt/equity ratio and filing for a grant the Town becomes adversarial. The
5 Town then takes the ridiculous position in this docket that the Company should use money it
6 doesn't have to do the work immediately. I believe that the Town's position in this docket,
7 and the significant drain on company cash that the Town is causing due to additional legal
8 and expert fees, will only postpone the eventual upgrade of the distribution system.

9

10 *Rate Design:*

11

12 Q. What is your position regarding rate design?

13 A. I gave my position in my prefiled testimony as follows:

14 **"Should the Division decide to hire Mr. Oliver, who created BIPCo's current**
15 **rate structure, to review this docket, BIPCo would be very interested in Mr.**
16 **Oliver's suggestions. This, however, would further increase rate case expense."**
17

18 Q. Do you have any other rate design comments?

19 A. Yes, I do. According to Mr. La Capra's resume, he is a professional rate design
20 witness. The Town asked a number of data requests that BIPCo thought were going to be
21 used for rate design testimony from the Town's witness. BIPCo was therefore surprised
22 that the Town chose not to file full rate design testimony. Instead, the Town once again
23 recommends that the Commission order BIPCo to do a new rate design study to address
24 issues that the Town has identified. Since BIPCo has relied on the Division's rate design
25 witness (Mr. Oliver who has done a great job designing BIPCo's rates) it appears that the
26 Town seeks to order the Division to do a new rate design study.

27

28 Q. Mr. Edge that appears to be all of the issues raised by the Division and the Town,
29 do you have any other comments?

30 A. Yes, I do. I found in reading the Town's testimony many statements that were either
31 wrong or misleading. I have attached hereto an Exhibit WEE-4-Rebuttal.

32 Q. Does that conclude your testimony?

33 A. Yes.

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

Schedule WEE-1
Rebuttal

	RATE YEAR Originally Filled	Rebuttal Adjustments	CURRENT RATES RATE YEAR	REVENUE REQUIREMENT	Rebuttal NEW RATES RATE YEAR
TOTAL REVENUE -- WEERY-2	\$ 2,291,692	-	\$ 2,291,692	\$ 361,978	2,653,670
TOTAL EXPENSES -- WEERY-3	2,394,489	(24,269)	2,370,220	12,913	2,383,133
NET OPERATING INCOME	\$ (102,797)	\$ 24,269	\$ (78,528)	\$ 349,065	\$ 270,537 <i>et</i>

Percentage increase over RY Revenue (Including Fuel Revenue) \$ 361,978 / \$ 4,485,250 8.07%

Percentage increase over RY Revenue at Current Rates 361,978 / 2,291,692 15.80%

et See WEE-12 for calculation

GRT on Revenue at Current Rates	RI gross earnings tax
GRT on Revenue Requirement	WEE-3
	WEE-1
	Total
	\$ 93,234
	12,913
	\$ 106,147

**Schedule WEE-2
Rebuttal**

**COMPARATIVE REVENUE ANALYSIS
BLOCK ISLAND POWER COMPANY**

ACCT. #	BUDGET ACCOUNT DESCRIPTION	RATE YEAR Originally Filled	Rebuttal Adjustments	RATE YEAR Rebuttal Position
REVENUE				
<i>Operating Revenue---Electricity Charges</i>				
4440.0001	Residential sales	\$ -	\$ -	-
4442.0001	Commercial sales			
4443.0001	Demand Electric			
4444.0001	Public streets & highway			
4445.0001	Other public authorities			
4500.0001	Demand - all rates			
4600	System Charge			
	Total Operating Revenue---Electricity Charges	1,867,755	-	1,867,755
<i>Operating Revenue---Fuel Surcharge</i>				
4440.0003	Residential Fuel	-	-	-
4442.0003	Commercial Fuel	-	-	-
4443.0003	Demand Fuel	-	-	-
4444.0003	Public Authority Fuel	-	-	-
	Total Operating Revenue---Fuel Surcharge	-	-	-
<i>Operating Revenue---Service Charges</i>				
4451.0002	Removal Non Payment	-	-	-
4500	Customer Charge	238,497	-	238,497
5431.0201	Connection Charges	-	-	-
	Total Operating Revenue---Service Charges	238,497	-	238,497
<i>Other Revenue</i>				
5421.0201	Interest income	2,679	-	2,679
5421.0301	Rent - lease	150,648	-	150,648
5421.0401	Pole Rental Income	9,837	-	9,837
7431.0221	Biller Penalty	21,148	-	21,148
	Total Other Revenue	184,311	-	184,311
<i>Miscellaneous Revenue</i>				
	Miscellaneous Revenue	1,128	-	1,128
	TOTAL REVENUE	\$ 2,291,692	\$ -	\$ 2,291,692

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3
Rebuttal

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	\$ 18,222		\$ 18,222
5547.0001	Fuel	-		-
4500.0100	Fuel Discounts	-		-
5440.0001	IRP & DSM Surcharge Funding	-		-
5547.0101	Fuel Handling Plant P/R Only	-		-
5547.0102	Fuel Procurement P/R Only	-		-
5547.0301	Inventory Charge	394		394
5547.0401	Fuel Procurement	-		-
5548.0001	Watchman P/R Only	114,531		114,531
5548.1001	Lubrication	24,747		24,747
5549.0001	Freight	-		-
5549.0201	Inside Maint. P/R Only	77,797		77,797
5549.0401	Misc. Costs Power Gen Exp	-		-
5549.1001	Misc Cost	-		-
5550.0101	Auto Repair	4,939		4,939
5550.0201	Purchased Power	3,740		3,740
5905.0001	Miscellaneous	1,544		1,544
5935.0905	UREA EXPENSE	-		-
Total Operating Expense---Power Production		245,915	-	245,915
Operating Expense---Distribution				
5581.0001	Supervision - P/R Only	19,043		19,043
5583.0001	Overhead lines - P/R Only	48,351		48,351
5583.0002	Overhead lines	-		-
5584.0001	Underground line P/R Only	40		40
5585.0001	ST Lights & Sign P/R only	398		398
5586.0001	Meters - P/R Only	2,044		2,044
5586.0002	Meters	-		-
5587.0001	Customer install. P/R	267		267
5588.0001	Misc. Distrib. P/R	6,371		6,371
5588.0002	Misc. Distrib. Expense	51,074		51,074
5935.0301	Lease - motor vehicle	24,407		24,407
Total Operating Expense---Distribution		151,995	-	151,995
Operating Expense---Customer Service				
5902.0001	Meter reading - P/R Only	9,798		9,798
5903.0001	Rec. & collection - P/R	18,682		18,682
5916.0001	Conservation/Education	-		-
Total Operating Expense---Customer Service		28,481	-	28,481
Operating Expense---Administrative				
5903.0002	Bad Debt	3,183		3,183
5920.0201	Office salaries - P/R	17,961		17,961
5920.0211	Management Fee	-		-
5920.0212	MANAGEMENT FEE BONUS	-		-
5920.0205	Accrued Vacation	913		913
5920.0401	Vacation Pay - P/R Only	23,935		23,935

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3
Rebuttal

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR		RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Operating Expense---Administrative (Continued)		-			-
5920.0501	Bonus - P/R Only	9,938			9,938
5920.0502	Bonus-Non P/R	122			122
5920.0601	Holiday Pay - P/R only	6,116			6,116
5920.0701	Holiday Not Worked - P/R Only	11,343			11,343
5920.0801	Sick Leave Pay - P/R Only	6,412			6,412
5920.0901	Personal Pay - P/R Only	3,424			3,424
5920.0902	President's Compensation	72,000			72,000
5920.0903	CFO Compensation	48,000			48,000
5920.0904	COO Compensation	48,000			48,000
5921.0001	Office supplies and Expen	37,083			37,083
5921.0201	Trash Removal	10,307			10,307
5923.0001	O/S-Outside Services	-			-
5923.0002	O/S-Miscellaneous	5,861			5,861
5923.0004	O/S-Accountant-General	12,993			12,993
5923.0005	O/S-Accountant-Regulatory	22,995			22,995
5923.0006	O/S-Accountant-Financing	-			-
5923.0015	O/S-Accountant and Legal-RUS	25,000			25,000
5923.0016	O/S-Legal-General	4,850			4,850
5923.0017	O/S-Legal-Regulatory	24,626			24,626
5923.0018	O/S-Legal-Financing	-			-
5923.0019	O/S-Legal-Sale of Property	-			-
5923.0020	O/S-Legal-Zoning	-			-
5923.0201	Employee Pension	72,000			72,000
5924.0301	General Liability Ins	126,796			126,796
5926.0001	Employee Benefits	160,205			160,205
5927.0001	Pension Expense	14,012			14,012
5927.1000	Rate Case Expense	57,169	(1)	13,000	70,169
5928.0001	Reg Comm Exp	9,507			9,507
5930.0001	Travel And Misc. Expense	5,719			5,719
5930.0002	Rental Expense-Apartment	5,000			5,000
5930.0101	Directors Meetings	7,950			7,950
5933.0001	Accounting	0			0
5933.0002	Accounting-Audit	24,888			24,888
5933.0003	Accounting-Board/Annual Mtgs	6,437			6,437
5933.0004	Accounting-Bookkeeping	27,485			27,485
5933.0005	Accounting-Finance Comm & Budg	6,169			6,169
5933.0006	Accounting-Taxes	4,789			4,789
5935.0901	Environmental	70,000			70,000
5935.0902	Clean air compliance	66,000			66,000
5935.0904	Meter Replacement Survey	10,000	(2)	(6,667)	3,333
Total Operating Expense---Administrative		1,069,188		6,333	1,075,521
Maintenance Expense---Distribution System					
5418.0101	Subcontractor Expense	-			-
5550.0102	Backhoe Repair	524			524
5590.0101	Supervision - P/R Only	18,029			18,029
5592.0001	Station equip	(110)			(110)

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3
Rebuttal

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR	RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Maintenance Expense---Distribution System (Continued)				
5593.0001	Overhead lines - P/R Only	2,975		2,975
5593.0501	Tree Trimming	6,591		6,591
5593.2001	Transformer Expense	-		-
5594.0001	Underground P/R	-		-
5594.0002	Maint Underground Lines	-		-
5596.0001	Street lights&signals P/R	147		147
5596.0002	Maint of Street Lights	(1)		(1)
5597.0001	Meters- P/R only	455		455
5598.0001	Misc	(178)		(178)
Total Maintenance Expense---Distribution System		28,432	-	28,432
Maintenance Expense---Generation System				
5553.0201	Supervision - P/R Only	17,660		17,660
5553.0501	Maint. of Gen & Elect Plt	324		324
5554.0101	Gasoline	17,747		17,747
5555.0001	Misc.	174		174
Total Maintenance Expense---Generation System		35,905	-	35,905
Maintenance Expense---General				
5552.0001	Maintenance of Struct P/R	472		472
5552.0002	Maint. of Structures	5,369		5,369
5935.0101	maint general plant	2,023		2,023
5935.0201	Small tools	-		-
5935.0501	Tank Testing	-		-
5935.0801	Haz. Waste Store/Remov/Hd	13,399		13,399
5935.2003	Generator #19 maint.	-		-
5935.2030	Uniforms	-		-
5935.2090	SCR Maint	(0)		(0)
5935.2100	SCR & Engine Maint Res.Exp.	238,917		238,917
5935.2101	General Maintenance	(0)		(0)
5935.2108	Generator #21 Maint	-		-
5935.2111	GENERATOR #22 INSTALL	-		-
5935.2113	GENERATOR # 22 MAINTENANCE	0		0
5935.2117	Engine #23 Maint	0		0
5935.2122	Engine #24 Maint	0		0
5935.2124	ENGINE #25 MAINTENANCE	-		-
5935.2125	Cellular Tower Maint & Expense	15,532		15,532
Total Maintenance Expense---General		275,710	-	275,710
Taxes				
6408.0101	Payroll taxes	38,126		38,126
6408.0201	RI Sales taxes	3,730		3,730
6408.0401	Property taxes	15,125		15,125
6408.0501	Registrations	1,792		1,792
6408.0601	RI gross earnings tax	93,234		93,234
	RI gross earnings tax-Fuel Portion	-		-
Total Taxes		152,006	-	152,006

EXPENSE ANALYSIS
BLOCK ISLAND POWER COMPANY

Schedule WEE-3
Rebuttal

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR		RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR
Depreciation					
7403.0001	Depreciation expense	353,093	(4)	(8,600)	344,493
Other Deductions					
5929.0000	Finance Charges	1,080			1,080
7431.0003	Interest On Loan #39903	-			-
7431.0004	Interest On Loan #39904	-			-
7431.0005	DIGGER LOAN INTEREST 48141	-			-
7431.0006	Interest on Loan 91125530	-			-
7431.0007	RUS LOAN INTEREST	-			-
7431.0201	Interest - Other	-			-
7439.0001	MISC-Bank Fees	249			249
7600.0001	Loss(Gain) on Sale of Asset	-			-
7600.0002	(Gain) on sale of asset-Land	-			-
7600.0003	Land sale expenses	-			-
8503.0001	Misc other expenses	304			304
8505.0001	Cond Fees	1,330	(3)	(1,330)	-
9800.0000	Misc.-Sewer Exp on Rental Prop	-			-
Total Other Deductions		2,963		(1,330)	1,633
Income Tax					
7431.0601	LOC Interest	(4,729)	(6)	4,729	-
7431.0901	Federal Income Tax	29,042	(5)	1,086	30,129
7431.0903	Net Change In Deferred Tx	26,488	(6)	(26,488)	-
Total Income Tax		50,801		(20,672)	30,129
Dividends					
9999.9997	Dividends	-			-
Total Dividends		-		-	-
TOTAL EXPENSES		\$ 2,394,489		\$ (24,269)	\$ 2,370,220

(1) = Rate case expense WEE Rebuttal Testimony page 11

(2) = Meter replacement expense WEE Rebuttal Testimony page 12

(3) = Condo fee expense WEE Rebuttal Testimony page 13

(4) = Depreciation expense WEE Rebuttal Testimony page 15

(5) = Income Tax expense WEE Rebuttal Testimony page 16 & Schedule WEE-15 Rebuttal

(6) = Deferred tax expense WEE Rebuttal Testimony page 16

RATE YEAR COMPENSATION EXPENSES
BLOCK ISLAND POWER COMPANY

Schedule WEE-4

ACCT. #	BUDGET ACCOUNT DESCRIPTION	ADJUSTED TEST YEAR	Adjustments	Percentage Increase (B)	ADJUSTED RATE YEAR
EXPENSES					
<i>Operating Expense---Power Production</i>					
5546.0001	Supervision P/R (Payroll) Only	\$ 22,232	(A) \$ (5,056)	\$ 1,046	\$ 18,222
5547.0101	Fuel Handling Plant P/R Only	807		49 (D)	0
5547.0102	Fuel Procurement P/R Only	0		0 (D)	0
5548.0001	Watchman P/R Only	107,957		6,575	114,531
5549.0201	Inside Maint. P/R Only	73,331		4,466	77,797
<i>Operating Expense---Distribution</i>					
5581.0001	Supervision - P/R Only	23,005	(A) (5,056)	1,093	19,043
5583.0001	Overhead lines - P/R Only	45,365	(C) 211	2,776	48,351
5584.0001	Underground line P/R Only	38		2	40
5585.0001	ST Lights & Sign P/R only	376		23	398
5586.0001	Meters - P/R Only	1,927		117	2,044
5587.0001	Customer install. P/R	252		15	267
5588.0001	Misc. Distrib. P/R	6,005		366	6,371
<i>Operating Expense---Customer Service</i>					
5902.0001	Meter reading - P/R Only	9,236		562	9,798
5903.0001	Rec. & collection - P/R	17,610		1,072	18,682
<i>Operating Expense---Administrative</i>					
5920.0201	Office salaries - P/R	16,930		1,031	17,961
5920.0401	Vacation Pay - P/R Only	22,561		1,374	23,935
5920.0501	Bonus - P/R Only	9,368		571	9,938
5920.0601	Holiday Pay - P/R only	5,765		351	6,116
5920.0701	Holiday Not Worked - P/R Only	10,692		651	11,343
5920.0801	Sick Leave Pay - P/R Only	6,044		368	6,412
5920.0901	Personal Pay - P/R Only	3,227		197	3,424
5920.0902	President's Compensation	72,000		0	72,000
5920.0903	CFO Compensation	48,000		0	48,000
5920.0904	COO Compensation	48,000		0	48,000
<i>Maintenance Expense---Distribution System</i>					
5590.0101	Supervision - P/R Only	22,050	(A) (5,056)	1,035	18,029
5593.0001	Overhead lines - P/R Only	2,804		171	2,975
5594.0001	Underground P/R	0		0	0
5596.0001	Street lights&signals P/R	139		8	147
5597.0001	Meters- P/R only	429		26	455
<i>Maintenance Expense---Generation System</i>					
5553.0201	Supervision - P/R Only	21,702	(A) (5,056)	1,014	17,660
<i>Maintenance Expense---General</i>					
5552.0001	Maintenance of Struct P/R	445		27	472
	<i>Capitalized Labor</i>	29,985		1,826	31,811
		<u>\$ 628,279</u>	<u>\$ (20,013)</u>	<u>\$ 26,812</u>	<u>\$ 634,222</u>

A) 3% Increase for Interim Year and 3% increase for Rate Year (See WEE-4a)

B) Remove Salaries from New Retiree (See WEE-4b)

C) Full year of hours for Gann

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

RATE YEAR COMPENSATION
BLOCK ISLAND POWER COMPANY

Employee	Test Year Compensation	May 2008 Compensation (d)	May 2009 Compensation (e)
Alpers	\$ 46,740	\$ 48,142	\$ 49,586
Casazza (*)	72,000	72,000	72,000
Dulac	37,605	38,733	39,895
Foote	40,524	41,740	42,992
Fowler	64,472	66,406	68,398
Gann (a)	8,898	28,028	28,869
Jacobsen	28,421	29,274	30,152
Littlefield (b)	18,100	-	-
Martin	72,984	75,174	77,429
McGinnis (*)	48,000	48,000	48,000
Milner	78,711	81,072	83,504
Pezzenita (*)	48,000	48,000	48,000
Savoie	43,598	44,906	46,253
Wagner (c)	20,226	-	-
	\$ 628,279	\$ 621,474	\$ 635,079

May 2009 Compensation \$ 635,079
 Less Compensation covered by Fuel Surcharge (356)
 Rate Year Compensation (including Capitalized Labor) \$ 634,223

- (a) - Gann was hired in the second half of test year to replace Littlefield. His 2008 pay was based on a percentage of his and Littlefield's test year dollars [7 months of actual for Littlefield (\$18,100) reduced for Gann rate (\$16,089)] & [4 month of actual for Gann (increased to 5 months (\$11,123) to make a full 12 month period)]
- (b) - Littlefield left during the test year. His hours were replaced by Gann.
- (c) - Wagner helped manage in the first quarter of test year. His hours were to assist Milner with the transition of Milner assuming the General Manager position, as a result no amount has been budgeted for his hours in the rate year payroll. See WEERY-4b
- (d) - Calculated a 3% increase over the Test Year.
- (e) - Calculated a 3% increase over FY 2008.
- (*) - Calculated a 0% increase over Test Year and 0% increase over FY 2008.

RECLASSIFY RETIRED EMPLOYEE TIME
BLOCK ISLAND POWER COMPANY

Schedule WEE-4b

Reclass Wagner Salary

	<u>Test Year Hours</u>		<u>Test Year Amount</u>
5546.0001 Supervision P/R (Payroll) Only	126	25%	\$ 5,056
5581.0001 Supervision - P/R Only	126	25%	5,056
5590.0101 Supervision - P/R Only	126	25%	5,056
5553.0201 Supervision - P/R Only	126	25%	5,056
	<u>1,742</u>	<u>100%</u>	<u>\$ 20,226</u>

RATE YEAR EMPLOYEE MEDICAL & DENTAL BENEFITS
BLOCK ISLAND POWER COMPANY

Schedule WEE-5

5926.0001 Employee benefits

Test Year Benefits	\$	141,926	See WEERY-5a
Rate Year Benefits	\$	<u>160,206</u>	See WEERY-5b
Rate Year Adjustment	\$	<u>18,280</u>	

TEST YEAR EMPLOYEE BENEFITS
BLOCK ISLAND POWER COMPANY

Employee	plan	# of Months benefits were received between June06-Feb07	# of Months benefits were received between Mar07-May07	Plan rate between June06-Feb07	Plan rate between Mar07-May07	Test Year
Medical						
Alpers	Individual	9	3	\$ 471.57	\$ 499.89	\$ 5,743.80
Dulac	Individual	9	3	471.57	499.89	5,743.80
Footc	Individual	9	3	471.57	499.89	5,743.80
Fowler	Family	9	3	1,249.65	1,324.72	15,221.01
Gann	S/S	2	3	1,108.18	1,174.75	5,740.61
Jacobsen	Ind. lchild	9	3	754.50	799.83	9,189.99
Littlefield	Individual	6	0	471.57	499.89	2,829.42
Martin	S/S	9	3	1,108.18	1,174.75	13,497.87
Millner	Family	9	3	1,249.65	1,324.72	15,221.01
Savoie	S/S	9	3	1,108.18	1,174.75	13,497.87
Wagner	S/S	4	0	1,108.18	1,174.75	4,432.72
Edwards	S/S	9	3	1,108.18	1,174.75	13,497.87
McGinnes	S/S	9	3	1,108.18	1,174.75	13,497.87
					Total Medical	\$ 123,857.64
Dental						
Alpers	Individual	9	3	\$ 34.98	\$ 37.54	\$ 427.44
Dulac	Individual	9	3	34.98	37.54	427.44
Footc	Individual	9	3	34.98	37.54	427.44
Fowler	Family	9	3	103.83	111.49	1,268.94
Gann	Family	2	3	103.83	111.49	542.13
Jacobsen	Family	9	3	103.83	111.49	1,268.94
Littlefield	Individual	6	0	34.98	37.54	209.88
Martin	Family	9	3	103.83	111.49	1,268.94
Millner	Family	9	3	103.83	111.49	1,268.94
Savoie	Family	9	3	103.83	111.49	1,268.94
Wagner	Family	4	0	103.83	111.49	415.32
Edwards	Does not Participate					0.00
McGinnes	Family	9	3	103.83	111.49	1,268.94
					Total Dental	\$ 10,063.29
		# of Months benefits were received between June06-Dec06	# of Months benefits were received between Jan07-May07	Plan rate between June06-Dec06	Plan rate between Jan07-May07	
Casazza	Medical Monthly Reimb	7	5	610.50	746.30	8,005.00
				Total Benefit		\$ 141,925.93

RATE YEAR EMPLOYEE BENEFITS
BLOCK ISLAND POWER COMPANY

Employee	plan	# of Months benefits were received between June08-Feb09	# of Months benefits were received between Mar09-May09	Plan rate between June08-Feb09	Plan rate between Mar09-May09	Rate Year			
Medical									
Albers	Individual	9	3	\$ 528.63	\$ 559.03	6,434.79			
Dulac	Individual	9	3	528.63	559.03	6,434.79			
Foote	Individual	9	3	528.63	559.03	6,434.79			
Fowler	Family	9	3	1,400.89	1,481.44	17,052.35			
Gann	S/S	9	3	1,242.30	1,313.73	15,121.87			
Jacobsen	Ind. Ichild	9	3	845.82	894.45	10,295.75			
Littlefield									
Martin	S/S	9	3	1,242.30	1,313.73	15,121.87			
Milner	Family	9	3	1,400.89	1,481.44	17,052.35			
Savoie	S/S	9	3	1,242.30	1,313.73	15,121.87			
Ragner									
Edwards	S/S	9	3	1,242.30	1,313.73	15,121.87			
McGinnes	S/S	9	3	1,242.30	1,313.73	15,121.87			
					Total Medical	\$ 139,314.20			
Dental									
Albers	Individual	9	3	\$ 38.87	\$ 40.24	470.55			
Dulac	Individual	9	3	38.87	40.24	470.55			
Foote	Individual	9	3	38.87	40.24	470.55			
Fowler	Family	9	3	115.44	119.52	1,397.50			
Gann	Family	9	3	115.44	119.52	1,397.50			
Jacobsen	Family	9	3	115.44	119.52	1,397.50			
Littlefield									
Martin	Family	9	3	115.44	119.52	1,397.50			
Milner	Family	9	3	115.44	119.52	1,397.50			
Savoie	Family	9	3	115.44	119.52	1,397.50			
Ragner									
Edwards									
McGinnes	Family	9	3	115.44	119.52	1,397.50			
					Total Dental	\$ 11,194.17			
Monthly Reimb									
Casazza		7	5	789.21	834.59	9,697.45			
						\$ 160,205.81			
Average Increase per Year for 2004-2007									
		Apr/Mar 2003/2004	Apr/Mar 2004/2005	Apr/Mar 2005/2006	Apr/Feb 2006/2007	Mar/Feb 2007/2008	Mar/Feb 2008/2009	Mar/Feb 2009/2010	Average Increase per Year for 2004-2007
Medical			13%	1%	3%	6%			
Individual	\$ 401.25	\$ 453.63	457.30	471.57	499.89	528.63	559.03	575%	
Ind. Ichild	641.99	725.79	731.68	754.50	799.83	845.82	864.45	575%	
Family	1,063.31	1,202.10	1,211.85	1,249.65	1,324.72	1,400.89	1,481.44	575%	
S/S	942.94	1,066.02	1,074.66	1,108.18	1,174.75	1,242.30	1,313.73	575%	
Dental			2%	2%	7%				
Individual	\$ 32.69	\$ 33.59	34.16	34.98	37.54	38.87	40.24	3.54%	
Family	97.05	99.68	101.42	103.83	111.49	115.44	119.52	3.54%	
Monthly Reimb				610.50	\$746.30	\$834.59		5.75%	

RATE YEAR PAYROLL TAX
BLOCK ISLAND POWER COMPANY

Employee	RATE YEAR COMPENSATION	FICA TAX	MEDICARE	RIES & JDF TAX	RATE YEAR PAYROLL TAX
Alpers	\$ 49,586	\$ 3,074	\$ 719	\$ 266	\$ 4,059
Casazza	72,000	0	0	0	0
Dulac	39,895	2,473	578	266	3,318
Foote	42,992	2,665	623	266	3,555
Fowler	68,398	4,241	992	266	5,498
Gann	28,869	1,790	419	266	2,474
Jacobsen	30,152	1,869	437	266	2,573
Martin	77,429	4,801	1,123	266	6,189
McGinnis	48,000	0	0	0	0
Milner	83,504	5,177	1,211	266	6,654
Pezzmenta	48,000	0	0	0	0
Savoie	46,253	2,868	671	266	3,804
	\$ 635,079	\$ 28,959	\$ 6,773	\$ 2,394	\$ 38,126

Test Year Payroll Tax \$ 38,313

Rate Year Payroll Tax \$ 38,126

Rate Year Adjustment \$ (188)

* These position's compensations do not require payroll tax.

RATE YEAR PENSION EXPENSE
BLOCK ISLAND POWER COMPANY

Employee	RATE YEAR COMPENSATION	COMPENSATION FOR ELIGIBLE EMPLOYEES
Alpers	\$ 49,586	\$ 49,586
Casazza	72,000	0
Dulac	39,895	39,895
Foote	42,992	42,992
Fowler	68,398	68,398
Gann	28,869	28,869
Jacobsen	30,152	30,152
Martin	77,429	77,429
McGinnis	48,000	0
Milner	83,504	83,504
Pezzmenta	48,000	0
Savote	46,253	46,253
	\$ 635,079	\$ 467,079

Rate Year Total Payroll	\$	467,079
Profit Sharing		<u>3%</u>
Payroll portion of Profit Sharing	\$	14,012
Profit Sharing Plan Management Fees	\$	-
		Included in Outside Service-General
Rate Year Profit Sharing	\$	<u>14,012</u>

CALCULATION OF ENGINE MAINTENANCE & SCR CATALYSIT EXPENSES
BLOCK ISLAND POWER COMPANY

Schedule WEE-8

Engine #	FY 2009	FY 2010	FY 2011	Comments
22	\$ 113,500	\$ -	\$ 79,450	2009 Major Overhaul two weeks of CAT assistance
Out of pocket costs	2,000		1,000	2011 Top End Overhaul one week of CAT assistance
Catalysts				SCR Catalysts replacement every 20,000 hrs (every third year)
23	137,500		96,250	2009 Major Overhaul two weeks of CAT assistance
Out of pocket costs	2,000		1,000	2011 Top End Overhaul one week of CAT assistance
Catalysts				SCR Catalysts replacement every 20,000 hrs (every third year)
24		137,500		2010 Major Overhaul two weeks of CAT assistance
Out of pocket costs		2,000		2012 Top End Overhaul one week of CAT assistance
Catalysts		51,525		SCR Catalysts replacement every 20,000 hrs (every third year)
25		137,500		2010 Major Overhaul two weeks of CAT assistance
Out of pocket costs		2,000		2012 Top End Overhaul one week of CAT assistance
Catalysts			51,525	SCR Catalysts replacement every 20,000 hrs (every third year)
General Maintenance	30,000	30,000	30,000	\$10,000 per year Engines 22, 23, 24, 25 and \$5,000 for Engine 19
Amortization of Carry Forward Balance	(62,667)	(62,667)	(62,667)	Amortization of \$188,000 balance of reserve account
Amount Required	\$ 222,333	\$ 297,858	\$ 196,558	
Average Annual Cost			\$ 238,917	

ANALYSIS OF GENERAL INSURANCE EXPENSE
BLOCK ISLAND POWER COMPANY

Schedule WEE-9

Test Year Insurance \$ 119,548
Rate Year Insurance \$ 126,796
Rate Year Adjustment \$ 7,248

Policy	Actual 2007 Premium less rebates	Expense 6/1/06-5/31/07	Prior Year Prepaid Amount	Test Year Insurance Expense	Actual 2008 Premium less rebates	Expense 6/1/07-5/31/08	FY 2007 Prepaid Amount	FY 2008 Insurance Expense	Estimated 3% 2009 Premium less rebates	Expense 6/1/08-5/31/09	FY 2008 Prepaid Amount	Rate Year Insurance Expense	FY 2009 Prepaid Amount
Commercial Policy	59,938.00	55,504.23	3,497.28	59,001.51	59,636.00	55,224.57	4,433.77	59,658.34	61,425.08	58,881.31	4,411.43	61,282.74	4,543.77
Umbrella Policy	25,001.00	23,151.61	1,849.32	25,000.93	25,000.00	23,150.68	1,849.39	25,000.07	25,750.00	23,845.21	1,849.32	25,694.52	1,904.79
Business Auto	28,745.00	26,618.66	2,183.60	28,802.26	27,090.00	25,086.08	2,126.34	27,212.42	27,902.70	25,838.66	2,003.92	27,842.58	2,064.04
Workers Comp	6,775.00	6,273.84	469.58	6,743.42	11,643.00	10,781.74	501.16	11,282.90	11,992.29	11,105.19	861.26	11,966.45	887.10
Contractors Equipment:	-	-	-	-	-	-	-	-	-	-	-	-	-
	120,459.00	111,548.34	7,999.77	119,548.11	123,369.00	114,243.07	8,910.66	123,153.73	127,070.07	117,670.37	9,125.93	126,796.29	9,399.70

Commercial Policy	2005 Premium less rebates	2006 Premium less rebates	2007 Premium less rebates	2008 Premium less rebates
Commercial Policy	56,998.00	56,403.00	59,938.00	59,636.00
Umbrella Policy	23,637.00	25,000.00	25,001.00	25,000.00
Business Auto	25,713.00	29,519.00	28,745.00	27,090.00
Workers Comp	4,269.00	6,348.00	6,775.00	11,643.00
Contractors Equipment	693.00	-	-	-
	111,310.00	117,270.00	120,459.00	123,369.00
	5%	3%	3%	2%

DEPRECIATION EXPENSE
BLOCK ISLAND POWER COMPANY

Schedule WEE-10

Asset Group	TEST YEAR ASSETS	ADJUSTED TEST YEAR	RATE YEAR ADJUSTMENTS	ADJUSTED RATE YEAR	RATE YEAR ASSETS
Access Electric	\$ 87,252	\$ 3,289	\$ (449)	\$ 2,840	\$ 87,252
Aid in Const.	202,980	7,315	357	7,672	202,980
Comm. Equipment	262,680	16,851	-	16,851	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	233,915	8,990	(510)	8,480	233,915
Meters	166,182	3,587	(112)	3,474	166,182
Office Furniture and Equip.	87,684	46	(46)	-	87,684
Oil Pollution	63,005	-	-	-	63,005
Overhead Dev.	682,805	14,085	1,761	15,846	682,805
Poles	270,296	7,537	511	8,048	270,296
Generation Equipment	3,531,757	185,197	19,405	204,603	3,781,757
Street lighting/signs	16,292	313	(49)	264	16,292
Structure Imp.	507,289	5,356	1,231	6,586	557,289
Substation Imp.	1,447,528	36,203	-	36,203	1,447,528
Tool Shop and Garage	25,431	30	-	30	25,431
Transportation Equip.	460,056	8,886	17,200	26,086	460,056
Underground	754,940	28,689	(2,938)	25,751	840,940
Vaults	29,251	884	-	884	29,251
Negative Fixed Assets	(989,473)	(46,485)	13,978	(32,507)	(989,473)
	8,295,415				8,681,415
<i>Depreciation Expense</i>		302,755	50,338	353,093	

TEST YEAR NET UTILITY PLANT
BLOCK ISLAND POWER COMPANY

Schedule WEE-10a

Asset Group	ENDING ASSET COST	TEST YEAR ACCUMULATED DEPRECIATION	TEST YEAR NET ASSETS
Access Electric	\$ 87,252	\$ 74,227	\$ 13,026
Aid in Const.	202,980	63,692	139,287
Comm. Equipment	262,680	110,079	152,601
Fuel System	374,609	198,151	176,459
Furniture and Fixtures	1,327	1,327	0
Land and Land Rights	79,610	60,000	19,610
Lines	233,915	117,770	116,145
Meters	166,182	115,782	50,400
Office Furniture and Equip.	87,684	87,684	0
Oil Pollution	63,005	63,005	0
Overhead Dev.	682,805	487,101	195,704
Poles	270,296	155,024	115,272
Prime Movers	3,531,757	1,266,813	2,264,944
Street lighting/signs	16,292	14,928	1,364
Structure Imp.	507,289	415,091	92,198
Substation Imp.	1,447,528	157,838	1,289,690
Tool Shop and Garage	25,431	25,251	180
Transportation Equip.	460,056	377,072	82,984
Underground	754,940	535,408	219,533
Vaults	29,251	15,315	13,936
Negative Fixed Assets	(989,473)	(671,091)	(318,382)
<i>NET UTILITY PLANT</i>	8,295,415	3,670,465	4,624,949

Annual Report Reconciliation (page 110):

Net Utility Plant	\$ 4,475,382
Non-Utility Plant - Tower	274,355
Accumulated Depreciation	(124,788)
	<u>\$ 4,624,949</u>

ANALYSIS OF RATE BASE ITEMS
BLOCK ISLAND POWER COMPANY

Schedule WEE-11

Deferred Federal Income Tax

	FIT Asset	FIT Liability	Total
Test Year Balance	1,173.42	(178,257.15)	(177,083.73)
FY 2008 Amortization	(15,214.55)	93,088.16	77,873.61
FY 2008 Balance	16,387.97	(271,345.31)	(254,957.34)
Rate Year Amortization	(1,484.92)	27,972.56	26,487.64
Rate Year Balance	17,872.89	(299,317.87)	(281,444.98)
FY 2008 Balance	16,387.97	(271,345.31)	(254,957.34)
Rate Year Balance	17,872.89	(299,317.87)	(281,444.98)
Average	17,130.43	(285,331.59)	(268,201.16)

Deferred Credits

	Prepaid Income Tax	Deferred Rental Income	Deferred Tower Rental Income	Total
	Test Year Balance	(40,842.19)	(2,000.00)	(149,997.90)
FY 2008 Amortization	4,996.63	-	16,667.00	21,663.63
FY 2008 Balance	(35,845.56)	(2,000.00)	(133,330.90)	(171,176.46)
Rate Year Amortization	4,729.31	-	16,667.00 *	21,396.31
Rate Year Balance	(31,116.25)	(2,000.00)	(116,663.90)	(149,780.15)
FY 2008 Balance	(35,845.56)	(2,000.00)	(133,330.90)	(171,176.46)
Rate Year Balance	(31,116.25)	(2,000.00)	(116,663.90)	(149,780.15)
Average	(33,480.91)	(2,000.00)	(124,997.40)	(160,478.31)

Rate year amortization

* Included in lease income

RETURN ON RATE BASE
BLOCK ISLAND POWER COMPANY

Schedule WEE-12
Rebuttal

Total Rate Year Rate Base	\$	4,078,175
Weighted Return on Rate Base		<u>6.63%</u>
Net Utility Profit	\$	<u>270,537</u> (a)

Allocation of Net Utility Profit			
Interest	0.0391	59% x a	\$ 159,502
Equity	<u>0.0272</u>	<u>41% x a</u>	<u>111,036</u>
	<u>0.0663</u>	<u>100%</u>	<u>\$ 270,537</u>

RATE YEAR RATE BASE
BLOCK ISLAND POWER COMPANY

Schedule WEE-13
Rebuttal

Description	RATE YEAR Originally Filled	Rebuttal Adjustments	AVERAGE
Net Utility Plant	\$ 4,348,850	(1) \$ (4,300)	\$ 4,344,550
Additions:			
Working Capital	165,382	-	165,382
Inventory	116,517	-	116,517
Inventory--Fuel	-	-	-
Prepaid Expenses	27,284	-	27,284
Deductions:			
Contributions in Aid	-	-	-
Accrued Maint Reserve	(2)	(146,878)	(146,878)
Deferred Credits	(268,201)	-	(268,201)
Deferred Taxes	(160,478)	-	(160,478)
Net average Rate Year base	\$ 4,229,354	\$ (151,178)	\$ 4,078,175

(1) Schedule WEE-3 Rebuttal Depreciation Adjustment / 2

(2) Accrued Maintenance funds WEE Rebuttal Testimony pages 17-18

12 Months Average

Maint Reserve

June 30, 2006	\$ (90,713)
July 31, 2006	(122,341)
August 31, 2006	(147,940)
September 30, 2006	(175,986)
October 31, 2006	(185,396)
November 30, 2006	(127,579)
December 31, 2006	(135,369)
January 31, 2007	(134,988)
February 28, 2007	(142,561)
March 31, 2007	(150,969)
April 30, 2007	(160,638)
May 31, 2007	(188,062)
	\$ (1,762,541)
	/12

FY 2007 12 Month Average

(146,878)

CAPITAL STRUCTURE
BLOCK ISLAND POWER COMPANY

Schedule WEE-14
Rebuttal

	5/31/2008	5/31/2009	Average	Weighted Percentage	Rate	Weighted Factor
Debt:						
WTC LOAN	\$ 242,373	\$ 223,827	\$ 233,100	0.0456	7.090%	0.0032
1st RUS Draw Down	844,289	815,470	829,880	0.1623	5.915%	0.0096
2nd RUS Draw Down	356,815	344,337	350,576	0.0686	5.622%	0.0039
3rd RUS Draw Down	157,229	151,519	154,374	0.0302	5.649%	0.0017
4th RUS Draw Down	287,926	277,713	282,820	0.0553	5.449%	0.0030
5th RUS Draw Down	537,077	516,062	526,570	0.1030	4.412%	0.0045
6th RUS Draw Down	204,473	196,574	200,524	0.0392	4.392%	0.0017
7th RUS Draw Down	626,255	602,162	614,209	0.1201	4.444%	0.0053
Engine	600,000	590,018	595,009	0.1164	5.240%	0.0061
Distribution	-	0	0	-	6.000%	0.0000
Debt			<u>\$ 3,787,060</u>	<u>0.7407</u>		<u>0.0391</u>
Equity:						
COMMON STOCK	\$ 191,515	\$ 191,515	\$ 191,515	0.0375	10.500%	0.0039
R/E - 12month ave. *	<u>1,077,677</u>	<u>1,190,833</u>	<u>1,134,255</u>	<u>0.2218</u>	<u>10.500%</u>	<u>0.0233</u>
Equity			<u>\$ 1,325,770</u>	<u>0.2593</u>		<u>0.0272</u>
Total Debt & Equity			<u>\$ 5,112,830</u>	<u>1.00</u>		<u>0.0663</u>

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

FY 2007	<u>\$ 1,077,677</u>	See Schedule 14a
FY2008	<u>\$ 1,077,677</u>	BIPCo hopes to break even in the FYE 2008
FY2009	<u>\$ 1,190,833</u>	2008 retained earnings plus 10.5%

Calculation of Average Capital
BLOCK ISLAND POWER COMPANY

Schedule WEE-14a
Rebuttal

Retained Earnings--12 Months Average

	Total Capital	Retained Earnings
June 30, 2006	\$ 1,026,827	\$ 835,312
July 31, 2006	1,304,803	1,113,288
August 31, 2006	1,566,262	1,374,747
September 30, 2006	1,694,234	1,502,719
October 31, 2006	1,531,650	1,340,135
November 30, 2006	1,380,758	1,189,243
December 31, 2006	1,293,489	1,101,974
January 31, 2007	1,195,071	1,003,556
February 28, 2007	1,145,133	953,618
March 31, 2007	1,078,962	887,447
April 30, 2007	1,078,710	887,195
May 31, 2007	934,404	742,889
	15,230,305	\$ 12,932,125
	/12	/12
FY 2000 12 Month Average	\$ 1,269,192	1,077,677
Capital stock		200,000
Premium		13,000
Treasury Stock		(21,485)
		191,515
Check		\$ 1,269,192

Calculation of Additional Land Sale Expenses
BLOCK ISLAND POWER COMPANY

Schedule WEE-14b
Rebuttal

Record sale of Land (FY 2006)	\$ 912,812.68
Direct and Immediate expenses from sale	<u>(99,017.00)</u>
Gain from Land Sale	<u><u>\$ 813,795.68</u></u>

5923.0019	O/S-Legal-Sale of Property	FY 2007 Expenses	\$ 31,268.32
5923.0020	O/S-Legal-Zoning	FY 2007 Expenses	1,202.04
5923.0019	O/S-Legal-Sale of Property	FY 2008 Expenses	23,345.71
5923.0020	O/S-Legal-Zoning	FY 2008 Expenses	-
		Reimbursement due from Buyer	<u>(27,908.04)</u>
		Additional Costs due to zoning	<u>\$ 27,908.04</u>
		Current Gain	<u><u>\$ 785,887.65</u></u>

**FEDERAL TAX CALCULATION
BLOCK ISLAND POWER COMPANY**

**Schedule WEE-15
Rebuttal**

Net Utility Profit	\$	270,537	WEE-12
Less: Interest Expense		159,502	
Net Income after Interest	\$	111,036	
Taxable Income		\$141,165	
Federal Income Tax (effective rate)		27%	
Federal Income Tax	\$	30,129	
Taxable Income	\$	141,165	
Less Federal Income Tax		30,129	
Net Income after Interest	\$	111,036	

Taxable income over	Not over	Tax rate	Calculation of Effective Tax rate	
0	50,000	15%	\$50,000	5%
\$ 50,001	75,000	25%	\$25,000	4%
75,001	100,000	34%	\$25,000	6%
100,001	335,000	39%	\$ 41,165	11%
			\$141,165	27%

Exhibit WEE-1-Rebuttal

**AN ANALYSIS OF
EXECUTIVE COMPENSATION
AT THE
BLOCK ISLAND POWER COMPANY**

Matthew M. Bodah, Ph.D.

March 13, 2008

Executive Summary

Using national, regional, and local data, and employing established methods of salary determination, the conclusion is reached that the salaries and total compensation for the President, Vice President/Chief Operating Officer, and Secretary-Treasurer/Chief Financial Officer at the Block Island Power Company are below or within the appropriate range for a small, Southern New England, power generation, transmission, and distribution firm.

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II. Introduction.

In the fall of 2005, I was asked to analyze the compensation paid to the President, Vice President/Chief Operating Officer (hereinafter VP/COO), and Secretary-Treasurer/Chief Financial Officer (hereinafter S-T/CFO) of the Block Island Power Company (hereinafter BIPCo). I issued a report on November 30, 2005. My conclusion was that compensation paid to these positions was reasonable based on comparisons with forty (40) community and municipal utilities in Rhode Island, Massachusetts, and Connecticut. The purpose of this report is to update the findings of my 2005 report based on cost-of-living adjustments, new data, or information that was not available to me in 2005 (e.g. subsequent PUC material).

As I mentioned in my original report, conducting a market rate study for BIPCo is challenging due to the uniqueness of the firm. I wish to reemphasize that point. There are no other small, private, island-based, electric utilities like BIPCo in Southern New England. Therefore, I used community and municipal utilities in the region as a basis of comparison. This decision was made easier by the Rhode Island Division of Public Utilities and Carriers own use of the Pascoag Utility District in recommending appropriate executive compensation rates for BIPCo in a previous matter.

Further, the only salary information readily available for community and municipal utilities was general managers' salaries, which, out of necessity, became the benchmark measure.

Although it is perhaps the best alternative, using community and municipal utilities is not optimal, since there are differences that could be relevant for executive compensation. For example, BIPCo both generates and distributes electricity. Although

a few of the comparison organizations (e.g. Holyoke, Pascoag, Wakefield, and Westfield) also distribute gas and/or water, very few (and only one with fewer than 3000 customers) generate power. The exception is the Princeton, MA municipal utility, which generates a small amount of its own electricity through a wind farm. All of the other small utilities with whom I spoke stated that they are strictly distributors and purchase electricity from larger firms or a cooperative venture (e.g. the Connecticut Municipal Electric Energy Cooperative). Although I am not an expert on electrical utilities, my understanding is that power generation considerably increases the complexity, risk, and responsibility of running a firm. It is in power generation that, for example, many of the environmental issues associated with electric utilities are found.

There is also the problem of comparing a private, for-profit, firm with public or quasi-public organizations. In the former case, it is the owners and their agents who bear the full risk and responsibility for the administration of the firm. In my discussions with general managers at some of the community and municipal utilities, I learned that certain administrative matters were handled by the municipalities themselves and not the utilities. Employee compensation, for example, might be managed by the city or town, with employees participating in municipal health care and pension programs. When asked if they were provided with a vehicle, a number of the general managers stated that they had city or town vehicles. In BIPCo's case, the leadership team is responsible for all administrative duties. These limitations should be kept in mind as we proceed.

III. Evaluating compensation

The methodology used here is well-established in compensation administration¹ and adheres to the following steps:

- Work is analyzed to determine what job is being done.
- The job is evaluated to create the proper job structure or hierarchy in the firm.
- Market data on benchmark positions is gathered and analyzed.
- The internal structure and external market data are brought together to create appropriate pay ranges.
- Individual salaries are compared to the appropriate pay ranges, with adjustments made if needed.

A. Analyzing the work

To determine the job descriptions for the positions under review, the Prefiled Direct Testimony of December 2004, pursuant to a case before the Rhode Island Public Utilities Commission (PUC Docket 3655) was used. In addition, subsequent information in the form of data responses in a more recent PUC Docket (No. 3900) was provided to me by Walter Edge, the regulatory accountant for BIPCo, which outlines the duties of the President, VP/COO, and S-T/CFO. Job duties rather than job titles are considered in matching a position with the appropriate Standard Occupational Code (SOC).²

1. President

The President at the time of the PUC filing referenced above was Jerome A. Edwards. Mr. Edwards has retired. This position is now filled by Dr. Albert Cassazza. Mr. Edwards described the duties of the President as follows:

I am responsible for the overall daily activities of the company. I supervise the operations manager; work with the financial aspects of the Company; and deal with

¹ See, for example, Milkovich, G. T. and J. M. Newman. 2005. *Compensation*. New York: McGraw-Hill, pp. 59-141; Kanin-Lovers, J. 1991. Job-evaluation technology. *The Compensation Handbook*. E. Rock and L. Berger (eds.). New York-McGraw-Hill, chap 6.

² The Standard Occupational Code is developed by the federal government as a means of categorizing occupations across the economy. The former Dictionary of Occupational Titles has been superseded by an internet-based service called O*NET, which was used to match job information with SOC codes. It is available at www.onetcenter.org.

generation problems, customer complaints and generally anything that comes up during the day. I also negotiate contracts and address the concerns of outside entities such as the Town, PUC, DPU, and other regulatory entities. In general I do the presidential duties of the Company.

The Docket 3900 responses provided to me by Mr. Edge indicate that Dr.

Cassazza handles the following duties: reviews job performance for all employees; assumes responsibility for all major decisions of the company; negotiates salaries with management personnel; supervises the VP/CFO and S-T/CFO and has direct and regular contact with the general manager, bookkeeper, and legal counsel; liaises with the Town of New Shoreham, Public Utilities Commission, Division of Public Utilities and Carriers, Rural Utility Service, financial institutions, and all other organizations with business relationships with BIPCo; chairs board meetings; and participates in rate filings before the Public Utilities Commission.

Based on this testimony and the data responses provided, it is my judgment that the position described is closest to SOC 11-1011.02 Chief Executive (Private Sector).

2. Vice President/Chief Operating Officer

The VP/COO is Clifford McGinnes. He described his duties as follows (PUC Docket 3655):

I am responsible for the acquisition and installation of generation and related equipment, fuel procurement, and the supervision of management and plant staff.

Mr. McGinnes provides further information by describing his role on two projects:

One of my most profitable special projects was the new communication tower. I was the point man on getting the tower (negotiations), installing the tower, obtaining approval for the tower (permits) and any other activities that had to be addressed. The tower is worth \$146,000 (rent and transfer of ownership) per year for rate payers.

My most recent project was the negotiation of the installation of a new CAT system SCR on BIPCo's engine 23 on a trial basis at no cost to BIPCo (except for installation). The existing SCR system is not working as well as we hoped it would. It is not a CAT system. CAT manufactures our new engines and is now developing an SCR system. If

this CAT SCR system works it will provide a better and hopefully cheaper way for us to reduce our air emissions. When the testing is over BIPCo will be given the SCR equipment and a one year warrantee on its operation. I believe that this has a value of about \$125,000 to the ratepayers.

Data responses in PUC Docket 3900 provided to me by Mr. Edge indicate that Mr. McGinnes handles the following duties: responds at any time to emergencies relating to BIPCo's generation and distribution systems; negotiates for the purchase of all major equipment; advises on all major decisions of BIPCo; serves as acting general manager in the absence of the general manager; supervises the daily activities of the general manager; negotiates fuel purchases; and participates in the planning for the expansion of BIPCo's distribution system.

Based on this testimony and the data responses provided, it is my judgment that the position described is closest to SOC 11-1021 General and Operations Manager.³

3. Secretary-Treasurer/Chief Financial Officer

The Treasurer of BIPCo in 2004 was Dr. Albert Cassazza. He is now the firm's President, with Dr. John Pezzimenti assuming the Treasurer's role. This position has also been expanded to include the duties of Secretary and is now called Secretary-Treasurer/Chief Financial Officer. Dr. Cassazza described the duties of the Treasurer as follows:

I am responsible for the financial stability of BIPCo. I manage current expenditures, cash flow, accounts receivable and payable, and financial relationships with banks, suppliers, and government agencies. I also supervise bookkeeping activities.

Data responses in PUC Docket 3900 provided to me by Mr. Edge indicate that Dr. Pezzimenti handles the following duties: assumes initial responsibility for all financial decisions; consults with legal counsel, reviews, and signs all official documents of the company, including government certifications; reviews the financial activities of the

³ The SOC does not distinguish between general and operations managers.

company and reports to the board; supervises bookkeeping activities; reviews financing matters with financial institutions and government agencies; completes an annual budget; reviews monthly and annual financial statements; supervises preparation of the annual report to the PUC; reviews all major purchases; and handles various other duties assigned by the president.

Based on this testimony and the addition information, it is my judgment that the position described is closest to SOC 11-3031 Financial Manager.

III. Creating a job structure

The point of this step is to determine the proper ranking of the three positions within BIPCo and the precise “distance” between jobs. This step is particularly necessary since we do not have regional market data on the positions themselves, but will be benchmarking the positions to that of general managers.

Here, two sources of data are used. First, national within-industry data from the most recent (May 2006) industry-specific U.S. Department of Labor, Bureau of Labor Statistics (BLS) Occupational and Employment Survey (OES)⁴ are examined and displayed in Table 1.

⁴ According to the BLS *Handbook of Methods*. “The Occupational Employment Statistics (OES) survey is a periodic mail survey of nonfarm establishments that collects occupational employment data on workers by industry. The OES program surveys approximately 725,000 establishments in 400 detailed industries. The overall response rate is 79 percent. BLS provides the procedures and technical assistance for the survey; State employment security agencies collect the data. These data are used to estimate total employment by occupation for the Nation, each State, and selected areas.” See www.bls.gov/opub/hom/homch3_a.htm

Table 1. Employment and annual salaries Electrical Power Generation, Transmission and Distribution, May 2006.

	Total Estimated Employment	Mean	10 th Percentile	25 th Percentile	50 th Percentile (Median)
Chief Executive	1090	\$159150	\$85750	\$120970	Not reported
General and Operations Manager	6180	104950	61510	78160	98980
Financial Manager	1820	102200	61100	76880	94450
All mgt. occs.	23720	103000	60970	78500	98050

Source: BLS May 2006 National Industry Specific Occupational Employment and Wage Estimates, NAICS 221100-Electric Power Generation, Transmission and Distribution. www.bls.gov/oes/current/naics4_221100.htm.

Second, data from the Rhode Island portion of the OES, which are gathered and presented by the Rhode Island Department of Labor and Training Labor Market Information Section (LMI), are examined and displayed in Table 2. Data gathered at the state-level are not as informative as the national level data. The smaller sample size precludes within-industry comparisons and results in some data being suppressed for privacy reasons. Nonetheless, Table 2 displays data for all Rhode Island industries for the same occupational codes contained in Table 1.

Table 2. Employment and annual salaries, State of Rhode Island, 2006				
	Total Employment	Mean	25 th Percentile	50 th Percentile (Median)
Chief Executive	1130	\$156395	\$113776	#
General Manager	7110	102149	64709	\$89794
Financial Manager	2080	99258	68120	90022
All management occupations	23270	93954	61402	83762

Source: Rhode Island Occupational Employment Survey, Statewide Occupations-All Industries, 2006. <http://www.dlt.ri.gov/lmi/oes/stateocc.htm>
 Note: # data not reported

For the purpose of creating a job structure, the important variables are the order and distance between jobs. The position of general manager is used as the base rate (for

reasons that will become obvious below) and is given the index number of 100. The other numbers are derived by calculating the percentage difference with the base rate observed in the BLS and LMI data (i.e. general manager salary). Table 3 displays the relative positions of jobs based on the market data above.⁵ The figure in the right hand column of Table 3 is the median⁶ of national-level industry-specific and state-level all-industry figures. Hence, it is a measure that takes into account national industry data at several levels with local pay outcomes. Having several points of data boosts our confidence that the relationship between positions is a valid representation of the market.

Put another way, the table indicates that, in the relevant market, CEO pay is 164% of a general manager's pay, COO pay is equal to general manager's pay, and financial manager's pay is 102% of general manager's pay.

	U.S. Industry Mean	U.S. Industry 10 th Percentile	U.S. Industry 25 th Percentile	R.I. All-Industries Mean	R.I. All-Industries 25 th Percentile	Median
Chief Executive Officer	156	161	164	169	241	164
Financial Manager	98	104	102	98	105	102
Chief Operation Officer	100	100	100	100	100	100
General Manager	100	100	100	100	100	100

⁵ Due to the limitations of the data, U.S. and R.I. medians cannot be calculated.

⁶ The median, which is more conservative, rather than the average was used due to the skewness of the data for CEO.

IV. Regional labor market data

Since, in general, rates of pay vary across regions of the country, the next step is gathering data from the relevant labor market data so that we can begin to determine appropriate salary ranges. As mentioned, in this case, getting the right data is a challenge. Most power companies are larger than BIPCo. In fact, the 2002 *Economic Census of Utilities* indicates that the 50 largest firms account for 79.5% of revenues in electric power generation, transmission, and distribution. The 8 largest firms account for nearly one-third (31.6%) of revenues.⁷

Ideally, one would like to gather a good size sample (e.g. N>25) of data from a group of relatively similar private sector firms in the region. But, unfortunately, there are no such firms. One natural comparison would have been Nantucket Electric, but that firm is now owned by National Grid and all salaries are paid by the parent company. The same situation exists with the former Newport Electric and Blackstone Valley Electric companies, which were assumed by larger entities and ceased reporting local executive and management salaries some time ago (and were quite a bit larger anyway).

With this paucity of private sector data, it seemed a reasonable compromise to use community and municipal power utilities for comparison. There is only one such organization in Rhode Island (the Pascoag Utility District), but there are 36 in Massachusetts and approximately 8 in Connecticut.⁸ As mentioned, the appropriateness

⁷ U.S. Census Bureau. 2004. *Electric Power Generation, Transmission, and Distribution: 2002. 2002 Economic Census—Utilities*. Available at www.census.gov.

⁸ 2004 reports for all of the Massachusetts municipal power companies were inspected on site at the Massachusetts Department of Telecommunications and Energy; annual reports for Connecticut companies are available on-line from the Connecticut Department of Utility Control at www.state.ct.us/dpuc/database.htm. Unfortunately, there are some gaps in this database, so only Groton, Bozrah, and Jewett City are included. Data on Pascoag came via an information request to the RI Department of Public Utilities and Carriers.

of using such organizations is supported by the Division of Public Utilities and Carriers' own use of the Pascoag Utility District as the basis for its recommendation to the PUC for executive compensation at BIPCo.

Data on all management salaries are not included in the filings of public power companies across the region. Most filings, however, do include the salary of the general manager, which will be used as the benchmark and anchor for our salary ranges. Table 4 includes descriptive statistics and Table 5 a ranking of individual salaries by community.

Table 4. Descriptive statistics for number of customers and general managers' salaries, community and municipal utilities in CT, MA, and RI.		
	Customers	Salary
Observations	40	40
Minimum	661	\$24500
Maximum	34769	154082
Mean	8244	105261
10 th Percentile	1943	76789
25 th Percentile	3043	90128
50 th Percentile (Median)	7186	110352

Table 5. General managers salaries, community and municipal utilities in CT, MA, and RI and BIPCo, 2004

Rank	Utility	Customers	Salary (\$)	Rank	Utility	Customers	Salary (\$)
1	Westfield	17189	154082	21	N. Attleboro	12608	109356
2	Taunton	34769	145811	22	Groton, CT	11602	107902
3	Chicopee	25734	144367	23	Groton, MA	4510	102260
4	Peabody	NA	138750	24	Sterling	3626	100000
5	Hudson	11409	137012	25	Pascoag	5000	100000
6	Littleton	6253	130899	26	Hull	6108	99984
7	Wellesley	9908	128636	27	Georgetown	3242	97000
8	Braintree	14739	125000	28	Concord	7406	94870
9	Norwood	15101	121223	29	S. Hadley	7400	94677
10	Holyoke	10147	120000	30	Danvers	11749	91670
11	Holden	7281	118500	31	Bozrah	2554	88587
12	Middleboro	13882	116017	32	Templeton	3358	86000
13	Middleton	3183	115988	33	Block Island	1724	84844
14	Marblehead	10596	115834	34	Ashburnham	2902	81000
15	Wakefield	11639	115780	35	Groveland	2542	78709
16	Hingham	10049	115000	36	Boylston	2143	77977
17	Mansfield	9145	115000	37	Princeton	1498	75600
18	W. Boylston	3642	112979	38	Paxton	1836	69943
19	Jewett City	2049	112442	39	Merrimac	2651	51053
20	Belmont	10757	111347	40	Chester	661	24500

Source: Annual Reports, Connecticut Department of Public Utilities, Massachusetts Department of Telecommunications and Energy, Rhode Island Department of Public Utilities.

Notes: Massachusetts data were filed 12/31/2004; Bozrah and Groton, CT were filed 6/30/2004; Jewett City was filed 6/30/2003. Pascoag and Block Island are from 2004.

V. Creating salary ranges

Based on the actual market salaries displayed in Table 4 and Table 5 and the structure indicated in Table 3, the following salary ranges are created.

A. President

Table 3 indicates that chief executives officers in electric utilities earn approximately 164% of the salary of a general manager. Combined with are market data, a salary range is created:

- Range minimum=Second lowest salary⁹ from market data*1.64
- Range maximum=10th percentile salary from market data*1.64
-

B. Vice President/Chief Operating Officer

The SOC code does not distinguish between general and operating managers.

Therefore:

- Range minimum=Second lowest salary from market data
- Range maximum=10th percentile salary from market data
-

C. Secretary-Treasurer/Chief Financial Officer

Table 3 indicates that financial managers in electric utilities earn approximately 102% of the salary of a general manager. Hence:

- Range minimum=Second lowest salary from market data*1.02
- Range maximum=10th percentile salary from market data*1.02

D. Aging the data and creating ranges

The logic in using the second lowest and 10th percentile salaries for the range is that BIPCo's size, as measured by the number of customers, places it in the lowest decile of firms in the regional market. The validity of using the number of customers as a

⁹ I use the second lowest rather than the lowest salary, since the lowest salary, paid in Chester, MA is a statistical outlier. Further, the Chester system services only 661 customers, far below other firms in the lowest decile.

measure is supported by the relatively strong correlation between general manager salary and the number of customers ($r=.71$) in the market data.

However, since most of the data gathered represent 2004 salaries, it is appropriate to “age” or “trend” the figures to bring them up-to-date for the period of application.¹⁰ A convenient measure is the U.S. All Urban Consumers Consumer Price Index (CPI). In December 2004 the CPI was 191.2; the latest figure (February, 2008) is 211.08. This represents an increase of 10.4%. Therefore the totals above are multiplied by 1.104, giving us the figures in Table 6.

	Actual	Minimum	Midpoint	Maximum
President	\$72000	\$92435	\$115733	\$139031
VP/COO	48000	56363	70569	84775
S-T/CFO	48000	57490	71981	86471

VI. Benefits

Salary is only one component of compensation. The executive compensation package is typically a combination of salary, benefits, short-term incentives (e.g. annual bonuses), long-term incentives (e.g. stock options), and perquisites.¹¹ Most of the data on the structure of executive compensation packages favors very large (e.g. Fortune 500) firms. More useful for our purposes and for the positions of relevance here is the BLS report *Employer Costs for Employee Compensation*.¹² Table 7 provides some information from the most recent report (September 21, 2007).

¹⁰ For a discussion of aging and trending data, see Milkovich and Newman. 2005, pp. 237-8.

¹¹ See, for example, Foulkes, F. K. 1991. *Executive Compensation*. Boston: Harvard Business School Press.

¹² Available at www.bls.gov/news.release/pdf/ecec.pdf.

Table 7. Percent of total compensation paid for benefits by industry, region, firm size, and occupation, 2007.					
	Utilities	New England	1-49 employees	Management	Average
Total	37.4	29.0	25.6	29.2	30.3
Leave	9.4	7.4	5.3	6.8	7.2
Supplemental pay	3.8	3.0	2.8	3.0	3.2
Insurance	9.2	6.9	6.1	7.6	7.5
Retirement	7.6	3.4	2.1	3.5	4.2
SS/WC/UI	7.3	8.3	9.3	8.5	8.4

Source: Bureau of Labor Statistics. 2007. *Employer Costs for Employee Benefits*, Tables 7,8,9,10.

Table 8 is an approximation of Table 7 for the BIPCo executives. It allows us to compare the percent of total compensation paid in benefits to BIPCo executives with the market.

Table 8. Percent of total compensation paid for benefits to BIPCo executives, FY 2007				
	President	VP/COO	S-T/CFO	Average
Total	23.5	38.2	0.0	20.6
Leave	NA	NA	NA	
Supplemental pay (meetings)	1.9	2.0	0.0	1.3
Insurance	7.7	18.6	0.0	8.8
Retirement	0.0	0.0	0.0	0.0
SS/WC/UI	0.0	0.0	0.0	0.0
Electricity	3.2	5.8	0.0	3.0
Auto	10.7	13.0	0.0	7.9

To get a further idea of benefits packages at small electric companies in the region, six similarly-sized electric utilities in Massachusetts were contacted and asked several questions about benefits for management personnel. All of the organizations have fewer than 3300 customers, but no other parameters were placed on selection. The point was simply to get a rough idea of what benefits were available to management personnel at these organizations. The results are displayed in Table 9.

Table 9. Components of management benefits' packages, selected small Massachusetts municipal utilities.					
	A	B	C	D	E*
Ashburnham	Yes	75%	Yes	1	No
Boylston	Yes	70%	Yes	1	No
Georgetown	Yes	64%	Yes	1	No
Merrimac	Yes	50%	Yes	0	NA
Princeton	Yes	90%	Yes	2	No
Templeton	Yes	75%	Yes	1	No

Note: The questions were:

- A. Does your organization provide management personnel with health insurance?
- B. If so, what percent of health insurance is paid by the employer?
- C. Does your organization provide management personnel with a pension that is at least partially funded by the employer?
- D. How many members of the management team are provided vehicles?
- E. Can the vehicle be used for personal business?

All management personnel participated in a public employees' pension program. Employee contributions are in the range of 7-11% of salary depending on date of hire and a few other factors. The employer contribution varies. For example, Ashburnham paid \$64000 to the pension system for its 9 employees in the last fiscal year.

*Most respondents stated that, in fact, there is *ad minimus* use of employer-provided vehicles for personal business, such as errands carried out when traveling to or from work.

VII. Total compensation

Table 10 shows total compensation for BIPCo executive compared to the rates based on market data.

Table 10. BIPCo actual total compensation and market ranges.				
	Actual	Minimum	Midpoint	Maximum
President	\$94113	\$120443	\$150780	\$181157
VP/COO	79226	73441	91952	110462
S-T/CFO	48000	74909	93791	112672

VIII. Are the salaries appropriate?

Creating salary ranges is easy compared to determining the appropriate pay for an individual. For non-exempt positions¹³ pay is typically determined on an hourly basis and an individual's pay is a function of the hourly rate times the number of hours worked, plus any premiums (e.g. overtime), bonuses, and incentives. The hourly rate itself is

¹³ Meaning positions not exempted from the overtime provisions of the Fair Labor Standards Act.

primarily based on the requirements of the job, but may also include some credit for an individual's experience, education, etc.

Positions meeting the Fair Labor Standard Act's criteria for "White Collar Exemptions" are usually paid on a salary basis, meaning that the employee's pay is determined on a "not less than weekly basis," rather than an hourly basis, and "cannot be reduced for variations in the quantity or quality of the employee's work."¹⁴ Salary ranges for executive level employees are typically much wider than for lower level employees. This is because the specific duties of the job and the hours worked are relatively less important than the qualities an individual brings to the job (e.g. leadership skills) and the burdens (e.g. risk and responsibility) that go along with the job.

Each BIPCo executive has been active with the company for at least 15 years. When compared to the ranges in Table 6, the base salaries of all three remain below the market-determined rates for the positions. When total compensation is considered, two of the three are below range, while one is within range.

One criticism of the approach used here might be that the general managers' salaries used for comparative purposes are for full-time employees, while the efforts of the executives at BIPCo are part-time. Putting aside the fact that executive-level employees are typically not remunerated on an hourly basis, it is my understanding Mr. McGinnes spends at least forty hours per week, year round, on BIPCo business. There should be little doubt that his current compensation is appropriate based on market data.

Dr. Cassazza spends most of his time on BIPCo business in the summer months, when demand for electricity on Block Island is highest. He spends somewhat less time on BIPCo business in the off-season. His salary and total compensation are 78% of the

¹⁴ See U.S. Department of Labor, Wage and Hour Division, Fact Sheet 17G.

minimum of the market rate. Considering his experience with the firm, advanced degrees (including an MBA), the responsibilities of running a private firm, etc., comparison to the midpoint of market rates is probably more valid. In that case, he earns about 62% of the market rates from both salary and total compensation. In that most of the demand for BIPCo services occurs when Dr. Cassazza is devoting most of his time, the level of compensation seems appropriate.

Dr. Pezzimenti has a four-day per week medical practice in Connecticut but devotes time to BIPCo business at night, on weekends, and on days off. Dr. Pezzimenti's salary is 83% of minimum market rate and 66.7% of the midpoint rate. Since Dr. Pezzimenti is paid no benefits, however, his total compensation is only 64% of the minimum market rate and 51% of the midpoint. The market comparison for Dr. Pezzimenti's position is likely particularly conservative considering the additional financial responsibility for an executive with a private firm.

As I have mentioned throughout this report, there are shortcomings to the approach used here. I believe, however, that this study makes the best possible use of publicly-available data and provides a reasonable analysis of that data. Although a few necessary assumptions are made, the findings are not based on conjecture or a few anecdotes. With this in mind, I am of the professional opinion that the compensation paid to the three executives at BIPCo are fair and reasonable when compared to data from the regional labor market.

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University of Rhode Island, Labor Research Center, M.S. Labor and Industrial Relations, 1988.

Providence College, B.A., Magna Cum Laude, Liberal Studies and Certificate in Labor Relations, 1986.

EMPLOYMENT HISTORY

University of the Rhode Island, Associate Professor and Research Coordinator, Schmidt Labor Research Center, 2002-present.

Labor Arbitrator/Mediator, listed with the American Arbitration Association and the Labor Relations Connection, and the Rhode Island Department of Labor and Training, January 2006-present.

University of the Rhode Island, Assistant Professor and Research Coordinator, Schmidt Labor Research Center, 1996-2002.

University of Massachusetts-Amherst, Adjunct Professor, Union Leadership and Administration Program, Summer 1996.

University of Rhode Island, Instructor and Research Coordinator, Labor Research Center, 1992-1996.

University of Detroit-Mercy, College of Business Administration, Adjunct Faculty, 1992.

Michigan State University, Research Assistant, School of Labor and Industrial Relations, 1988-1992, and Institute for Public Policy and Social Research, 1988-1991.

Michigan State University, Adjunct Instructor, School of Labor and Industrial Relations, Labor Education Program, 1988-1992.

State of Rhode Island, Department of Transportation, Engineering Technician, 1984-1988.

Rhode Island General Assembly, Senate Majority Leader's Office, Research Assistant, 1980-1984.

TEACHING EXPERIENCE

University of Rhode Island: Schmidt Labor Research Center, College of Business Administration, Department of Sociology and Anthropology, and University College, Fall 1992-present.

LRS 542 Labor Relations and Collective Bargaining. Fall 1994-present.

MBA 577 (formerly MGT 640) Compensation Administration. Spring 1995-present.

SOC 320 Organizations (formerly Formal Organizations). Fall 1999-present.

SOC 432 Work, Employment, and Society (formerly Industrial Sociology). Spring 2003-present

LRS/MGT 500 Labor Relations and Human Resources, Fall 2004

LRS 534 Information Sources and Uses in Industrial Relations and Labor Economics. Spring 1993-Spring 2000.

MGT 641 Human Resource Development. Fall 1998, Fall 1999.

URI 101 Traditions and Transformations. Fall 1997.

University of Rhode Island, Executive MBA Program.

Coordinator and principal instructor, Human Resource Management module,
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Taught units on Human Resources, Human Resource Information Systems,
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University of Massachusetts-Amherst, M.S. in Union Leadership and Administration.

Labor 697I Individual and Group Behavior in Organizations. Summer, 1996.

University of Detroit-Mercy, College of Business Administration, Adjunct Instructor.

MGT 542 Labor-Management Relations in Arbitration, Spring 1992.

OTHER ACADEMIC EXPERIENCE

University of Trier (Germany), Institute for Industrial Relations and Labor Law in the European
Union. Visiting Professor, April-June, 2004.

Hans Böckler Stiftung, Düsseldorf. Visiting Researcher, January-March, 2004.

PUBLICATIONS

In Refereed Journals

Park, Heejoon; McHugh, Patrick P. and Matthew M. Bodah. 2006. Revisiting general and
specific union beliefs: the union voting intentions of professional. *Industrial Relations*
45(2): 270-289.

Bodah, Matthew M.; Ludlam, Steve, and David Coates. 2003. The development of an Anglo-
American model of trade union and political party relations. *Labor Studies Journal* 28(2):
45-66.

McHugh, Patrick P. and Matthew M. Bodah. 2002. Challenges to professionalism and union
voting intentions: the case of pharmacists. *Journal of Labor Research* XXIII (4): 659-
672.

- Ludlam, Steve; Bodah, Matthew M. and David Coates. 2002. Trajectories of solidarity: changing union-party linkages in the UK and the US. *British Journal of Politics and International Relations* 4(2): 222-244.
- Bodah, Matthew M. 2001. Congress and the National Labor Relations Board: a review of the recent past. *Journal of Labor Research* XXII (4): 699-722.
- Bodah, Matthew M. 2000. Significant labor and employment law issues in higher education during the past decade and what to look for now: the perspective of and academician *Journal of Law and Education* 29(3): 317-331.
- Bodah, Matthew M. 1999. Congressional influence on labor policy: how congress has influenced outcomes without changing the law *Labor Law Journal*. 50(3): 223-229. .
- Bodah, Matthew M. 1999. Rethinking the 'Rhode Island Trilogy': an erosion of the judiciary's support for arbitration *Journal of Collective Negotiations in the Public Sector*. 28(1): 53-67.
- Bodah, Matthew M., 1992. Internal jurisprudence and trade union democracy. *Economic and Industrial Democracy* 13(2): 45-68.
- Bodah, Matthew M. 1990. Twenty-five years of collective bargaining under the Urban Mass Transportation Act of 1964. *Labor Studies Journal* 15(3): 32-50.

In Non-refereed Journals

- McHugh, Patrick P; Bodah, Matthew M; Holt, Harry W., Jr; and Seong J. Yim. 2002. Employee involvement: contract clauses in collective bargaining agreements. *Looking Ahead* (Journal of the National Policy Association) XXIV(2): 15-19.

Refereed Papers in Proceedings

- McHugh, Patrick P.; Park, Heejoon and Matthew M. Bodah. 2003. Professional employees and union voting intentions: revisiting the role of general and specific union beliefs. Academy of Management, Best Papers from the 2003 Meetings.
- Bodah, Matthew M. and Joel Cutcher-Gershenfeld. 1997. Employer escape from collective bargaining: a longitudinal review. *Proceedings of the Industrial Relations Research Association, New Orleans, Louisiana*. pp. 7-14.

Cutcher-Gershenfeld, Joel, Matthew M. Bodah and Patterson Terry. 1992 Determinants and consequences of a mutual gains orientation in public sector collective bargaining. *Proceedings of the Industrial Relations Research Association Meetings, New Orleans, Louisiana*. pp. 487-499.

Non-refereed Papers in Proceedings

Bodah, Matthew M.; Lardaro, Leonard and John Burkett. 2003. Serving the Medicaid and Medicare Populations: Nursing Labor Market Dynamics. *Proceedings of the Industrial Relations Research Association, Washington DC*. pp. 199-205

Bodah, Matthew M.; Lundy, Catherine M. and Patrick P. McHugh. 2002. Professional associations and collective bargaining: motivations and difficulties. *Proceedings of the Industrial Relations Research Association, Atlanta, Georgia*. pp. 164-171.

Book Chapters

McIntyre, Richard A. and Matthew M. Bodah. 2006. The US and ILO Conventions No. 87 and No. 98: The Freedom of Association and Right to Bargain Collectively. *Justice on the Job: Perspectives on the Erosion of Collective Bargaining in the United States*. Kalamazoo, MI: W.E. Upjohn Institute for Employment Research, pp. 231-247.

Bodah, Matthew M. 1999. Urban mass transit. in J. Bonner (ed.) *Labor-management relations in the public sector: redefining collective bargaining*. Horsham, PA: LRP Publications.

Published Reports

Belman, Dale; Bodah, Matthew M. and Peter Philips. 2007. *Project Labor Agreements*. Bethesda, MD: Electri International.

Bodah, Matthew M. 2007. *2006 Statewide Survey of Childcare Rates in Rhode Island*. Cranston, RI: RI Department of Labor & Training/RI Department of Human Services.

Bodah, Matthew M. 2005. *2004 Statewide Survey of Childcare Rates in Rhode Island*. Cranston, RI: RI Department of Labor & Training/RI Department of Human Services.

Bodah, Matthew M. 2004. *Labor Arbitration and the Construction Industry: A Guide to Current Practices and Issues*. Cortland, NY: National Academy of Arbitrators.

Bodah, Matthew M. 2003. *2002 Statewide Survey of Childcare Rates in Rhode Island*. RI Department of Labor & Training/RI Department of Human Services.

Chapter in Report

Bodah, Matthew M. 2001. Report of findings: interviews with United Brotherhood of Carpenters stewards. In Ken Halperin and Vernon McDougall, *Intervention Studies of Construction Safety and Health*, Washington, DC: Center to Protect Workers Rights. National Institute for Occupational Safety and Health, Center for Disease Control, Report Number 7 R01 CCR317873-01.

Book Reviews

Bodah, Matthew M. 2001. Review of *Labored Relations: Law, Politics and the NLRB* by William B. Gould IV, *British Journal of Industrial Relations*, 39(4): 630-632.

Bodah, Matthew M. 1992. Review of *More Profile than Courage: The New York Transit Strike of 1966* by Michael Marmo, *Journal of Labor Research*, 13(1): 144-146.

Press Article

Bodah, Matthew M. and Richard McIntyre. 1997. Fidelity labor woes part of a larger trend. Business Commentary Page, *Providence Journal-Bulletin*, June 21.

Edited Volume

Roberts, Karen; Burton, John F. Jr. and Matthew M. Bodah (editors). 2005. *Workplace Injuries and Diseases: Prevention and Compensation* (Essays in honor of Terry Thomason). Kalamazoo, MI: W.E. Upjohn Institute for Employment Research.

UNPUBLISHED WORK

Refereed/Competitively-Selected Research Presentations

Bodah, Matthew, Belman, Dale and Peter Philips. 2008. Project Labor Agreements: A research update. Labor and Employment Relations Association Meeting, New Orleans, January 4.

Bodah, Matthew. 2007. Congress and the NLRB: An analysis of Congressional pressure on Board decision-making—How appointments affect Board outcomes. Labor and Employment Relations Association Meetings, Chicago, January 6.

Bodah, Matthew M. and Martin Schneider. 2006. Discretion and performance: a cross-national comparison of public governance. Labor and Employment Relations Association Meetings, Boston, January 7.

Bodah, Matthew M. 2005. Project labor agreement dispute resolution procedures. Labor and Employment Relations Association Meetings, Philadelphia, January 7.

- McIntyre, Richard and Matthew M. Bodah. 2002. The US and ILO Conventions No. 87 and No. 98: The Freedom of Association and Right to Bargain Collectively. AFL-CIO/Michigan State University Conference on Workers Rights, East Lansing, MI, October 11, 2002.
- McHugh, Patrick P; Yim, Seong Jae; and Matthew M. Bodah. 2001. Labor-management cooperation: codification, implementation, and effectiveness. Industrial Relations Research Association Meetings, New Orleans, January 5.
- McHugh, Patrick P. and Matthew M. Bodah. 2000. Professionalism and union voting intentions: the case of pharmacists. Seventh Biennial Bargaining Group Conference, East Lansing, Michigan, May 13.
- Coates, David; Bodah, Matthew M. and Steve Ludlam. 2000. Trade unions and the “Third Way” in Britain and the United States. Political Studies Association (UK), London, April 11.
- McHugh, Patrick P. and Matthew M. Bodah. 2000. Union voting intentions of professionals: pharmacists' general and specific beliefs about unions. Industrial Relations Research Association Meetings, Boston MA, January 7.
- Bodah, Matthew M. 1999. Congressional influence on labor policy: how congress has influenced outcomes without changing the law. Industrial Relations Research Association Meetings. New York, NY. January 5.
- Bodah, Matthew M. 1998. Establishment growth in the construction industry: could “double-breasting” be a factor? Industrial Relations Research Association Meetings, Chicago, January 6.
- Bodah, Matthew M. 1996. Public policy and construction labor relations: a decade of change. Fifth Biennial Bargaining Group Conference, Minneapolis, October 11.

Invited Research Presentations

- Bodah, Matthew M. 2007. Project labor agreements. National Electrical Contractors Association, National Convention, San Francisco, October 6.
- Bodah, Matthew M. 2005. Childcare rates in Rhode Island. RI Kidscount conference on childcare. Providence, RI , October 5.
- Bodah, Matthew M. 2005. Project labor agreements. Northeast Regional Council of the National Electrical Contractors Association, Newport, RI, September 1.
- Bodah, Matthew M. 2004. The political environment of labor relations public policy in the US. University of Trier (Germany), June 15.

- Bodah, Matthew M. 2004. The political environment of labor relations public policy in the US. Hans Böckler Stiftung, Düsseldorf. March 30.
- Bodah, Matthew M. 2001. Recent labor market dynamics in Rhode Island. Conference of the New England Training and Employment Council, Mystic, CT, November 5, 2001.
- Bodah, Matthew M. 2000. Employment projections in the US and Rhode Island. Rhode Island Jobs Corps Board of Directors, North Kingstown, RI, February 4.
- Bodah, Matthew M. 1998. Employee leasing and temporary help arrangements in Rhode Island. Faculty Seminar. Kingston, RI, April 3.
- Bodah, Matthew M. 1997. Judicial review of arbitrators' decisions. Rhode Island Labor-Management Conference. Providence, RI. November 6.
- Bodah, Matthew M. 1997. Innovations in labor-management relations in the construction industry. Connecticut Construction Labor-Management Council. North Haven, Connecticut, June 30, 1997.
- Cutcher-Gershenfeld, Joel and Matthew M. Bodah. 1992. Computers and public safety collective bargaining. New Developments in Public Sector Collective Bargaining Conference. Ypsilanti, MI, May 20-21.

Unpublished Reports

- Bodah, Matthew M; Lardaro, Leonard and John Burkett. 2003. *The labor supply of nurses and nursing assistants in Rhode Island and the United States*. For the RI Department of Human Services and Governor's Advisory Council on Health.
- Bodah, Matthew M. 2002. *Apprenticeship programs in Rhode Island*. For the IBEW Local 99 and RI Chapter of the National Electrical Contractors Association.
- Bodah, Matthew M. 1998. Temporary worker survey: a summary of findings. Research on behalf of the Campaign for Permanent Jobs, Comite Trabajadores Unidos, Progreso Latino. Presented at press conference, Rhode Island State House, February 3.

RESEARCH IN PROGRESS

Nursing faculty staffing issues. With Lynne Dunphy, University of Rhode Island

Labor/management cooperation and collective bargaining agreements. With Patrick McHugh, George Washington University

Project labor agreements. With Dale Belman. Michigan State University, and Peter Philips, University of Utah.

State-level public policy and work/life balance. With Shannon Campbell, University of Rhode Island.

The National Labor Relations Board and the German Federal Labor Courts. With Martin Schneider of the University of Paderborn.

GRANTS

Project labor agreements. Electrical Contracting Foundation. \$140,000

Temporary disability insurance. RI Department of Labor and Training \$40,000

A study of childcare costs in Rhode Island. RI Department of Labor and Training. Approx \$13,000 biennially.

Labor markets for individuals who work with the Medicare and Medicaid populations. RI Department of Human Services. \$66,000 (FY 2002); \$90,000 (FY 2003).

Apprenticeship programs in Rhode Island. Supported by IBEW/NECA Labor-Management Committee with funds from the Federal Mediation and Conciliation Service. \$20,000.

The role of construction union stewards in health and safety. Supported by the Center to Protect Workers' Rights with funds from the National Institute for Occupational Safety and Health, Centers for Disease Control. \$37,000

Salaries of municipal official in Rhode Island. Contract research for the Town of Jamestown. \$6,000.

Faculty development grant. University of Rhode Island. \$1000.

HONORS

University of Rhode Island, Research Excellence Award, 2007 nominee.

Campaign for Permanent Jobs/Progreso Latino, Community Service Award, 1999.

University of Rhode Island, Teaching Excellence Award, 1997 nominee.

SELECTED CONSULTING AND OUTREACH ACTIVITIES

Mediator, arbitrator, and facilitator of labor negotiations, grievance matters, and labor/management committees, various parties, 1996-

Member of the Reference Group aiding in the development of a new statewide economic development plan, RI Department of Administration, Division of Planning, 2007-

Served as member of the commission to review Temporary Disability Insurance in Rhode Island. Appointed by the director of the RI Department of Labor and Training. 2003-2006.

Consulted with Block Island Power Company on executive compensation issues. Fall 2005

Drafted proposal to the Federal Mediation and Conciliation Service and served as interim facilitator for statewide labor-management committee (RI Department of Administration and various state employee unions), 2002-2003.

Testified before RI House and Senate on legislation proposed by the RI 21st Century Labor-Management Council, Spring 2003.

Served as neutral facilitator in the development of a new compensation program, Rhode Island Department of Education and American Federation of Teachers, Local 2012, 2002-2003.

Conducted salary survey and analysis for the Town of Jamestown, RI. 1999-2000.

Served as member of the Rhode Island Senate study group on healthcare. Appointed by the chair of the senate HEW committee. Winter-Spring, 1999-2000.

Testified before legislative commission studying issues concerning temporary workers. March 29, 1999 and June 7, 1999.

SELECTED PRESS CITATIONS

Unions still wield public policy power. *Providence Business News*. January 28, 2006. Marion Davis, staff writer.

Guest on WRNI news program *Focus RI* discussing state employee compensation, July 11, 2003.

Cut from a different fabric. *Providence Journal*, June 24, 2001. Lynn Arditi, staff writer.

Publicity could hurt recruitment efforts. *Honolulu Advertiser*, April 22, 2001. Alice Keesing, staff writer.

Guest on WBUR (Boston) news program *Here and Now* discussing mandatory overtime issues and the Verizon/CWA strike, August 14, 2000.

Union work done on state time cost taxpayers \$783,000. *Providence Journal-Bulletin*, May 23, 1999. Katherine Gregg, staff writer.

Cianci's Giveaway. *Providence Journal-Bulletin*, February 25, 1998. Quoted in unsigned editorial.

Adding bosses to union raises concern. *Providence Journal-Bulletin*, February 19, 1998, Ken Mingis, staff writer.

Local analysts say Teamsters did it right. *Providence Journal-Bulletin*, August 20, 1997. Jody McPhillips, staff writer.

Appeared on television program *Cross Currents* as labor relations expert discussing the UPS/Teamsters strike. WJAR-TV 10, August 17, 1997.

Police arrest protesters at Fidelity construction site. *Providence Journal-Bulletin*, April 23, 1997, Lynn Arditi, staff writer.

SELECTED UNIVERSITY, PROFESSIONAL, AND COMMUNITY SERVICE ACTIVITIES

URI work-life committee, member, 2007-

Search committee chair, Assistant Professor of Human Resources, February-June, 2007.

Search committee member, Dean, College of Business Administration, January-June 2006.

Labor and Employment Relations Association, National Chapter Advisory Committee, 1999-present

Greater Rhode Island Labor and Employment Relations Association, president, 1998-2001; secretary, 2001-present

American Association of University Professors (URI chapter), nominating committee member, 1999-present

St. Mary Parish, Newport, RI, lay ministry team, Catholic Charities Fund volunteer, 1992-present

URI Graduate Council, member, 2001- 2004

American Association of University Professors (URI chapter), newsletter editor, 2001-2003.

University Council of Industrial Relations and Human Resource Programs, secretary-treasurer,
1997-2002

Rhode Island Citizen magazine, editorial board member, 2000-2002.

Feinstein Center for a Hunger Free America, board member, 1999-2002

Search committee for AAUP executive director, co-chair, 2000.

University Judicial Board, member, 1999-2000.

Faculty Senate Library Committee, member, 1997-1999.

Professional Memberships

Labor and Employment Relations Association, Academy of Management, American Sociological Association, Eastern Sociological Society, Rhode Island Labor History Society



United States Department of Agriculture
Rural Development

MAY 30 2007

Mr. David O. Milner
General Manager
Block Island Power Company
P.O. Box 518
Block Island, Rhode Island 02807-0518

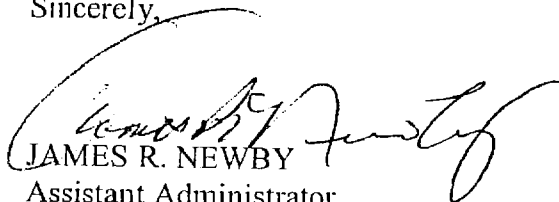
Dear Mr. Milner:

In a letter dated May 11, 2007, Mr. Michael R. McElroy, legal counsel representing Block Island Power Company (BIPCO), requested approval to have a Rural Development (RD) representative testify at a zoning hearing to be held on or about August 27, 2007, and relating to BIPCO's 2006 sale of the New Shoreham Assessors Plat, Lots 38 and 37B (the Property). Since RD was not a direct party to this transaction, testimony by one of its employees is prohibited.

A request for approval to sell the Property as well as release the Government's lien on the Property was received in RD Electric on May 26, 2006. RD Electric reviewed the request and found that BIPCO was in compliance with all mortgage, loan contract, and financial requirements and covenants. In addition, RD Electric determined that the sale of the approximately one acre of non-utility land and related non-utility buildings, would neither adversely impact BIPCO's ability to generate its foreseeable electric requirements, nor would it negatively impact RD Electric's loan security or the feasibility of BIPCO's outstanding loans. RD Electric Programs approved the sale of the Property and executed the partial release of lien associated with the Property on June 8, 2006.

BIPCO has continued to remain in compliance with all mortgage requirements and financial covenants since that time.

Sincerely,


JAMES R. NEWBY
Assistant Administrator
Electric Programs

cc: Mr. Michael R. McElroy, Schacht and Associates

1400 Independence Ave, SW • Washington, DC 20250-0700
Web: <http://www.rurdev.usda.gov>

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Schacht & McElroy

Robert M. Schacht
Michael R. McElroy

Attorneys at Law

(401) 351-4100
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email: RMSchacht@aol.com
McElroyMik@aol.com

May 24, 2006

Luly Massaro
Clerk
Public Utilities Commission &
Division of Public Utilities and Carriers
89 Jefferson Boulevard
Warwick, RI 02888

Re: Block Island Power Company - Informational Filing

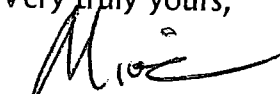
Dear Luly:

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

Enclosed are an original and 9 copies of an informational filing for distribution to the Public Utilities Commission and the Division of Public Utilities and Carriers. Because no approvals are required for the property transaction outlined in the informational filing, this filing is being made solely to inform the Commission and the Division of this important transaction and its financial impact on BIPCo.

If you have any questions, please feel free to call.

Very truly yours,



Michael R. McElroy

MRMc/kmc

BIPCo/Sale-Massaros 1

cc: BIPCo owners
Walter Edge
Paul Roberti, Esq.
Merlyn O'Keefe, Esq.
Alan Mandl, Esq.
Block Island Town Clerk (CMRRR)

**INFORMATIONAL MEMORANDUM
REGARDING
BLOCK ISLAND POWER COMPANY PROPERTY SALE
AND
FINANCIAL UPDATE**

**For
The Rhode Island Division of Public Utilities and Carriers
And
The Public Utilities Commission**

**Prepared by
Walter E. Edge Jr. MBA CPA
President
B&E Consulting LLC**

May 20, 2006

**INFORMATIONAL MEMORANDUM
REGARDING
BLOCK ISLAND POWER COMPANY PROPERTY SALE
AND
FINANCIAL UPDATE**

A number of financial issues were identified in Block Island Power Company's (BIPCo) most recent rate filing Commission Docket # 3655 including:

1. The Rural Utilities Service (RUS) is BIPCo's first mortgage lender. BIPCo did not make its financial ratios as required by its RUS loan documents for the calendar year ended December 31st 2004, and was in danger of missing the RUS financial ratios for the calendar year ended December 31st 2005, if BIPCo did not receive adequate rate relief in Docket # 3655. Failure to make these ratios for two years in a row would have put BIPCo in default of its RUS loans.
2. BIPCo was facing significant cash flow issues coming out of the winter of 2004-2005 (well over \$400,000 of payables) that could not be addressed without a significant infusion of cash.
3. The Division of Public Utilities and Carriers (Division) identified, and the Public Utilities Commission (Commission) agreed, that BIPCo's equity level had declined to an uncomfortable level (83% debt and 17% equity). The Commission in its Order in Docket #3655 encouraged BIPCo "to develop a financial plan to increase the equity level, while still maintaining and upgrading the system."

The following memorandum will address the current status of these financial issues.

Issue 1: RUS Financial Ratios

BIPCo was able to make its financial ratios for the calendar year 2005 as a result of the rate increase allowed by the Commission in Docket # 3655. As a result, BIPCo applied for, and received, a waiver of the quarterly financial statement reporting that had been imposed upon BIPCo when BIPCo missed its December 31st 2004 ratios.

BIPCo is currently working with RUS to obtain a \$600,000 loan for the purchase of a new engine (# 25) and a larger loan for improvements to the distribution system. The \$600,000 RUS loan application was recently filed with the RUS. The larger loan application is in the early planning stage. The actual amount and the timing of the larger loan will depend to a great extent on the financial status of BIPCo (which will be improved significantly by the property sale) and the decisions made by the Integrated Resource Plan (IRP) working group which consists of representatives of BIPCo, the Division, and the Town of New Shoreham.

In order to process the \$600,000 loan application, BIPCo obtained approval of an amendment to its existing RUS work plan to add engine # 25. Further, BIPCo is in the early stages of preparing and submitting a new RUS work plan for distribution system upgrades. As an integral part of this process, BIPCo recently received approval of its new 2006 Power Requirements Study which was prepared by HDR, Inc., the same firm hired by the IRP working group. BIPCo also obtained a short term interest only, unsecured \$600,000 "bridge loan" (at prime plus 1%) from The Washington Trust Company, its second mortgage lender, to pay for engine #25 in anticipation of the \$600,000 RUS "take-out" loan.

Issue 2 and 3: Cash Flow Problem and Equity Level

Initial Action Taken:

Soon after the completion of Docket # 3655, BIPCo began to evaluate its options to improve cash flow and to increase its equity level. The first decision made by management was to continue its efforts to grow equity by not declaring or paying dividends for the FYE May 31st 2006.

Unexpected Additional Costs:

Unfortunately, certain cash flow matters did not work out well for BIPCo in FYE May 31, 2006. In the fall and winter of 2005, BIPCo was faced with much larger than expected costs for engine maintenance needed for engines #22 and #24. In fact, actual engine maintenance cost for FYE 2006 is expected to be at least \$80,000 greater than the amount allowed in Docket #3655 for engine maintenance and SCR costs. This extra maintenance cost exacerbated BIPCo's already bleak cash flow problems. Further, BIPCo was faced with over \$400,000 of invoices that carried forward from the winter of 2004-2005. BIPCo had no funds to pay these invoices. (BIPCo made this point in its rate filing but could not obtain rate relief for unpaid invoices due to the prohibition against retroactive rate-making.)

In addition to the unexpected engine maintenance costs, BIPCo was faced with other unexpected costs that were not included as part of the rate relief received in Docket #3655. These costs included the costs of obtaining the \$600,000 bridge loan from The Washington Trust Company and the monthly interest payments on the loan; the costs of preparing and obtaining approval from RUS of BIPCo's amended work plan to include engine # 25; the costs related to the initial preparation of the new RUS work plan for the distribution upgrade; the cost of a new RUS Power Requirements Study; and the costs of obtaining RUS approval for the eventual \$600,000 take out loan for engine #25 that will pay back The Washington Trust Company.

In order to accomplish these tasks, BIPCo had to complete a multiple year financial projection of revenues and expenses using a RUS financial model; BIPCo had to hire an engineering firm to prepare a 2006 Power Requirements Study and work with that firm to provide the necessary data; and then BIPCo had to get approval of the Power Requirements Study from the RUS. The costs of these very important items further adversely impacted BIPCo's cash flow.

Review of Other Alternatives:

With cash flow getting ever worse, BIPCo was forced to look at more creative avenues of obtaining the funds to pay the outstanding bills and to improve its equity. BIPCo reviewed its assets to determine if there were any assets that were not used in the production of electricity that could be sold to provide much needed cash and, if possible, also provide an infusion of equity into the company.

Communications Tower:

BIPCo first looked to selling the revenue stream from the communications tower leases, but found that, due to the uncertainty of the future revenue stream as a result of mergers in the telephone industry, the amount offered to BIPCo (less than \$450,000 and not in writing) would not solve the problem, and in return, BIPCo would have to give up in excess of \$100,000 per year in current lease revenues. The loss of this significant revenue stream (which was built into the rate projections) would not only hurt cash flow, but would also have required BIPCo to consider filing another rate increase request to replace the lost revenue. This idea was therefore rejected by management.

Rental Property:

Next, BIPCo turned its attention to the rental property at the rear of BIPCo's large parcel of land. (Approximately an acre of land, less than 5% of BIPCo's total land, located next to the tower with a small house and a garage is rented). This property has never been used by BIPCo for the generation of electricity. Further, management believes that there is no foreseeable future need for this property by BIPCo. In fact, this property has been leased for as long as the current owners have owned BIPCo (about 20 years).

The leasehold improvements on the property (the small house and garage) were built at no expense to the ratepayers. Further, the small house had been recently renovated (increasing its value) at the sole expense of the current tenant. Annual rent from these properties was less than \$18,000 per year. BIPCo's management decided to investigate if it could sell the property (including the small house and garage).

Approvals:

1. The Washington Trust Company

BIPCo determined that it would need RUS and The Washington Trust Company approval for the sale and release of liens because RUS (in first position) and The Washington Trust Company (in second position) hold all of BIPCo's property and assets as collateral for BIPCo's outstanding loans. BIPCo decided to start its investigation with Washington Trust to get a feel for what their position would be if BIPCo were to sell this small amount of property at the rear of BIPCo's property. Washington Trust stated that the property sale would be a great idea if the funds from the sale were used exclusively to pay off BIPCo's current debts and improve BIPCo's debt/equity ratio.

Washington Trust felt that the proposed transaction would put them, as a secured creditor, in a stronger financial position. As a result, they would be willing to release their liens on this small portion of BIPCo's property with no payment going to Washington Trust.

2. The RUS

BIPCo then contact RUS to determine what they thought of the proposal. BIPCo found that RUS has a significant number of rules and regulations relating to the sale of assets pledged for RUS loans. After reading the rules it appeared that BIPCo would not need RUS approval to sell the property but BIPCo would need a release of RUS first position liens. In addition, the RUS rules and regulations required that the entire net proceeds from the sale had to be used either to pay down long term debt or be deposited in BIPCo's RUS project account. Funds could only be disbursed from that account with the consent of the RUS.

After further review and many discussions with RUS personnel, BIPCo developed a plan, verbally approved by RUS that would allow BIPCo to address the RUS regulatory requirements. From the beginning, RUS felt that this sale was a good idea for BIPCo and RUS has worked very hard to help BIPCo make it work so that the net proceeds could be used to pay down BIPCo debts.

3. The Division

BIPCo next turned its attention to the Division to determine the Division's position on the proposed sale and to determine if the Division agreed with BIPCo that the transaction would address the Commission and Division concerns relating to cash flow and equity. BIPCo spoke to and met with the Division and explained the proposed transaction and asked the Division for assistance and comments.

The Division was very interested in the fact that the proposed transaction was structured as an arm's length transaction; that the proceeds from the sale would be used to address BIPCo's current debts; and that BIPCo was proposing to leave the net proceeds in the company to improve the debt/equity ratio. (None of the proceeds of the sale will be distributed to BIPCo's owners). The Division was kept updated as the negotiations progressed.

Accessing the Funds:

With the help of RUS personnel, BIPCo determined that monies that would be deposited into BIPCo's RUS project account from the sale of the property could be withdrawn by BIPCo, but only for capital item that were purchased by BIPCo without RUS funds during the past five years. These capital items have to be reviewed and evaluated by RUS to determine if they could be approved, and then added to BIPCo's RUS approved work plan. If approved, these reimbursement items will be identified in the RUS work plan as approved capital expenditures – "no funds provided" (by RUS).

An example of this type of item would be additional monies spent by BIPCo to complete the new \$1.5 million dollar sub-station that cost more than the funds made available from RUS. These additional expenditures could be approved by RUS and added to the work plan (no funds provided). BIPCo could then reimburse itself for these capital expenditures and use the funds to pay current debts. It must be emphasized that all of these funds will be used to reduce debt or pay for capital projects and that none of the funds will be distributed to the owners.

Value of the Property:

BIPCo's managers insisted that the sale must be strictly an arm's length transaction. This was especially important because a possible purchaser was the Estate of Marjorie McGinnes, the late wife of Clifford McGinnes a BIPCo owner.

Therefore, the value of the land and its improvements had to be determined independent of the power company or its owners. BIPCo asked its attorney to retain and supervise a certified appraiser to perform an appraisal of the land and improvements at the rear of the BIPCo property. The appraiser hired was Peter M. Scotti & Associates of Providence. Mr. Scotti and his associate Michael Kern, who did much of the work, are both Members of the Appraisal Institute (MAI), the highest national certification available to real property appraisers. BIPCo identified the buildings and general area of land that it was prepared to sell and then allowed the appraisers to determine the fair market values. The appraisal was completed and the land and improvements were valued at a total of \$855,000 (see the appraisal attached as exhibit 1).

Validation:

In order to confirm that the appraisal was fair and reasonable, the President of BIPCo met with a prominent realtor on Block Island. He showed her the appraisal and asked if she was aware of any possible buyers. She knew of none that would be interested at the appraised price.

Further, she explained that she was aware of similar piece of property on Block Island that has been for sale (at a lower price than the BIPCo appraisal) for a number of months and had not been sold. She stated that the appraisal appeared to be well done and fair. She noted that if BIPCo could find a buyer that was willing to pay the full appraised value, that BIPCo should sell and feel very comfortable that BIPCo got a good deal.

Buyer for the Property:

BIPCo was fortunate to find a motivated buyer for the property (the Estate) that was in the process of completing an I.R.C. Section 1031 like kind exchange that would save the Estate significant tax dollars by buying the BIPCo property at the full appraised value.

Since BIPCo found this buyer before placing the property with a realtor, BIPCo saved the commission on the sale (at 6 percent the commission would have been \$51,300).

Further, the buyer was prepared to do a cash transaction for the property without a financing contingency, and to purchase the property "as is" without the normal environmental testing that would have been mandated by a lender. These considerations made the Estate an ideal candidate for the purchase. A purchase and sale agreement was negotiated between counsel for BIPCo and counsel for the Estate and executed (see Exhibit 2).

As stated earlier, the buyer is the Estate of Marjorie McGinnes. The agent for the Estate's like kind exchange was Connecticut Attorneys Title Insurance Company (CATIC Exchange Solutions, Inc. as qualified intermediary for Marjorie G. McGinnes Estate). Mr. Clifford McGinnes, one of the owners of the power company, was married to Marjorie but neither Marjorie McGinnes nor the Estate ever had any ownership interest in BIPCo or in the property being sold. BIPCo has been advised by its legal counsel that this transaction is not an affiliated transaction under the DPUC statutes and no approval is required from the DPUC or the PUC. However, even though no Division or Commission approvals are required, BIPCo felt that the filing of this informational memorandum would be a good idea to keep the Division and the Commission advised of BIPCo's progress in addressing these important financial issues.

The Estate had previously sold a parcel of land on Block Island. The proceeds from the sale of that land were being held in trust by CATIC, the like kind exchange agent. CATIC paid \$855,000 for the BIPCo property and improvements (see the HUD-1 settlement sheet attached as Exhibit 3). Please note that the property transferred was all of lot 38 and a portion of lot 37 (identified as lot 37B). Because lot 37B needs an administrative subdivision for it to be transferred by deed, that property was transferred via a 99 year lease, while lot 38 was sold outright. If the administrative subdivision is approved, a deed will be substituted for the 99 year lease. The closing was recorded on May 12, 2006, one day before the like kind exchange period expired.

Benefits of the Sale:

The benefits of this sale include the following:

1. BIPCo receives an infusion of up to \$813,800 (subject to the restrictions on reimbursement imposed by RUS). These funds will be used to pay off as many of BIPCo's current payables as possible. Remaining funds that are deemed by RUS to be released from BIPCo's RUS project account that are not needed to pay accounts payable will be used for working capital to help BIPCo get through next winter without amassing a huge list of payables. Any funds that cannot be distributed from the RUS capital account will be used for anticipated distribution upgrades or other capital items. The use of these remaining funds for other capital items would reduce the amount of money BIPCo would have to borrow from RUS.
2. BIPCo will have addressed Division and Commission concerns relating to BIPCo's equity balance. Since the land being sold is on BIPCo's books at a value of less than \$10,000, and per my review the improvements are not on BIPCo's books at all, the net proceeds of this sale (\$813,800) will almost entirely flow to retained earnings and equity. This one time infusion of capital will improve significantly BIPCo's debt to equity ratio to closer to 67% debt and 33% equity.

Please note that in Docket #3655, BIPCo's equity balance was \$863,535 (or \$17.26%). An infusion of \$800,000 should nearly double the equity percentage. Further, it is important to note that BIPCo has a large federal income tax loss carry forward and as such will not have to pay any income taxes on this transaction, thereby allowing the entire balance to pass through to equity.

3. Vendors of BIPCo will be paid. BIPCo has loyal vendors that have waited very patiently, some as long as a year, to get paid for goods and services provided to BIPCo. For example, BIPCo will be able to get current on its payments to the Division for rate case expense, the State of Rhode Island for gross receipts taxes, the Town of New Shoreham for property taxes, and The Washington Trust Company for its line of credit. In general, BIPCo will be able to present to the public a much stronger, more financially sound company.

4. With this sale, BIPCo will be in a much better position to borrow the funds needed to complete BIPCo's necessary distribution system upgrades. Further, BIPCo's management is concerned at this early date (with seven months to go in the calendar year) that BIPCo may have difficulty achieving its RUS ratios at December 31st 2006. The ratios are at two levels, operating ratios and total company profit ratios. This deal will allow BIPCo to easily make the total company profit ratios, and BIPCo believes that RUS will understand and hopefully waive the operating ratio requirements for one year, given the fact that BIPCo made the total company profit ratios. As the year progresses, BIPCo will be evaluating its need for a rate increase to address its operating ratios.

Conclusion:

The sale of this small portion of the property (a little more than an acre leaving BIPCo with 23.5 acres) that was of little value to BIPCo and unused in the production of electricity is very beneficial to BIPCo and its ratepayers. No proceeds will be distributed to BIPCo's owners. All of the proceeds will be distributed from BIPCo's RUS construction project account under the supervision and control of the RUS, and all such payments will benefit the ratepayers at no direct cost to them. BIPCo and its ratepayers end up in a stronger position.

Summary Report of Limited Appraisal

**Mixed-Use Property (Residential/Commercial)
70 Ocean Avenue
New Shoreham, Rhode Island**

**Effective Date
February 23, 2006**

**Report Date
February 23, 2006**

Prepared For

**Block Island Power Company
100 Ocean Avenue
Block Island, Rhode Island 02807**

Prepared By

**Mr. Michael Kern, MAI
Peter M. Scotti & Associates
246 Hope Street
Providence, Rhode Island 02906**

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February 23, 2006

Mr. Albert Casazza
Block Island Power Company
100 Ocean Avenue
Block Island, RI 02807

**RE: Summary Report of Limited Appraisal:
70 Ocean Avenue
New Shoreham, RI**

Dear Mr. Casazza:

At your request, I have inspected and analyzed the referenced property in order to estimate the Market Value of the Fee Simple Interest in the property. The effective date of this appraisal is the date of property inspection, February 23, 2006. The condition upon which the appraisal is based is both "as is" and subject to the division of Lot 37 resulting in the creation of a 30,000 SF lot as improved with the existing 2,358 SF garage. See drawing enclosed.

As of the report date Lot 38, of Plat 17 contains 15,200± SF of land located on the westerly side of Ocean Avenue. The land is improved by a 1.5 story wood frame and wood sided residential dwelling of 912 SF. Lot 37 presently contains 7.5 acres and supports the existing Block Island Power plant. As a condition of this report approximately 30,000 SF of Lot 37 will be subdivided from the larger tract. The two parcels will share a common access road.

Pursuant to your terms of engagement, this is a Summary Report of a Limited Appraisal. The attached Certification, Contingent Assumptions and Limiting Conditions and Special Limiting Conditions, if any are integral to this report.

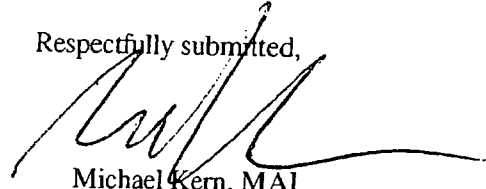
Based upon the analyses and conclusions contained herein, our appraisal files and subject to the limiting conditions and assumptions noted, it is the opinion of the undersigned that the estimated Market Value of the Fee Simple Interest in Lot 38, of Plat 17 as of the effective date of this appraisal is:

Three Hundred Eighty Thousand (\$380,000) - Dollars

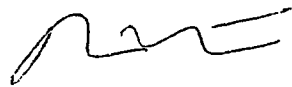
It is also our opinion that the Market Value of the Fee Simple Interest in the newly created lot of 30,000 SF with the existing service garage is:

Four Hundred Seventy-Five Thousand (\$475,000) - Dollars

Respectfully submitted,



Michael Kern, MAI
Senior Commercial Appraiser
Rhode Island License #A00213G



Peter M. Scotti, MAI
Review Appraiser
Rhode Island License #A00110G

Certification

1. Michael Kern, MAI inspected the subject property on February 23, 2006. Peter M. Scotti, MAI did not inspect the property.
2. We have no present or contemplated future interest in the subject property.
3. We have no personal interest or bias with respect to the subject of this report or the parties involved.
4. Our fee is not contingent upon reporting a predetermined value or upon the amount of the value estimated.
5. This report sets forth all of the special and limiting conditions affecting its analyses, opinions and conclusions.
6. No one other than the undersigned performed the analyses, conclusions and opinions set forth herein.
7. This Limited Appraisal assignment was not based on a requested minimum valuation, a specific valuation, or the approval of a loan.
8. To the best of our knowledge, statements of fact contained herein are true and correct.
9. As of the date of this report Peter M. Scotti, MAI and Michael Kern, MAI have completed the requirements of the Continuing Education Program of the Appraisal Institute.
10. This Summary Report of Limited Appraisal has been prepared in compliance with the Appraisal Institute's Standards of Professional Practice and the Uniform Standards of Professional Appraisal Practice of the Appraisal Foundation. It is subject to review by members and designates of the Appraisal Institute.

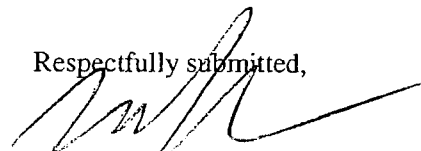
Based upon the analyses and conclusions contained herein, our appraisal files and subject to the limiting conditions and assumptions noted, it is the opinion of the undersigned that the estimated Market Value of the Fee Simple Interest in Lot 38, of Plat 17 as of the effective date of this appraisal is:

Three Hundred Eighty Thousand (\$380,000) - Dollars

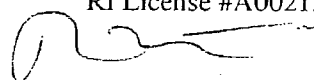
It is also our opinion that the Market Value of the Fee Simple Interest in the newly created parcel of 10,000 SF which is improved with the service garage is:

Four Hundred Seventy-Five Thousand (\$475,000) - Dollars

Respectfully submitted,



Michael Kern, MAI
RI License #A00213G



Peter M. Scotti, MAI
RI License #A00110G

Extraordinary Assumption

This appraisal specifically excludes consideration for the expense of removing debris and materials stored about the property which in the opinion of the appraiser have a negative affect on the appearance and therefore the value of the property. This appraisal also excludes consideration for any costs necessitated to remediate environmental conditions at the property. The owner reports that there may have been leakage of underground oil storage tanks on the abutting Lot 37 which could have migrated toward the subject property. This appraisal also excludes any costs associated with the subdivision of Lot 37. Lastly, this appraisal assumes that the subdivision of Lot 37 is granted without condition and that the newly created 30,000 SF lot will be permitted as a stand alone parcel.

Advisory

The client may wish to retain professional counsel regarding fields outside the scope of this appraisal and the expertise of the appraiser such issues include environmental sciences, flood hazard, wetlands, geology, hydrology, engineering, surveyal and legal matters (particularly ADA, zoning, building and fire code, title and restrictions).

Appendix

The reader is urged to study the appendix. It contains information integral to this report including legal description, Contingent Assumptions and Limiting Conditions, Competency Rule, definitions of Appraised Interest and Market Value, appraisers' qualifications, et cetera.

Effective Date of Appraisal

The effective date of this Limited Appraisal is February 23, 2006. The date of the report is also February 23, 2006.

Identification of the Real Estate

The subject property was identified (by the client) as Lot 38, of Plat 17 of the Tax Assessor's Plat Maps of the Town of Block Island or New Shoreham, Rhode Island. The property is assessed to Block Island Power Company, Inc. However, in addition to the 15,000± SF of Lot 38 this appraisal includes approximately 30,000± SF from Lot 37.

Based on a legal description recorded with a mortgage as found on Page 47, of Book 239 of the Land Evidence Records of Block Island the parcel identified as "Parcel IV" shows a direct correlation with Lot 38, of Plat 17. The additional land being subdivided from Lot 37 is a portion of that which is described as "Parcel II on the referenced legal description. The particular portion of the land subdivided from the parcel is described Exhibit "A". A copy of each of these legal descriptions can be found in the addenda.

There is no personal property, business or business equipment addressed in this appraisal. This appraisal values only the real property identified above.

Interest Appraised

This report values the Fee Simple Interest (as defined in the Appendix). However the client has indicated that a proposed conveyance of both parcels to an officer of Block Island Power may in-fact be made via a 99 year lease with purchase option. Although a 99 year lease is generally commensurate (at the outset) with a Fee Simple conveyance it may be that potential purchasers of the property will be less comfortable with such a transfer and as such a small discount may be applicable.

Purpose of the Appraisal

The purpose of this appraisal is to estimate the Market Value of the Fee Simple Interest in the stated property. The function of this appraisal is to provide a value estimate to the client, Block Island Power Co., Inc so that they may analyze the property for financial considerations. The condition upon which the appraisal is being made is under the extraordinary assumptions reported earlier.

The intended use of the appraisal is to provide a value estimate to the client for financial considerations. The intended users of this appraisal are the client and those other appropriate users.

Scope of Appraisal

This is a Summary Report of a Limited Appraisal as described by USPAP. A Limited Appraisal relies on only one approach to value. A Summary Report concisely presents the data utilized and the analyses made. The scope of this appraisal and report is judged not so limited in scope as to mislead or confuse the intended users.

The Scope of this appraisal includes:

- The property's inspection on February 23, 2006.
- Research and collection of property and market data from local government records and other sources deemed reliable.
- Research and collection of data to satisfactorily apply the Sales Comparison and Cost Approaches to value.
- Value conclusion and preparation of this report.

The Scope of this appraisal does not include:

- Review, analysis and investigation of environmental conditions of any kind.
- Review of plans, specifications or surveys.
- Analysis of assessment and taxes.
- Zoning analysis.
- Application of the Income Approach to value.

Identification of Departures from Specific Appraisal Guidelines;

because of the foregoing limitations, the appraiser acknowledges departure from the Specific Guidelines and/or requirements of the USPAP, in particular:

- SR 1-4b: Only two valuation approaches have been relied upon.
- SR 1-4g: A new and specifically tailored market analysis has not been made. The scope of the analysis is limited to updating previously researched information.

Block Island Power Company (the client) agrees that a Limited Summary Report is appropriate for this assignment. Furthermore, the client is aware of the lower level of reliability and the limitations that are inherent in a Limited Appraisal.

Exposure Time

It is estimated that to achieve the estimated Market Values, as derived herein an exposure time of about three months (individually) would have been necessary to achieve a sale. A similar estimate is predicted for a marketing time as of the effective date.

Ownership and Sale History

Investigation at the Block Island Town Clerk's Office indicates that there has been no recent sale involving property that is the subject of this appraisal. The client reports that the property is not being actively marketed and there are no offers to purchase or lease being considered. An officer of Block Island Power Company is apparently interested in acquiring the property but no monetary amounts have been discussed or established.

Location Summary

United States

The national economy continues to grow. For the second quarter of 2005 gross domestic product, GDP expanded at an annual rate of 3.4%; slightly less than the 3.5% of the first quarter and considerably less than the record 8.2% for much of the last half of 2003. The Dow Jones industrial average hovers around the 10,500 mark and unemployment which had been over 6.0% for much of the first half of the decade is currently 5.0%. Over the last three years the national labor force expanded at an annualized rate of 1.2%. Personal income is up about 7% over 2004 estimates and despite concern regarding the \$200 billion needed to continue the war in Iraq and repair devastation from hurricanes in the south consumer confidence remains high.

The consumer lead recovery was fueled by a major tax rebate and very low costs for capital. Recent efforts by the Federal Reserve to control inflation however have resulted in numerous increases in the federal funds rate to the present 5.00%. The prime lending rate is now 7.25% and the average rate for a thirty year residential mortgage continues to hover in the range of 6.5%.

Unfortunately with major increases in the cost of energy and building materials the overall increase in the consumer price index was 2.8%. Home price inflation as measured from the conventional home price index increased 9.6% over 2004 estimates and total sales for 2004 was just over 7.0 million units.

The population of the United States increased by approximately 2.5% (2000 to 2002) to 290 million people. The number of housing units increased by a similar percentage over this same period. Favorable financing has fueled residential home building across the country with housing starts at a record 1.96 million (annualized) for October 2003 the highest rate since 1986. The median sale price of an existing single family home reached \$206,000 for 2004.

As a result of the expanding economy and an increase in personal wealth the market for all types of real estate especially non-business, income producing real estate has been quite strong in most markets. According to the National Association of Realtors (NAR) the commercial real estate market is very strong and vacancy rates are expected to decline in all four major sectors of the market.

In the 57 markets which NAR tracks office vacancy is expected to decline to 14.2% for 2005 and rentals are expected to increase by 2.8%. In the retail market, the NAR projects a vacancy of 6.5% which is slightly improved over the 7.5% of last year but which reflects many store closings as a result of merger activity.

In the industrial market the NAR projects a vacancy of 10.4%, down only 50 basis points from the 10.9% of a year earlier. In the multifamily net absorption is projected at 238,600 which is slightly less than the 264,300 in 2004 but much greater than the 159,400 units in 2003.

New England

Buoyed by advances made in several New England states including Maine and Rhode Island the regional economy remains fairly strong. Initial claims for unemployment are lower than a year ago and all the New England states have reported increases in net employment over 2004 data. Merchandise exports from the region have grown and coincident indexes which measure economic activity show continued improvement. Through the summer of 2005 the regional unemployment remains less than 5.0%.

Residential real estate remains very strong despite a decline in residential construction contracts for most states and the region. Housing permits are also on the decline in many states but the region total has increased modestly. Analysis of the Conventional Mortgage Home Price Index, formerly titled the Repeat Sales Home Price Index reveals increases of 12% to nearly 18% over previous year estimates and an overall regional increase of 13.4%.

Unfortunately with the increase in the price of crude oil and natural gas the typical New England homeowner is expected to pay an additional \$527 for the 2005 heating season. Also, commercial and industrial electricity sales have recently begun to decrease in many states but on a regional level appear stable.

Overall, the New England economy remains strong but relies heavily on natural resources and support for infrastructure from the federal government. Such support may be curtailed due to an increasing budget deficit. Federal programs may also be jeopardized.

Rhode Island

Rhode Island is located on the Interstate 95 corridor between New York and Boston. Other principal infrastructure includes passenger rail service provided by Amtrak RR and the Ports of Providence and Quonset Point. The recently renovated T. F. Green Airport is enjoying significant success and has become the third most utilized airport in the region. Recent reports from the State Airport Corporation indicate that passenger volume at the airport has reached an all time high of five million.

There are 39 communities in the State and the 2002 estimate of population is 1,069,725.¹ This estimate presents a small but significant increase over the 2000 Census estimate and planners' project continued increases through 2030.

Like the national economy the composition of the workforce is very similar with a majority of the 500,000± labor force employed in the service sector, (education health and social services) followed by manufacturing, ±82,000 and then retail. Over the last ten years the labor force has only increased by about 4,000 or less than one percent. The seasonally adjusted unemployment rate for July 2005 was 5.1%. Per capita personal income increased by about 11% over the ten year period beginning 1990 but the median family income only increased by 3.3%, to \$52,781.

Since 1990 the total number of housing units increased by 6.1% to 439,837 and of that estimate single family development lead the way with a 10.2% increase to 241,202 units. The median sale price for a single-family home in the state has been increasing steadily from less than \$125,000 in 1990 to \$156,000 in 2001 to \$285,000 in 2005.

¹ Office of Statewide Planning

Fortunately, favorable financing has resulted in the median monthly mortgage payment increasing by only \$300, to \$1,205 per month. The 2000 Census also reports a drop in the median monthly rent of 11.9% from \$628 in 1990 to \$553 in 2000. However, the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) reports that over the last four years the average rental for a two bedroom apartment has actually increased 39% to \$854/month. RIHMFC reports that a yearly rental should not exceed 30% of a person's annual income. [This implies a minimum annual income of ±\$34,000 to support the average rental.]

Residential building permits have remained fairly level over the last four years, about 2,200 per year with the exception of multi-family permits which doubled for 2003. Land available for new development is scarce and prices are high. Communities which had moratoriums on new building or quotas have recently begun to accept applications for new permits.

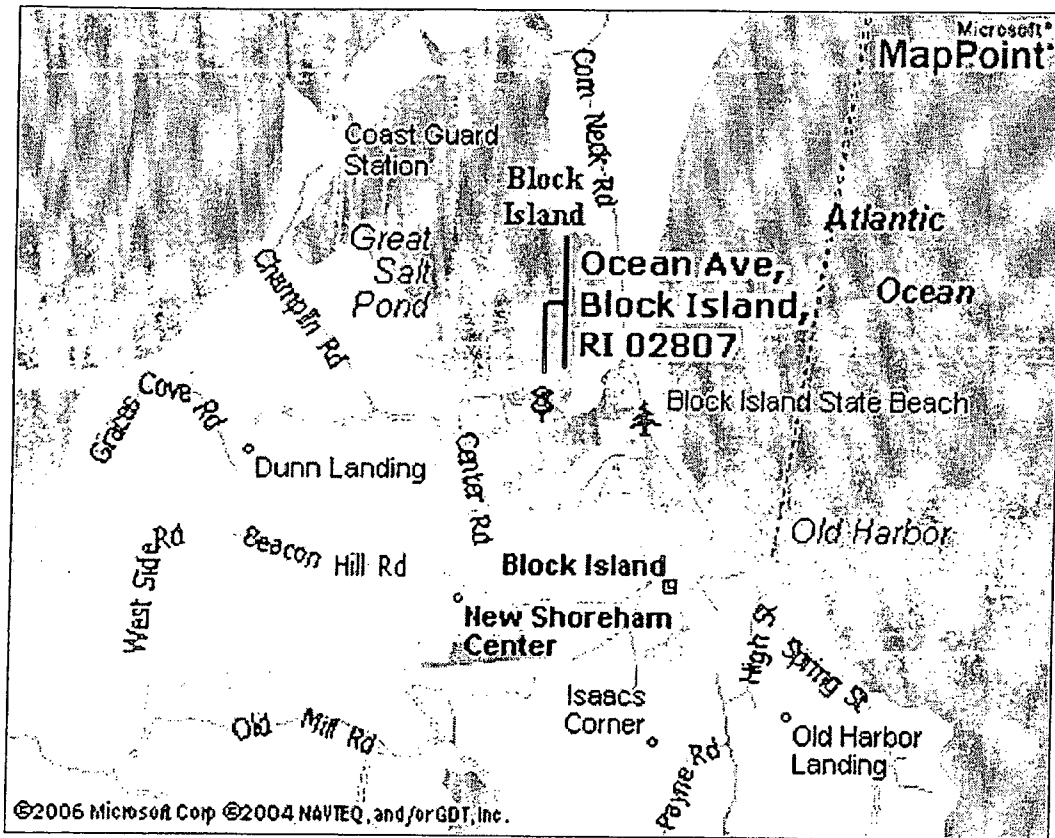
Conclusions, Rhode Island

Overall, the demographic profile of the State of Rhode Island very much resembles that of the nation as evidenced in the table that follows. Over the last several years the local economy performed at least as well as the national economy but few expect this performance to continue.

University of Rhode Island professor and local economist Len Lardaro tracks the state economy working with an index of 12 leading economic indicators. For June 2005 the Current Conditions Index (CCI) was a very positive 92. A number of greater than 50 indicates that the economy is in a state of expansion, a number of less than 50 signals contraction.

2004 data	U.S.	R.I.
Median HH Income, yr.	\$44,684	\$48,772
Median Family Income, yr.	\$53,692	\$58,978
Per Capita Income, yr.	\$24,020	\$25,087
Population Below Poverty Level, %	13.1	12.8
Disposable Income, yr. (2000)	\$23,233	\$23,425
Median Age, years	36.2	36.7
Average HH Size, persons	2.60	2.47
Average Family Size, persons	3.18	3.07
% High School Completion	83.9	82.8
% With 4 Year Degree	27.0	28.1

Location Map



New Shoreham

New Shoreham, also referred to as Block Island is a 10± square mile island located about five miles south of the Rhode Island coastline. The year round population of the island is about 1,010 (2000 Census) making it the least most populated community in the state. However, the island is a very popular tourist destination so the seasonal population can grow as high as 20,000. Primary access to and from the island is by Interstate Navigation's Ferry Service which sails from Old Harbor daily. The town does maintain a state airport and air traffic has increased significantly over the years. A second ferry service has also begun operating from New Harbor.

Neither of the two principal harbors is a natural harbor, both were created in the late 1880's and both require routine maintenance in order to maintain the navigable waters. By comparison, Old Harbor is slightly more advantageous for ferry operators as there is greater water depth and speed limitations in New Harbor negate its more attractive proximity to the mainland.

Just about all the freight and automotive shipments are made by way of Interstate Navigation's Old Harbor terminal which has the facility and capability of accommodating commercial traffic as well as passenger travel. The new ferry service provides only passenger service.

As of April 2000 there were 1,606 housing units in the Town of New Shoreham representing an increase of over 25% from the 1990 estimate. Such an increase probably represents the largest increase of any community in the state but given its size and recent attraction is reasonable. Of the total estimate almost 70% are seasonal homes.

Primary entertainment and food and beverage service is located within the Old Harbor District but New Harbor also has some restaurants and the like. There are several public beaches on the island including the Crescent Beach which is located just north of Old Harbor. The island has a very functional roadway system and motor vehicles are the primary source of transportation.

The community produces about 800 year round employment positions of which a majority can be found in the construction trade. Obviously the demand for hospitality type work increases significantly in the summer months. The most recent estimate of unemployment is less than 5%. According to the 2000 Census the median household income is \$44,779 per year and the median family income is \$59,844/year.

The Multiple Listing Service, MLS of Rhode Island has no report of the median sale price of homes in this community but Census Bureau information indicates that the median *value* of homes was \$479,300 in 2000. This estimate is probably the highest in the state and represents the significant influence of outside participants in this market.

Overall New Shoreham is a very attractive summer resort community that obviously entertains a population that is much greater than the state in which it is a part. Presently the community is in a state of unprecedented expansion and vitality but like all resort communities this could prove temporary under certain economic conditions.

Old Harbor District

The subject property is located northwest of the Old Harbor District of the island. Old Harbor is the most intensely developed commercial district on the island and the principal destination for retail and service goods. It is also the principal location for most hospitality related services including lodging and food and beverage establishments. Principal access to the district is from Interstate Navigation's Ferry Service on Water Street or the state airport which is about .25 mile away. The recently begun hi-speed ferry service from Point Judith to New Harbor stops at Champlins Wharf which is about .5 mile northwest of Old Harbor.

Located between Water Street and Adrian House Lane is a 44,000± SF commercial parcel that was recently (2004) acquired by the Block Island Sewer Commission for \$800,000 or nearly \$20.00/SF. A mixed-use building containing a hardware store and residential dwelling over on West Side Road also sold in 2004 for \$600,500. The latter may have been a distressed transaction. Other than these sales there have been few commercial property transactions on the island.

Property Description

Site, Lot 38

Lot 38 consists of one generally rectangular shaped parcel of land located off the westerly side of Ocean Avenue in the Old Harbor District of the Town of Block Island. The parcel presently contains 15,200± SF but has no frontage on Ocean Avenue. The dimensions of the property are basically 140 linear feet by 115 LF. Access to the property is from a non-designated ROW or easement over the abutting Lot 37 which provides access to Ocean Avenue. It is assumed for purposes of this appraisal and report that the ROW will be dedicated and recorded with the town clerk.

The parcel is slightly below the grade of Ocean Avenue and generally irregular with regard to topography. The parcel abuts wetlands to the southwest and west and Lot 37 to the east and northeast.

Site drainage appears adequate and soil conditions are assumed supportive of conventional community type development as evidenced by improvements to the site and surrounding property.

Off Site Improvements

Off site improvements include some overhead street lighting. At the point of the subject property Ocean Avenue is an asphalt paved municipal roadway.

Utilities

The building site is reportedly connected to municipal sewer and though water is available to the property it is currently served by well. Other available utilities include electricity and telephone.

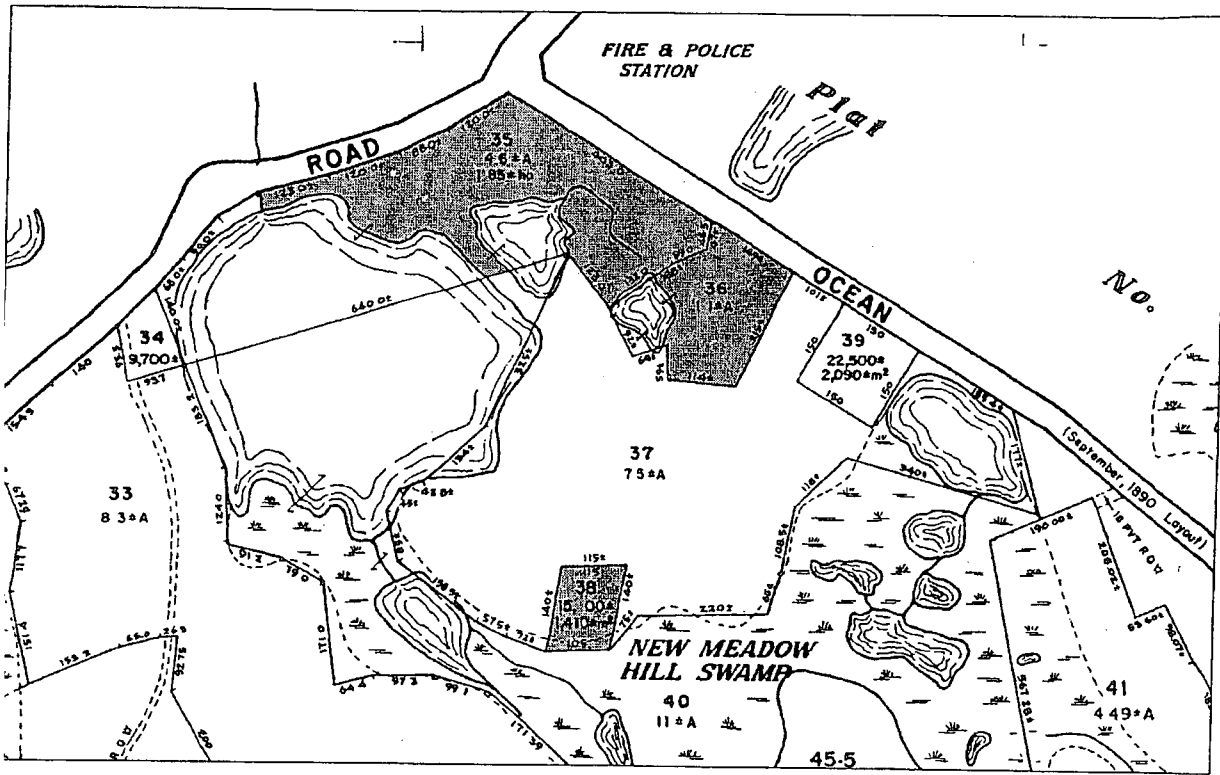
Site Improvements

The site has few improvements other than the buildings. Landscaping is minimal.

Conclusions, Site

Overall, the site is typical to the many commercial and residential sites located about the island. However, from the residential point of view the abutting utility operated on Lot 37 is considered a negative influence. And from the commercial perspective the lack of frontage on a municipal roadway would be a negative attribute.

Applicable Portion of Plat Map



New Lot, a portion of Lot 37

Approximately 30,000 SF of land bordering Lot 38 to the north and east will be subdivided from Lot 37. The new lot will have an elliptical shape similar to that found on the drawing that follows. The parcel will have no frontage on Ocean Avenue and access to the property will be from the same designated ROW or easement utilized by Lot 38. The easement or ROW crosses lot 37 and provides access to Ocean Avenue.

The new lot will likely contain some wetlands but unfortunately no definitive conclusion can be made in this regard.

Off Site Improvements

Off site improvements include some overhead street lighting. At the point of the subject property Ocean Avenue is an asphalt paved municipal roadway.

Utilities

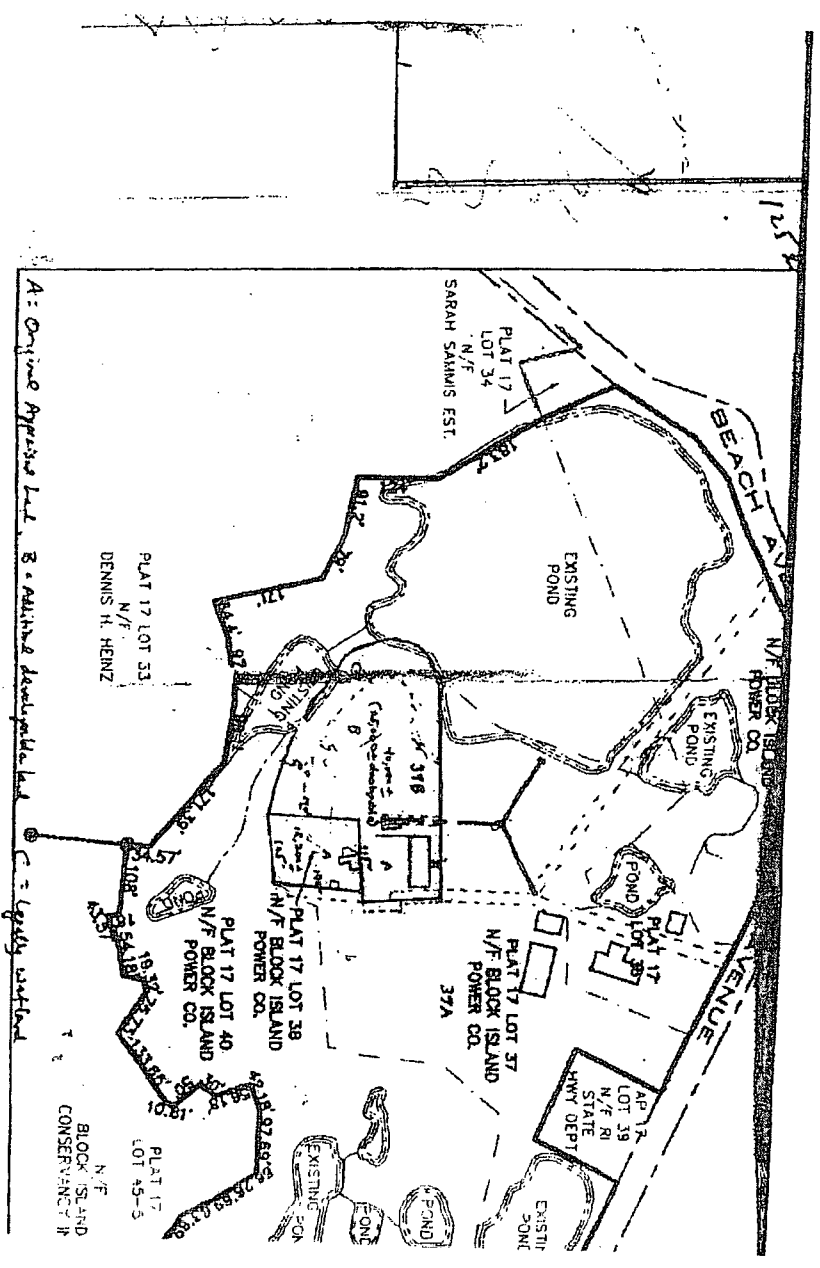
The new lot is assumed to have access to the same utilities as Lot 38 which include municipal sewer and water. Other available utilities include electricity and telephone.

Site Improvements

The lot has few improvements other than the building. Landscaping is minimal. There is a guy anchor located adjacent to the service garage that is likely to require an easement. The guy supports a 250' communications tower located east of this property.

Conclusions, Site

Overall, the newly created lot is typical in size to the many commercial and residential sites located about the island but the influence of the electric plant and communications tower could be viewed as negative influences for certain uses including residential. And in the event that the tower falls it will likely impact the property in some capacity.



A: Original Agency Lot B: Additional Development Lot C: Utility Corridor

OVERALL SITE PLAN

SCALE 1"=200'

EXHIBIT A1

Building Improvement (Lot 38) House

The site is improved by a one and one half story wood frame and wood sided residential dwelling that was constructed over a partial basement, circa 1940. The owner has divided the living area into two residential units but the Tax Assessor's records indicate that it is a single family house and it is upon this basis that the property is valued. The exterior of the structure is natural wood shingle. Incorporated into the walls are wood, double hung windows. The gable style roof is covered with asphalt shingles. There is a 200± SF wood deck located off the north wall. Access to the rubble constructed basement is available only from a wood bulkhead.

The interior of the structure is apportioned into about five total rooms, with two full baths and one full kitchen. There is a second kitchenette type area located on the second floor but this is probably not legal and therefore not considered. The interior finish consists of sheetrock walls and ceiling that are taped and painted and either carpeting or vinyl tile floors. The first floor kitchen is improved with new cabinetry and the bath fixtures are relatively new.

The house has reportedly been improved with new wiring and there is new 100 ampere service providing electricity to the building. Heat is provided by a natural gas fired forced hot air furnace.

Overall, the building is in fair to average condition and requires attention to exterior repairs including rotted sills, painting and repair or replacement of the deck. From a functional perspective the building offers average utility for a single family residence. Based upon this analysis of the property and market the estimated effective age of this property is ±18 years.

Building Improvement (Lot 37) Garage

The newly created lot is improved by a one story steel and wood frame service type garage that was built on slab, circa 1975. The four bay garage with shed type addition is presently leased to two separate entities one an automotive repair operation and the other for storage.

The exterior of the structure is natural wood shingle or Texture 1-11 which is not painted. Incorporated into the west wall are five overhead doors and one personnel door, all at grade. The exterior wall height is about 16 feet. The roof is covered by asphalt shingles. The structure actually appears to have been built into the hillside as the east wall of the structure is much shorter than the 12 foot west wall.

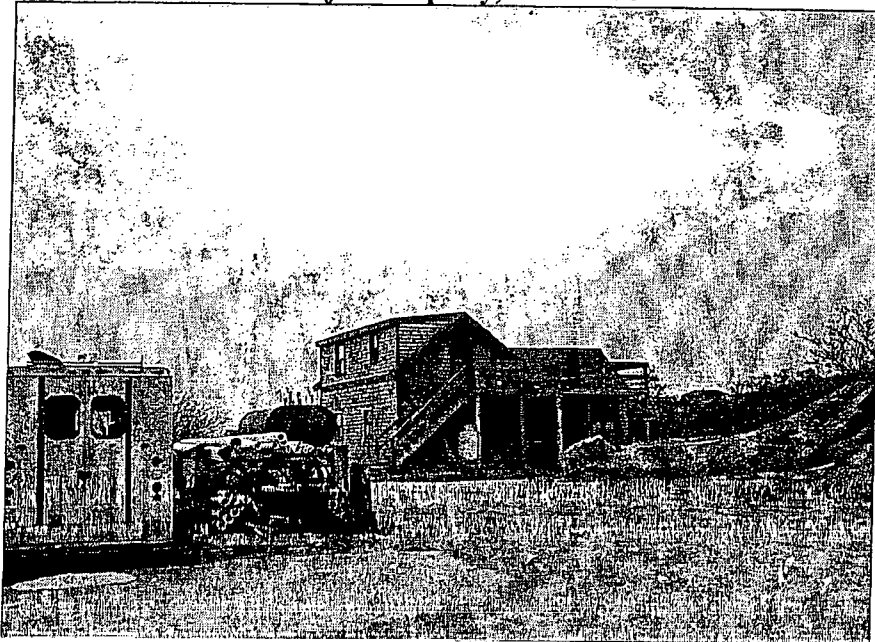
The interior of the structure is apportioned into four large bays suitable for the accommodation of automobiles or small trucks. The floors are concrete and most of the walls are exposed insulation. There is no plumbing in the building but it does have electricity and heat.

Overall, the building is in fair to average condition and requires just routine maintenance such as repairs to several of the overhead doors and replacement of rotted wood trim. From a functional perspective the building offers fair utility for a service garage but probably average utility for a storage use. Based upon this analysis of the property and market the estimated effective age of this property is 14± years.

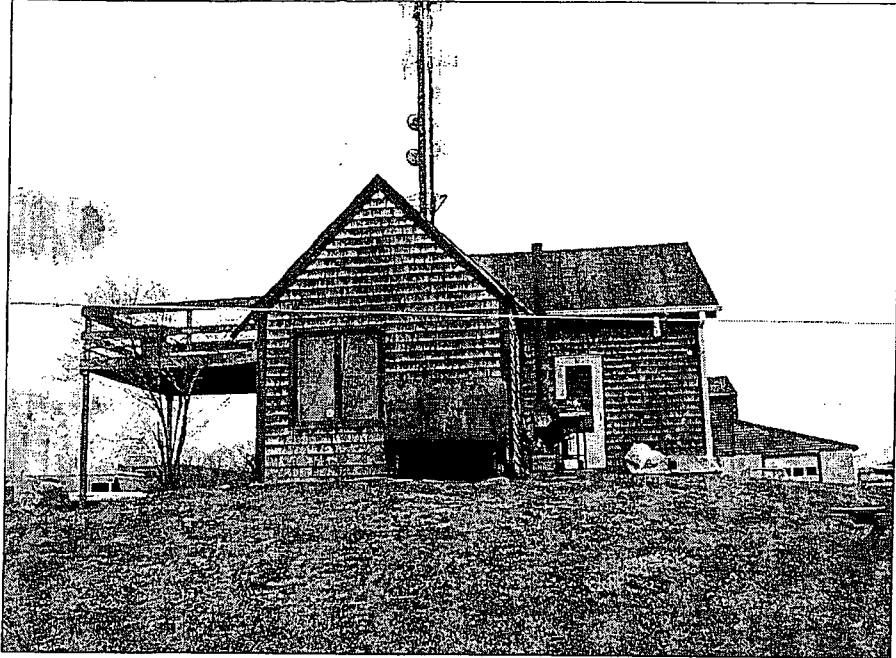
Subject Property, Lot 38



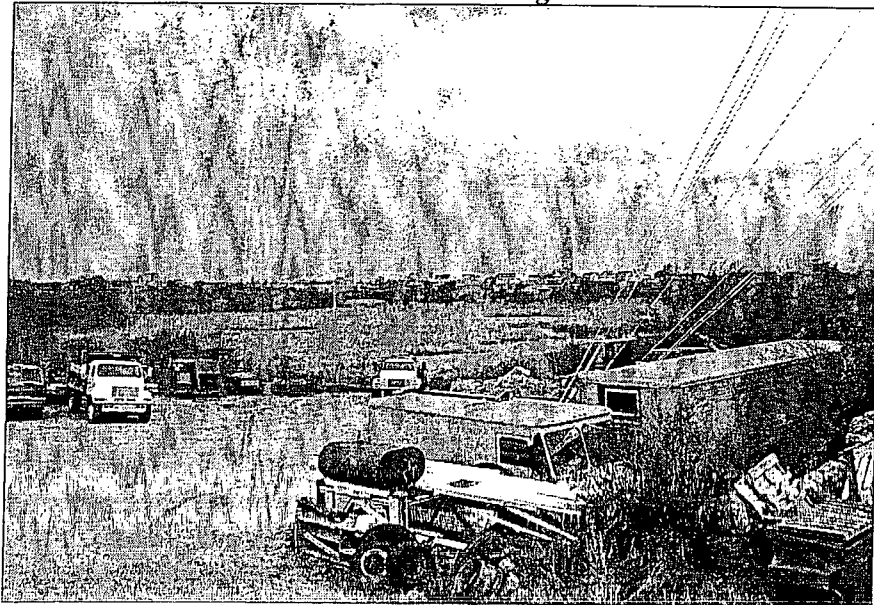
Subject Property, north side



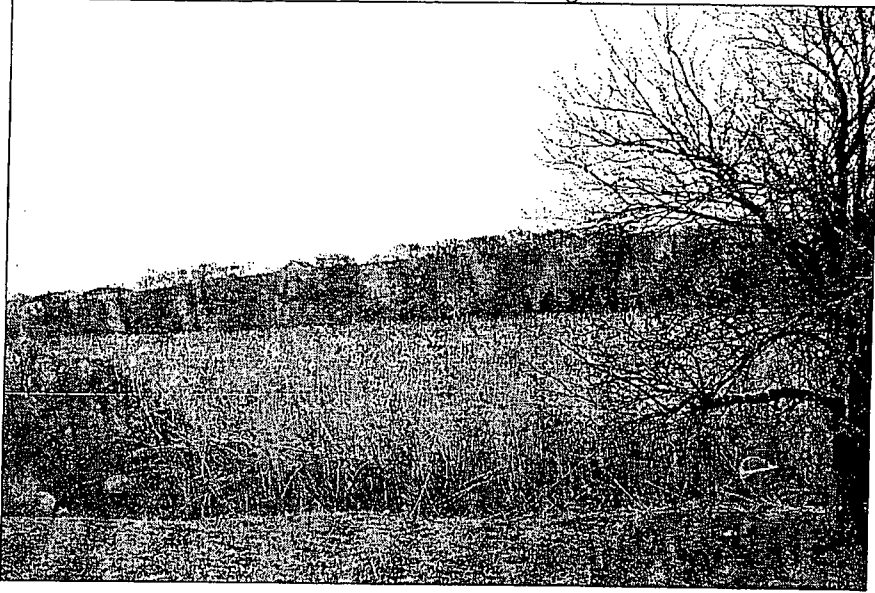
Subject Property, Lot 38 rear, note antenna



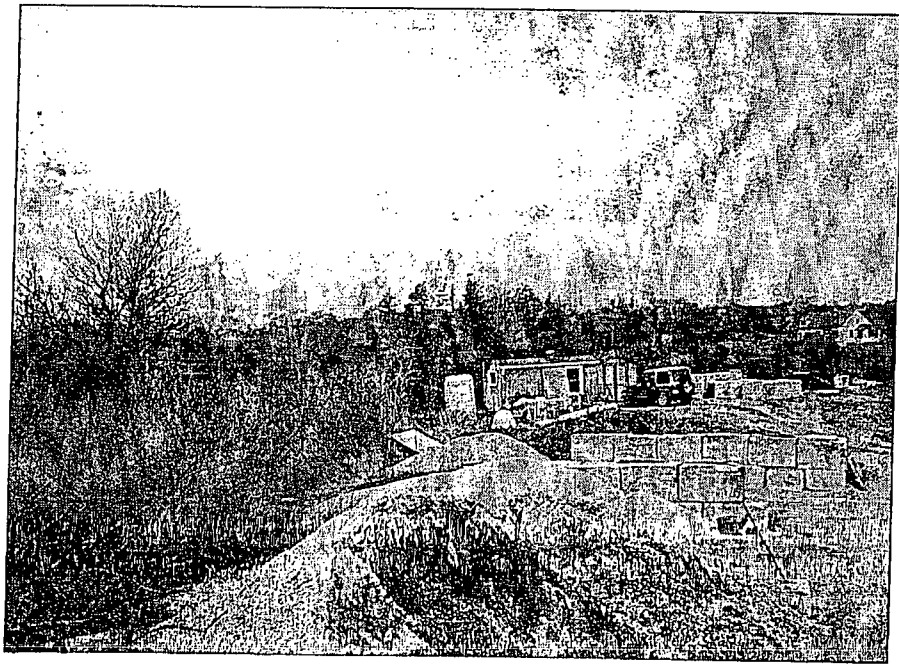
View from Lot 38 looking northeast



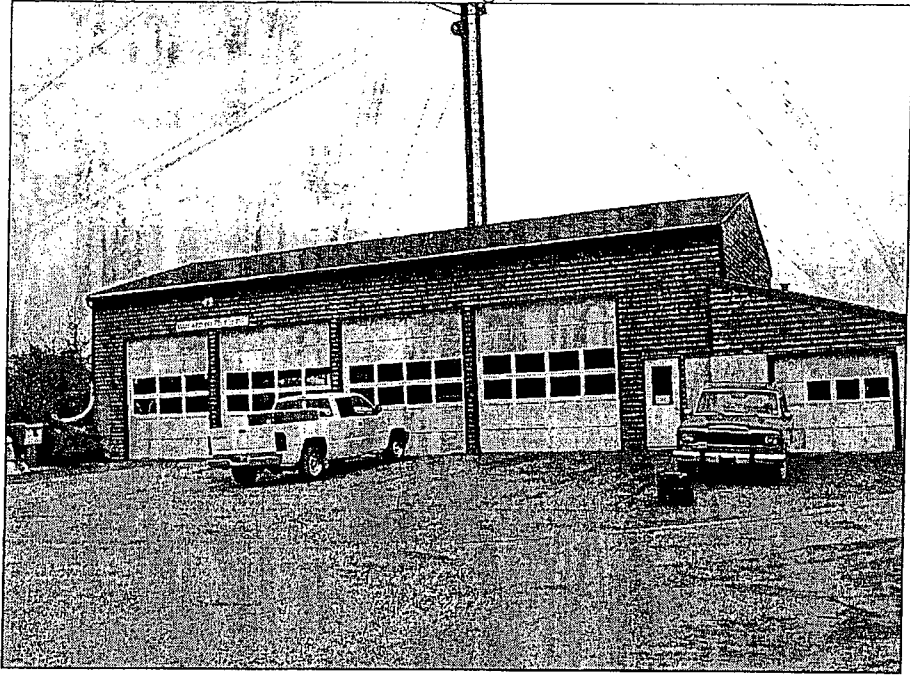
View from Lot 38 looking west



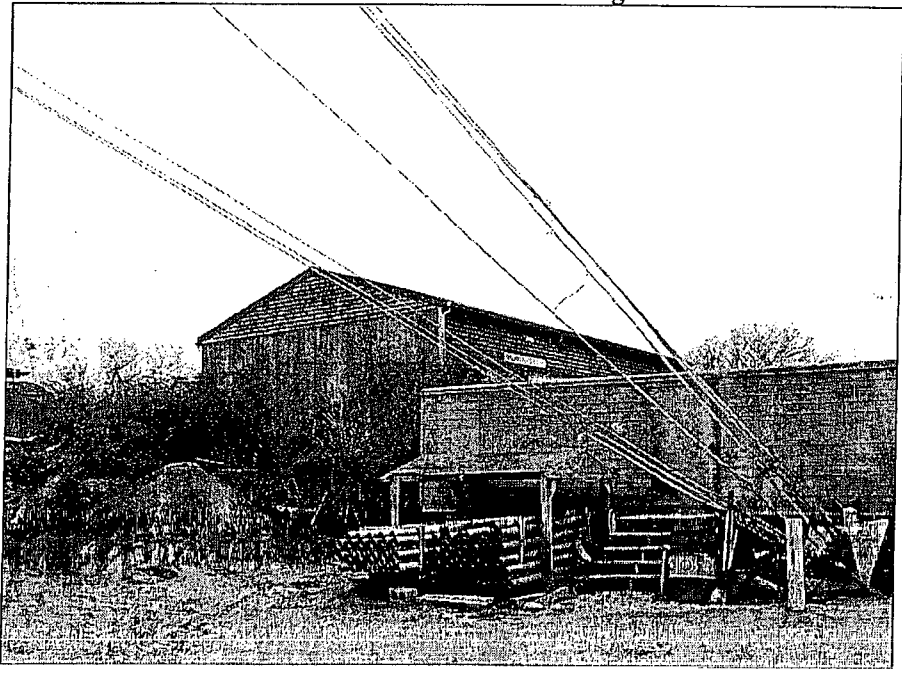
View from Lot 38 looking north



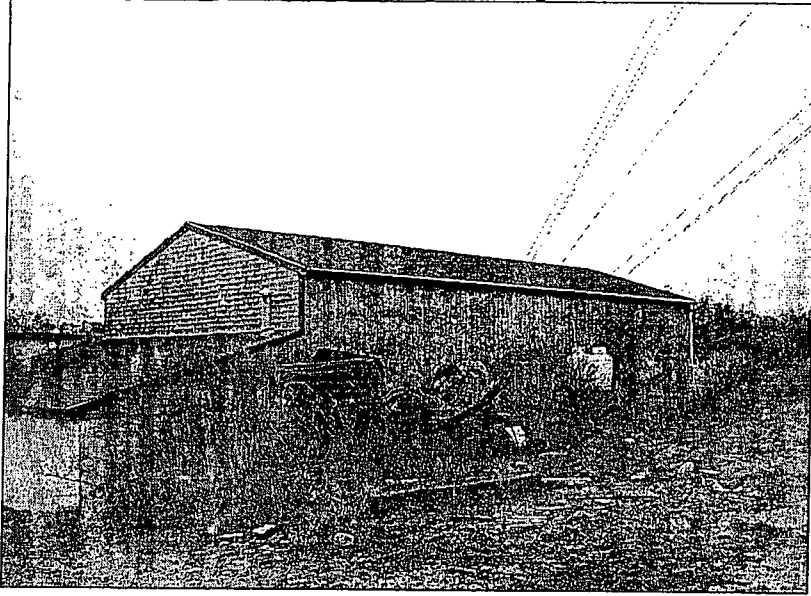
View of Garage, new lot



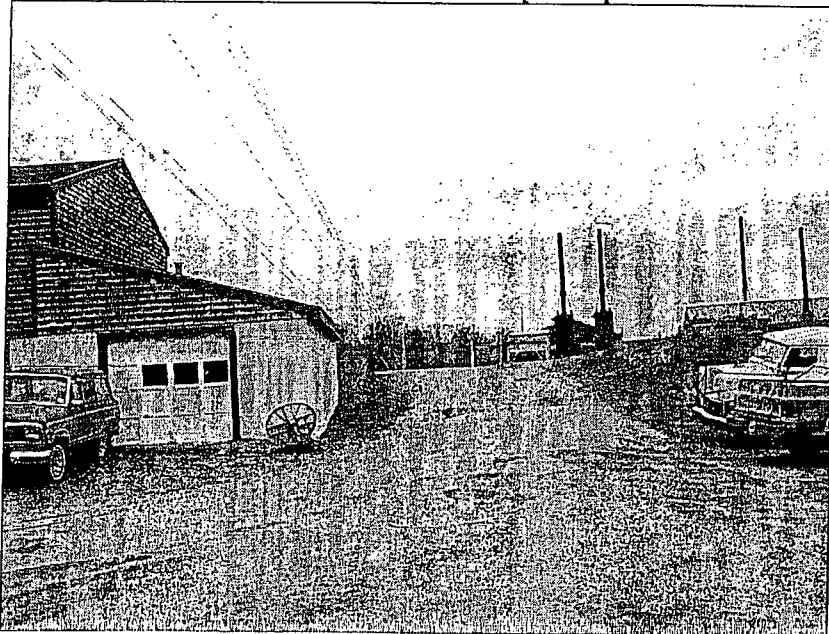
View of North side of Garage



View of Rear of Garage



View of Access to be shared by both parcels



Environmental

It was reported to the appraiser that there are environmental concerns on Lot 37 resulting from leaks detected in petroleum storage tanks. Obviously such leakage has the potential to migrate to the subject property and the new lot and may already have done so. Therefore, the appraiser strongly suggests that an environmental assessment be made of the subject property to determine its status and condition. This valuation and report does not consider the impact, if any which may result from an adverse environmental report of the property.

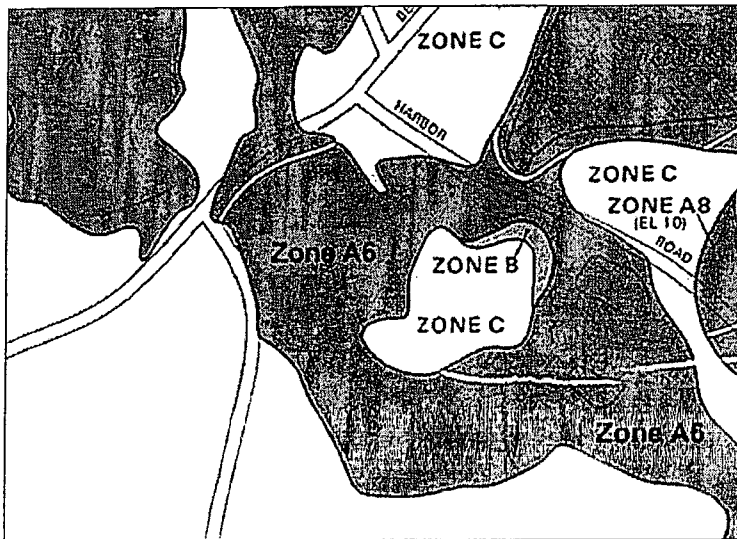
Restrictions, Easements and Encroachments

The subject property (both parcels) will be accessed by a right of way, ROW to be created over Lot 37. Presently there is a partially paved road serving as the primary access to both parcels.

The newly created lot also supports one of the guy wires for the antenna located on Lot 37. This will require the creation of an easement to secure the continued use, as such. This easement will negatively affect the property both aesthetically and physically.

Flood Zone

According to a review of Community Panel #440036-0004D, of the National Flood Insurance Rate Maps, which Map is dated September 30, 1995, it appears that most of the property (both parcels) falls on an island of land zoned "C". Zones designated "C" are not susceptible to flooding and flood insurance is not required in these areas. A copy of the applicable portion of this map follows. Note that only an engineer can determine exactly where the bounds of the flood hazard area are located.



Taxes and Assessment

The subject property, Lot 38 but including the four bay service garage is assessed to:

BI Power Company

as follows for the 2005 fiscal year:

Plat	Lot	Land	Building	Total	Taxes
17	38	\$223,300	\$187,400	\$410,700	\$1,634.59
Total		\$223,300	\$187,400	\$410,700	\$1,634.59

The 2005 tax rate for the Town of New Shoreham was \$3.98/\$1,000. The assessments are based on a revaluation that was conducted in 2003 for the 2004 fiscal year. **Note that the above assessment includes consideration for the service garage but not the additional land to be subdivided.**

Zoning

The subject property (both parcels) fall within the SC, or Service Commercial zoning district of the town. The SC zone is intended to serve the utility and service needs of the island. Allowed uses in this zone include single family, restaurants, retail and mixed use (retail/residential). Uses permitted by special exception include auto sales and service and warehouse and storage. Accessory residential uses are also allowed.

The minimum lot size in the district is 20,000 SF and the minimum frontage is 100 feet. The maximum lot coverage by building is 25%. Setbacks are also applicable.

As presently improved (and utilized) Lot 38 is considered legal but non-conforming. No opinion can be offered as to whether the proposed subdivision of Lot 37 and the creation of a new lot consisting of 30,000± SF will be permitted as described herein. It is assumed for purposes of this appraisal that it will and that the resulting division will result in two parcels similar to that described herein. Any material deviation will likely require the amendment of the appraisal.

Zoning is a legal matter beyond the scope of this appraisal and report. The client is advised to obtain qualified zoning counsel if required. This opinion is being offered only for purposes of valuation.

Highest and Best Use, Conclusions

Lot 38

As Vacant:

An examination of the physical and legal aspects of this property suggest that the likely use of the property as vacant is for improvement with a single family residential dwelling. Such uses are legal under the SC zoning and though the size of the lot is presently smaller than required it is a legal lot of record and therefore considered legal but non-conforming by dimension.

While located proximate to the utility there are fairly attractive views to the west which would indicate that the property is reasonably attractive for residential purposes. Such a use is also the most financially rewarding use given the demand for residential housing on the island and the lack of affordable alternative property. Therefore, the Highest and Best Use of the subject property, Lot 38 as vacant is for improvement with a single family residential use.

As Improved:

An examination of the physical and legal aspects of this property as improved indicates that the most reasonable use of the property is represented by a continuation of the current use. The property is in need of the curing of some deferred maintenance but with the expenditure of about \$10,000 will be considered in fair to average condition. Assuming continued adequate maintenance the improvements can be expected to contribute another 50 or so years of utility in this regard. Despite the non-conforming status of the property the current use is legal and appears to represent the maximum allowable density of the property. Since there is no other recognizable use that would produce a greater return to the property or the invested capital. It is concluded that the Highest and Best Use of the subject property is for a continuation of the current use.

Land Valuation (Lot 38)

Valuation of the subject land, as vacant is accomplished by the application of the Sales Comparison approach to value. In this regard three confirmed sales were obtained for comparison to the subject property.

The basic unit of comparison upon which properties of this type and size are analyzed and valued is the price per square foot of land area, or \$/SF. Following is the information on the three land sales that form the basis of this approach.

The existing Lot 38 contains 15,200 SF of land. The property has no views other than of the wetlands situated adjacent to the property. It is also considered to be negatively affected by the abutting operation of the utility and the antenna.

Unimproved Sale #1

Address: New Haven House, Block Island
 Location: South of the subject, about ¼ mile
 Plat / Lot: 8/111A and 111B
 Date of Sale: September 2005
 Grantor: Novatt
 Grantee: Crawford
 Book / Page: 347/272
 Sale Price: \$412,500
 Financing: Washington Mutual for \$268,000
 Verification: Municipal Records/Deed
 Days on Market: Not available

Property Description

Land Area: 15,935 SF aggregate
 Shape: Irregular
 Frontage: None
 Utilities: Well and septic
 Zoning: Residential, RA
 Features:

Units of Comparison

Price \$/Unit: \$25.88/SF

Comments: This lot is accessed via a 30 ROW off of Southeast Road. This property likely has some view of the southeast shore.

Unimproved Comparable Sale #2

Address: Mohegan Trail, Block Island
Location: South of the subject about one mile

Plat/Lot: 9/59
Zoning: Residential, RA
Grantor: Ritzinger
Grantee: Gorham
Date of Sale: March 2005
Sale Price: \$400,000
Book/page: 339/126
Financing: Cash sale
Verification: Municipal records/deed
Days on Market: N/A

Property Description

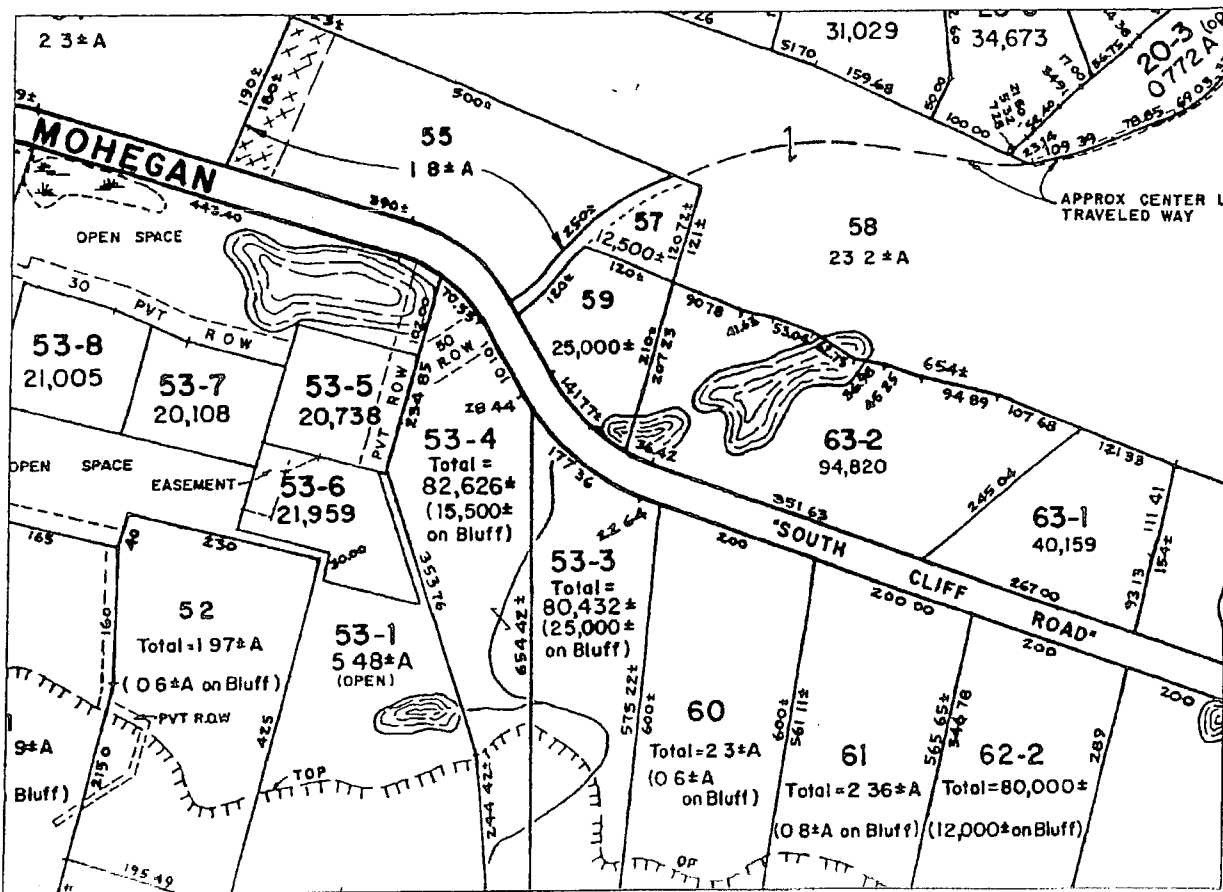
Land Area: 24,829 SF
Shape: Generally rectangular
Frontage: 100± LF on Mohegan
Utilities: Well and septic
Features: Partial water view

Units of Comparison

Price per SF: \$16.11/SF

Comments: This lot is located on the northerly side of Mohegan Trail. There would be view of the south shore from the second floor of an improvement to this property.

Unimproved Sale #2
 Mohegan Trail
 Block Island, Rhode Island



Unimproved Sale #3

Address: High View, Block Island
Location: South of the subject about ½ mile

Plat/Lot: 8/224
Zoning: Residential, RB
Grantor: Drazen Block Island, LLC.
Grantee: Carfaro
Date of Sale: December 2005
Sale Price: \$415,000
Book/page: 352/116
Financing: Washington Trust for \$290,500.
Verification: Municipal Records/Deed
Days on Market: N/A

Property Description

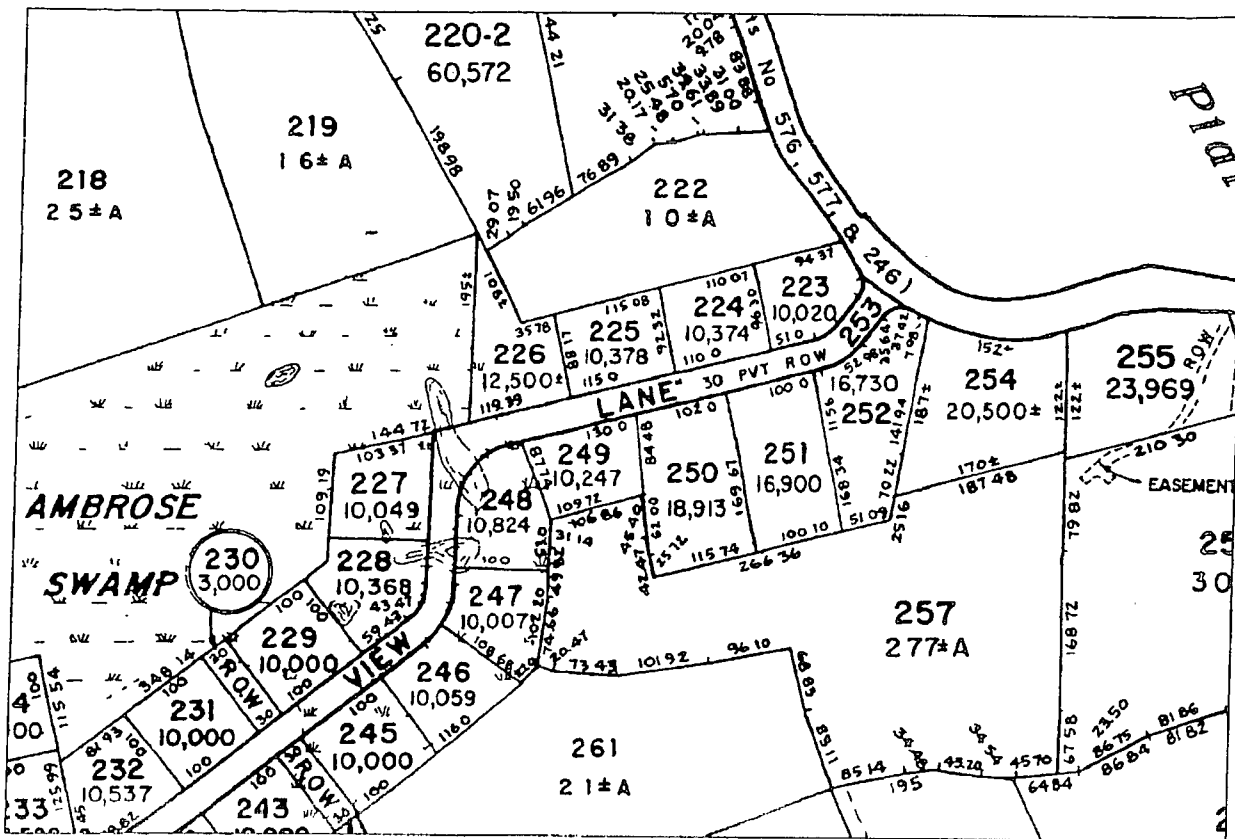
Land Area: 10,374 SF
Shape: Generally rectangular
Frontage: 110± LF on High View
Utilities: Municipal water and sewer
Features: Partial view of southeast shore

Units of Comparison

Price per SF: \$40.00/SF

Comments: This newly created lot is located in a subdivision off of High Street.

Unimproved Sale #3
High View
Block Island, Rhode Island



Adjustment Methodology

Rights Conveyed

All three sales represent the conveyance of the Fee Simple Interest in the properties which is the same interest being valued with respect to the subject property. Therefore, no adjustments are made for property rights conveyed.

Financing

All three sales involved cash to seller transactions. Thus no adjustments are made for atypical financing.

Conditions of Sale

All three comparable sales were purchased under normal or typical conditions of sale without any known undue pressure to sell or purchase.

Market Conditions

The three comparable sales transpired between March 2005 and December 2005 and are therefore subject to adjustment for market conditions or date of sale. Analysis of empirical data indicates that residential property values have stabilized after having appreciated significantly since the turn of the century. Therefore, a relatively modest adjustment of about 5% per year is made to the three sales.

Location

The location of the subject is considered fair due to the abutting operation of the utility as well as the antenna. In comparison to the subject the three comparable sales are superior some with water views and none affected by something as unattractive as the abutting utility. Therefore, rather substantial negative adjustments are required for all three sales.

The adjustment applied to the sales for location is based on a comparison made of the three sales as well as empirical data of residential sales that were afflicted by such things as major highways or industrial use property. The indicated adjustments ranged from a negative 30% to a negative 50%.

Physical Characteristics

Size

All other things being equal smaller parcels tend to sell for more per square foot than larger parcels and as such adjustments are required for all three sales. The intensity of the adjustments utilized is based on the results of a study made by the appraiser suggest that for a 100% increase in land size between two otherwise similar properties the unit sale price of the smaller parcel is typically about 20% greater and vice versa. Adjustments are therefore made accordingly.

Shape and Topography

The subject is rectangular in shape but with a slightly irregular topography not unlike Sale #1. Sales #2 and #3 are mostly rectangular and relatively level. Therefore, negative adjustments of 5%, each are made to these two sales.

Utilities

The subject property has access to municipal sewer and water. Sale #3 has similar access but Sales #1 and #2 do not have such access and are therefore inferior. Therefore, positive adjustments of 5%, each are made to these two sales.

Zoning/Land Use

The subject property is zoned Service Commercial. All three comparable sales are zoned residential. The Service Commercial permits residential and since this is the Highest and Best Use of the property no adjustments are required in this regard.

	SUBJECT	COMP #1	COMP #2	COMP #3
LOCATION	Ocean	New Haven	Mohegan	High View
SALE PRICE/SF		\$25.88	\$16.11	\$40.00
RIGHTS CONVEYED	F.S.	FS	FS	FS
(ADJ)		0%	0%	0%
FINANCING		Market	Cash	Market
(ADJ.)		0%	0%	0%
CONDITIONS OF SALE		Normal	Normal	Normal
(ADJ.)		0%	0%	0%
MARKET CONDITIONS	Feb-06	Sep-05	Mar-05	Dec-05
(ADJ.)		3%	5%	0%
MKT. ADJ. SALE PRICE		\$26.66	\$16.92	\$40.00
LOCATION	Fair	V. Good	Average	Good
		-50%	-30%	-40%
PHYSICAL CHARACT.				
SIZE, SF	15,200	15,935	24,829	10,374
(ADJ)		0%	10%	-15%
SHAPE/TOPOGRAPHY	Rect/irreg	Irreg/level	Rect/level	Rect/level
(ADJ)		0%	-5%	-5%
UTILITIES	All	None	None	All
(ADJ.)		5%	5%	0%
ZONING/LAND USE	SC	RA	RA	RR
(ADJ.)		0%	0%	0%
TOTAL ADJUSTMENTS		-45%	-20%	-60%
INDICATED PRICE/SF		\$14.65	\$13.55	\$16.00

Conclusion on Land Valuation

Based upon the aforementioned methodology, an adjusted unit value range of \$13.55/SF to \$16.00/SF is obtained from the comparable sales. In the final analysis greatest consideration is given to Comparable Sale #2 which is considered most similar to the subject as indicated by the least amount of adjustment. Therefore, a unit value of \$13.55/SF is considered appropriate for the primary site that supports the existing improvements.

Calculations are as follow:

$$15,200\pm \text{ SF of land @ } \$13.55/\text{SF} = \$205,960, \text{ round to } \$205,000.$$

Cost Approach, Lot 38

Valuation by the Cost Approach involves estimating the reproduction or replacement cost of the improvements, as of the effective date deducting accrued depreciation from all sources and adding the value of the land, as vacant. In the analysis of the subject replacement cost is used as the basis for value estimation.

To estimate the replacement cost new, RCN of the improvements the appraiser consulted with several home builders on the island as well as the Marshall and Swift Commercial Valuation Service Handbook, M&S. The handbook is maintained by a national cost estimating company and is updated monthly for local and national conditions.

Cost Approach Valuation

Direct Costs

The single family building that improves Lot 38 is considered an average quality, class "D" residence. The estimated, on island cost for an average quality residential dwelling is \$250.00/SF. A contingency of 2.5% of the total direct cost is added for miscellaneous items and possible delays in construction.

Indirect Costs

Indirect costs include six months of property taxes on the land, legal and consultant work which may include the surveyor and appraiser, the construction loan fee which is estimated at 1.5% of the total hard costs and developer's insurance which is basically an umbrella policy over and above the builder's risk policy.

The insurance expense is based on a cost of approximately \$3.00 for every \$1,000 invested and pro-rated over a six month development period.

Accrued Depreciation

Accrued depreciation is defined as the loss in value from all causes including physical, functional and external. The most recognized form of depreciation is curable physical or deferred maintenance because it is easily observed. In the case of the subject property there is deferred maintenance to include the necessary replacement of sills and other exterior components that appear rotted or damaged by wood boring insects. The estimated cost of these repairs is \$10,000.

Upon completion of the repairs to the cure the deferred maintenance the effective age of the property will be 18 years and the condition fair to average. The actual age of the property is ± 65 years. Based on the improved comparable sales discussed in subsequent sections of this report the indicated depreciation of the subject improvements is .005% per year or $\pm 33\%$. The depreciation estimates were extracted from the sales as follows.

Depreciation Estimation from Improved Comparable Sales

Address	494 Old Town	496 Old Town	497 Old Town
Land Area	16,117	14,000	3,050
a. Gross Living Area	1,584	1,502	1,028
Construction Quality	Avg. cls. D	Avg. cls. D	Avg. cls. D
b. RCN, \$/SF,	\$250.00	\$250.00	\$250.00
c. RCN, Structure, (a x b)	\$396,000	\$375,500	\$257,000
g. Sale Price	\$775,000	\$570,000	\$360,000
h. less land value	\$350,000	\$350,000	\$200,000
i. less contributory value of site improvement	\$ 50,000	\$50,000	\$35,000
j. equals building contribution	\$375,000	\$170,000	\$125,000
x. estimated building depreciation, (c-j), [%]	(21,000)[6%]	\$205,500 [54%]	\$132,000 [51%]
Actual Age, years, (y)	100	100	100
Indicated depreciation, % per year, x/y	.0005%	0.005%	0.005%

Conclusions

Sale #1 may have sustained recent renovations thereby resulting in much less building depreciation. Discounting Sale #1 there appears to be a compelling argument that building depreciation should be in the range of .005% per year or ½ percent per year for every year of actual age.

On the following page is a summation of the Cost Approach

Cost Approach**Direct Costs:**

	912 SF @		
House	\$250.00/SF	\$228,000	
Other		\$0	
Site Improvements		\$20,000	
Contingency	2.5% of hard costs	<u>\$6,200</u>	
Total Direct Costs			\$254,200

**Indirect
Costs:**

Construction Loan Fee	1.5% of total hard costs	\$3,720	
Legal/Consultation	Flat estimate	\$2,500	
Interim taxes	three months on land	\$3,000	
Developer's Insurance	\$3.00 for every \$1,000 in hard costs	<u>\$744</u>	
Total Indirect Costs			\$9,964

Entrepreneurial Profit \$0

**Total Replacement Cost
New** \$264,164

Depreciation:

Curable physical \$10,000 (\$10,000)
Depreciable basis \$254,164

Incurable physical, short-lived:

Component	Cost	Eft. Age	Age Life	% Depre.	Amount
Roof	\$0	0	20	0%	\$0
Parking Lot	\$0	0	15	0%	\$0
HVAC	\$0	0	15	0%	\$0
Interior finish	<u>\$0</u>	0	10	0%	<u>\$0</u>
Total	\$0				\$0

Total incurable physical, short-lived \$0

**Incurable physical, long-
lived:**

Depreciable basis	\$254,164		
Effective age, 18 years, life of 55 years:		33%	(\$83,874)

Incurable functional \$0

External \$0

Land Value \$205,000

Indicated Value via Cost Approach \$375,290

Round to \$375,000

Sales Comparison Approach (Lot 38)

In estimating the value of the subject property via the Sales Comparison Approach three recent and comparable property sales were obtained for comparison to the property. All three sales are located on Old Town Road and the improvements to each property are similar in terms of construction, design and age to the 65 year old structure that improves the subject property.

The basic unit of comparison upon which sales such as the subject are purchased and therefore analyzed is the sale price per square foot of building area, \$/SF. Following is the information on the three comparable sales and the adjustment methodology utilized to equate the sale prices of the comparables to the subject.

Comparable Sale #1

Address: 494 Old Town Road, Block Island
 Location: South of the subject about ¼ mile
 Plat/Lot: 17/11
 Date of Sale: January 2006
 Sale Price: \$775,000
 Grantor: Ballard
 Grantee: Hatfield
 Book/Page: 354/243
 Financing: Eastern Bank for \$417,000
 Verification: Municipal Records, Deed
 Days on Market: Not actively marketed

Property Description

Land Area: 16,117± SF
 Shape: Basically rectangular
 Frontage: 150± LF on Old Town Road
 Gross Building Area: 1,584 GSF
 Construction: One and one half story wood frame and wood sided residential dwelling constructed over a full basement, circa 1900. Apportioned into five rooms with two bedrooms and two baths.
 Utilities: All available
 Land/Building Ratio: 10.17:1
 Amenities: Standard package

Unit of Comparison

Price per SF: \$489.27

Comment: Average quality residential structure probably renovated in the recent past.

Photo Not Available

Comparable Sale #2

Address: 496 Old Town Road, Block Island
 Location: South of the subject about ¼ mile

Plat/Lot: 17/14
 Date of Sale: April 2005
 Sale Price: \$570,000
 Book/Page: 341/107
 Grantor: Wholey
 Grantee: Gelsomini
 Financing: Gateway Funding for \$456,000
 Verification: Municipal Records, Deed
 Days on Market: Not actively marketed

Property Description

Land Area: 14,000± SF
 Shape: Basically rectangular
 Frontage: 75± LF on Old Town Road
 Gross Building Area: 1,502 GSF
 Construction: One and one half story wood frame and wood sided residential dwelling constructed over a full basement, circa 1910. Apportioned into seven rooms with five bedrooms and one bath.

Utilities: All available
 Land/Building Ratio: 9.32:1
 Amenities: Standard package

Unit of Comparison

Price per SF: \$379.49

Comment: Average quality residential structure maintained in average condition. Property is subject to a ROW that does not appear to diminish the value of the property.

Comparable Sale #2
496 Old Town Road
Block Island, Rhode Island



Comparable Sale #3

Address: 497 Old Town Road, Block Island
Location: South of the subject about ¼ mile

Plat/Lot: 17/15
Date of Sale: August 2005
Sale Price: \$360,000
Book/Page: 346/38
Grantor: Brown
Grantee: Leone
Financing: Washington Trust for \$350,000
Verification: Municipal Records, Deed
Days on Market: Not actively marketed

Property Description

Land Area: 3,050± SF
Shape: Basically rectangular
Frontage: 50± LF on Old Town Road
Gross Building Area: 1,028 GSF
Construction: One and one half story wood frame and wood sided residential dwelling constructed over a full basement, circa 1900. Apportioned into five rooms with two bedrooms and one bath.

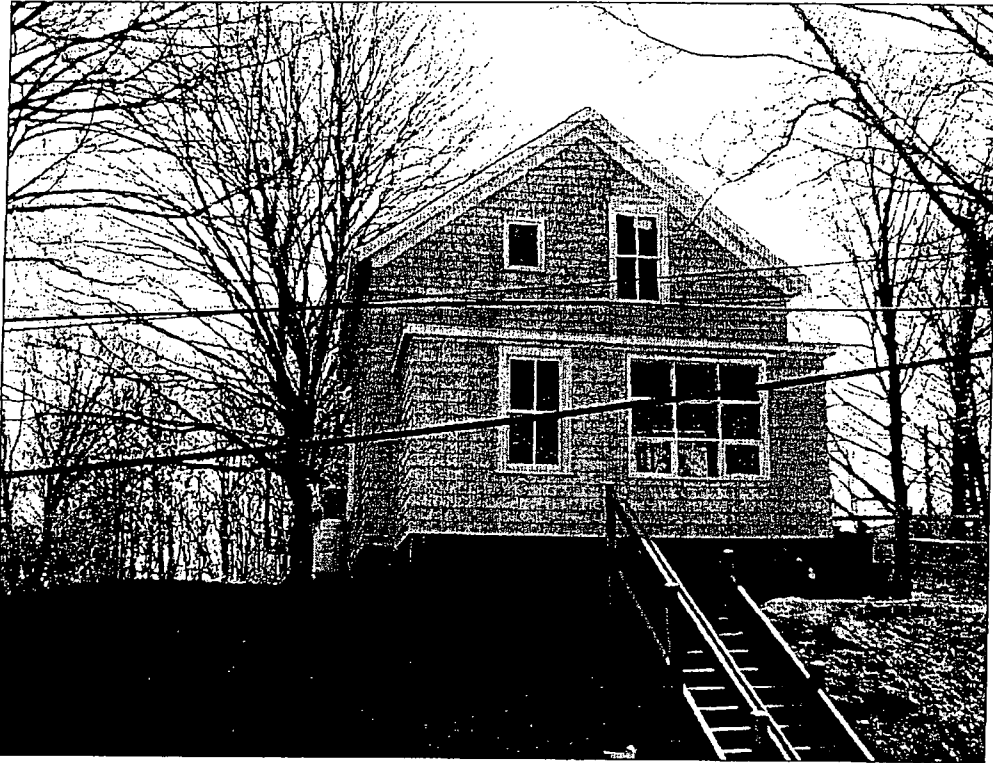
Utilities: All available
Land/Building Ratio: 2.97:1
Amenities: Standard package

Unit of Comparison

Price per SF: \$350.20

Comment: Average quality residential structure that probably required some work as of the date of sale.

**Comparable Sale #3
497 Old Town Road
Block Island, Rhode Island**



Sales Comparison Summary

	SUBJECT	COMP #1	COMP #2	COMP #3
LOCATION	Ocean	494 Old Town	496 Old Town	497 Old Town
SALE PRICE/SF		\$489.27	\$379.49	\$350.20
RIGHTS CONVEYED	FS	FS	FS	FS
(ADJ)		0%	0%	0%
FINANCING		Market	Market	Market
(ADJ.)		0%	0%	0%
CONDITIONS OF SALE		Normal	Normal	Normal
(ADJ.)		0%	0%	0%
MARKET CONDITIONS	Feb-06	Jan-06	Apr-05	Aug-05
(ADJ.)		0%	5%	3%
MKT. ADJ. SALE PRICE		\$489.27	\$398.46	\$360.71
LOCATION	Average	Superior	Superior	Superior
		-15%	-15%	-15%
PHYSICAL CHARACT.				
CONSTRUCTION/ DESIGN	1.5 story wood frame and wood sided, pti base.	1.5 story wood frame and wood sided, full base.	1.5 story wood frame and wood sided, full base.	1.5 story wood frame and wood sided, full base.
(ADJ)		-5%	-5%	-5%
AGE/CONDITION	18E/FtoA	15E/Avg.	18E/Avg.	18E/Avg.
(ADJ)		-10%	0%	0%
SIZE, SF	912	1,584	1,502	1,028
(ADJ.)		10%	10%	0%
LAND TO BUILD RATIO	16.66	10.17	9.32	2.97
(ADJ)		10%	10%	30%
BATHS	Average	Superior	Inferior	Inferior
(ADJ)		-5%	5%	5%
TOTAL ADJUSTMENTS		-15%	5%	15%
INDICATED PRICE/SF		\$415.90	\$418.40	\$414.80

Comparative Analysis

Market Conditions: An adjustment of about 5% per year is made for market conditions or date of sale. This is much less than the appreciation that has been evident for the last four or five years but in this price range there remains a significant demand that is likely to maintain appreciation that is no less than the rate of inflation.

Rights Conveyed: All three of the sales represent a conveyance of the Fee Simple Interest which is the same interest being valued with respect to the subject property. Therefore, no adjustments are required for property rights conveyed.

Financing: All three conveyances involved cash to seller transactions and as such no adjustments are necessary for atypical financing.

Conditions of Sale: All three sales were also believed to have been conveyed under normal or typical conditions of sale without any undue buyer/seller motivation. Therefore, no adjustments are made for conditions of sale.

Location: Based on the same rationale discussed earlier in the land valuation section of this appraisal the negative influence of the utility operation and antenna require the application of a negative adjustment. However the intensity of the adjustment is much less given that the land represents about half the value of an improved property.

Physical Characteristics:

Construction and Design: The subject and all three sales are older colonial style cottages, the only difference being the full basement that all three comparable properties possess. Therefore, a minor negative adjustment of 5% is made to the three comparable sales.

Age/Condition: Sales #2 and #3 are considered similar to the subject in terms of age and condition but it appears from the depreciation study made earlier that Sale #1 may have been renovated recently. Therefore, it is superior to the subject and requires the application of a negative adjustment of 10%.

Size: An analysis of the three sales indicates that negative adjustments of 10%, each are required for Sales #1 and #2 for their larger size.

Land to Building Ratio: In regard to land to building ratio all three sales are inferior to the subject and require adjustment the intensity of which is based on the cost of acquiring sufficient land to equate the comparables' land to building ratio to the subject.

Amenities: The subject has an average amenity package to include two full baths. Sales #2 and #3 are inferior in this regard but Sale #1 is superior. Adjustments are made accordingly.

Conclusion

Application of the aforementioned adjustments, to the unadjusted sale prices results in a unit value range of \$414.80/SF to \$418.40/SF. In the final analysis just about equal consideration is given to the unit values obtained from all three sales and a final unit value of \$416.00/SF is concluded appropriate for the subject property. Note that this estimate excludes consideration for the garage.

Calculations are as follow:

$$912 \text{ SF @ } \$416.00/\text{SF} = \$379,392, \text{ round to } \$380,000$$

Reconciliation and Final Value Estimate, Lot 38

The indicated values derived via the two approaches are, as follows:

Sales Comparison Approach - \$380,000

Income Approach – Not Applied

Cost Approach - \$375,000

Application of the two approaches to value produced similar values suggesting support for either of the two values to be chosen as the final indicator of value for the subject property. However, in the final analysis primary consideration is given to the value indication that results from the application of the Sales Comparison Approach to value since this is most recognized approach to value.

Therefore, it is the appraiser's opinion that as of the effective date of this appraisal, the Market Value of the Fee Simple Interest in the property (Lot 38) is:

Three Hundred Eighty Thousand (\$380,000) – Dollars

New Lot, a portion of Lot 37

The following analysis concerns the valuation of the 30,000± SF of land that will be subdivided from Lot 37 to create a stand alone parcel supporting the service garage of 2,358 SF. As a condition of this appraisal it is assumed that the division of the land will be permitted generally as shown on the plan contained herein.

Highest and Best Use, conclusions

As Vacant

An examination of the physical aspects of this property indicates that the property is capable of supporting just about any reasonable use. Allowed uses include single family residential, restaurants, retail and mixed-use. Vehicle service and warehouse/storage (the current use of the property) is permitted by special exception. Although the proposed lot has no formal frontage on a municipal road it is assumed that it will be a legal lot of record and therefore conducive to improvement with any one of the permitted uses.

In addition to the basic zoning criteria there is a prohibition whereby no residential uses are permitted within 250' of a transmission tower. Therefore, the proposed lot is not legally capable of being improved with a residential use.

From a location perspective the property has no visibility from a town roadway and the abutting utility offers little or no appeal in regard to potential uses of the site. Therefore, some type of storage or warehouse use or perhaps service is probably the most reasonable use of the property. Given few abutters to object to such use it is likely that the owner could obtain a special use permit for either of these uses. Such a use is also likely to be the most financially rewarding use given almost no competing use on the island. Therefore, the Highest and Best Use of the proposed lot is for improvement with a service or storage type use.

As Improved

An examination of the physical and legal aspects of this property as improved indicates that the most reasonable use of the property is represented by a continuation (and possible expansion thereof) of the current use of the property as a service garage and storage. The property is in need of the curing of some deferred maintenance but with the expenditure of about \$5,000 will be considered in fair to average condition. Assuming continued adequate maintenance the improvements can be expected to contribute another 40 or so years of utility in this regard. It is assumed for purposes of this appraisal that the newly created lot will be accepted by the town as a legal lot of record and therefore the existing use will be considered a legal use as permitted by Special Use Permit.

Based on the dimensional criteria of the Service Commercial zoning it appears that the existing use could be expanded but since the use is permitted only by Special Exception any expansion may require the approval of the Zoning Board. Therefore, the Highest and Best Use of the proposed lot is as currently improved.

Land Valuation (new lot)

Valuation of the newly created lot is accomplished by the application of the Sales Comparison Approach to value. In valuing this lot via the Sales Comparison Approach only one commercial land sale was obtained for comparison. The two other indicators of land value utilized in this approach are derived from the sale of two improved properties. The indicated value of the land was derived from these two sales by extraction. Extraction involves the deduction of the building and site components from the sale price thereby leaving the value attributable to the land. The land values are then compared to the subject property in order to arrive at an indication of the value of the subject land.

The basic unit of comparison upon which properties of this type and size are analyzed and valued is the price per square foot of land area, or \$/SF. Following is the factual information on the three sales as well as the adjustment methodology utilized to value the proposed lot.

Unimproved Sale #1

Address:	Water Street and Adrian House Lane, Block Island
Location:	Old Harbor
Plat/Lot:	7/portion of Lot 19
Zoning:	Commercial
Grantor:	Phillips
Grantee:	Carfaro
Date of Sale:	NS Sewer Commission
Sale Price:	\$800,000
Book/page:	329/72
Financing:	Cash sale
Verification:	Municipal Records/Deed
Days on Market:	N/A

Property Description

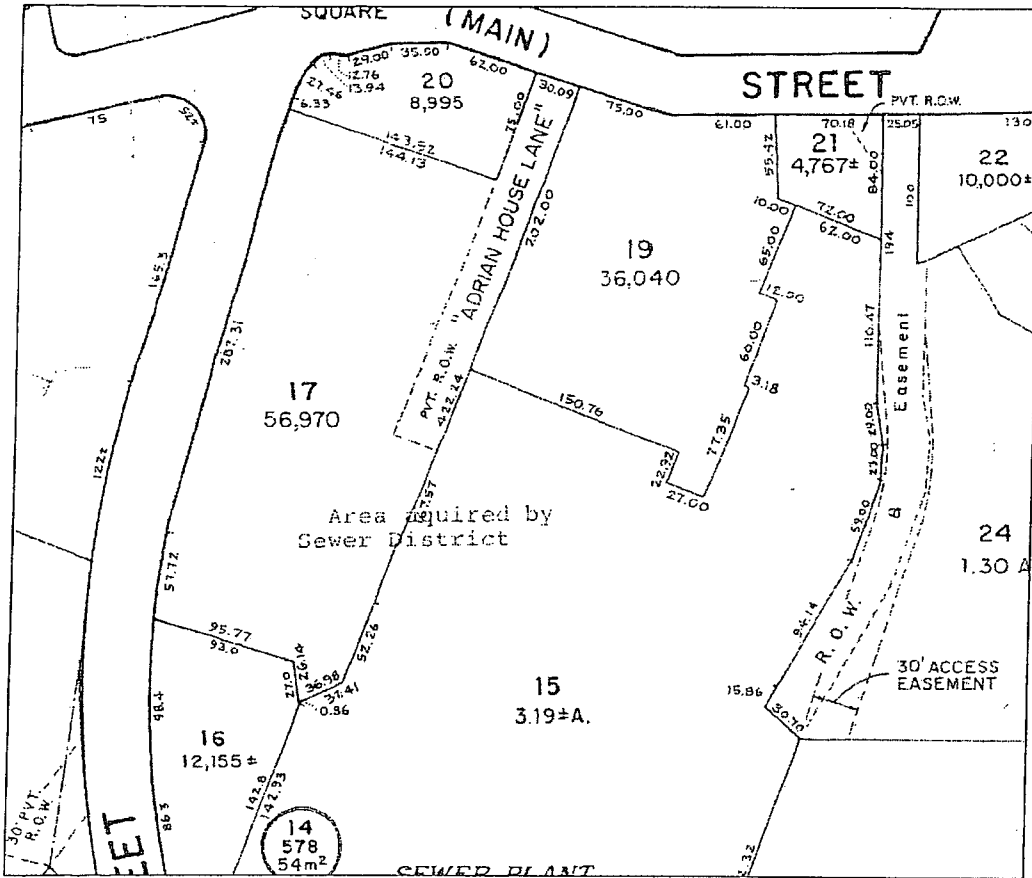
Land Area:	44,327± SF
Shape:	Irregular
Frontage:	150± LF on Adrian House Lane and 300± LF on ROW
Utilities:	Municipal water and sewer
Features:	Water view, proximate to other businesses

Units of Comparison

Price per SF:	\$18.05/SF
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Comments: This newly created lot is located behind the new Post Office. It was purchased for expansion of the sewer commission property.

Unimproved Sale #1
Adrian Hall Lane
Block Island, Rhode Island



Improved Sale #2

Address: 102 Ocean Avenue, Block Island
Location: Just east of the subject

Plat/Lot: 6/37/02
Zoning: Commercial
Grantor: Schaller
Grantee: H&H Ocean Ave, LLC
Date of Sale: 8/4/2004
Sale Price: \$600,500
Book/page: 326/30
Financing: Cash sale
Verification: Municipal Records/Deed
Days on Market: N/A

Property Description

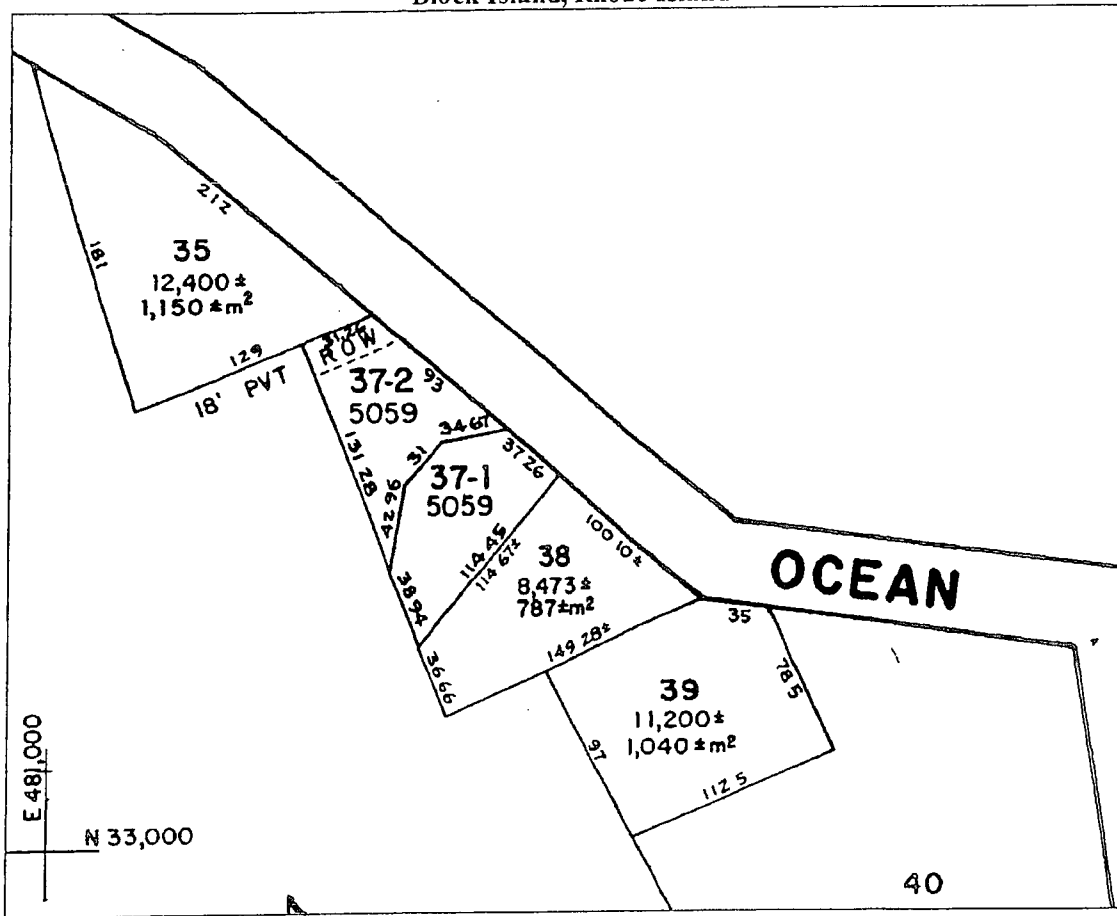
Land Area: 5,227± SF
Shape: Irregular
Frontage: 93± LF on Ocean Ave.
Utilities: Municipal water and sewer
Improvements: Improved with a 2,520 SF mixed use building constructed, circa 1980.

Units of Comparison

Price per SF of land: \$23.95/SF (see extraction chart that follows)

Comments: This is considered a distressed sale. First floor is a hardware store, second floor is residential.

Improved Sale #2
102 Ocean Avenue
Block Island, Rhode Island



Improved Sale #3

Address: 217 Ocean Avenue, Block Island
 Location: Just east of the subject

Plat/Lot: 6/32
 Zoning: Commercial
 Grantor: Kellys of New Shoreham
 Grantee: Shanley
 Date of Sale: 9/16/2005
 Sale Price: \$995,000
 Book/page: 348/104
 Financing: Cash sale
 Verification: Municipal Records
 Days on Market: N/A

Property Description

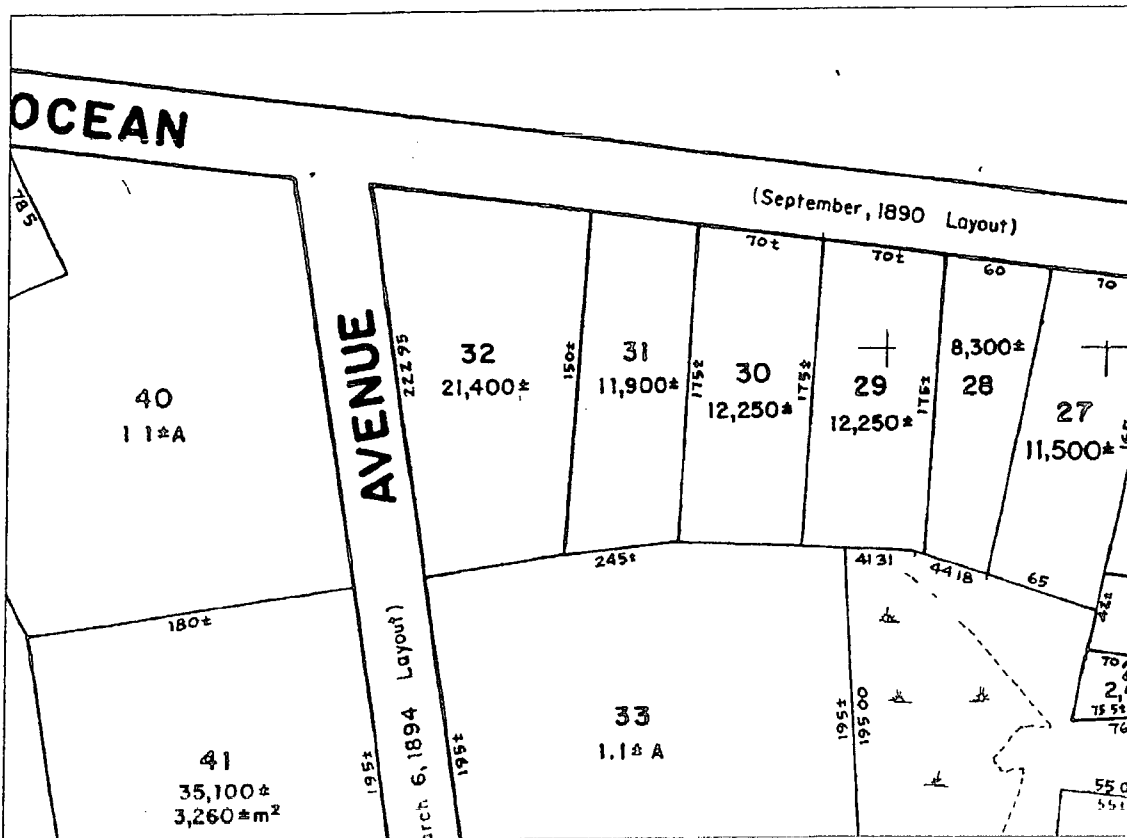
Land Area: 21,344± SF
 Shape: Rectangular
 Frontage: 100± LF on Ocean and 300± LF on Ct. Ave
 Utilities: Municipal water and sewer
 Improvements: Improved with a 2,250 SF mixed use building constructed, circa 1985.

Units of Comparison

Price per SF of land: \$25.30/SF (see extraction chart that follows)

Comments: First floor appears to be two retail units, second floor is residential. Sale was confirmed only by municipal records.

Improved Sale #3
217 Ocean Avenue
Block Island, Rhode Island



Land Extraction from Improved Comparable Sales

Address	102 Ocean	217 Ocean
Land Area	5,227	21,344
a. Gross Building Area	2,520	2,250
Construction Quality	Avg., cls. D	Avg. cls. D
b. RCN, \$/SF,	\$225.00	\$225.00
c. RCN, Structure, (a x b)	\$567,000	\$506,250
g. Sale Price	\$600,500	\$995,000
h. less depreciated RCN	\$425,250	\$405,000
i. less contributory value of site improvement	\$ 50,000	\$50,000
j. equals land value	\$125,000	\$170,000
Indicated price per SF	\$23.95	\$25.30

Adjustment Methodology, Summarized

Market Conditions

The three comparable sales transpired between September 2004 and September 2005 and are therefore subject to minor adjustment for market conditions or date of sale. Analysis of empirical data indicates that commercial property values have stabilized after having appreciated significantly since the turn of the century. Therefore, a relatively modest adjustment of about 3% per year is made to the three sales.

Conditions of Sale

For the distressed sale conditions of Sale #2 a 10% positive adjustment is made. The adjustment appears supported by a comparison of this sale with Sale #3 which is within sight of this property.

Location

The overall location of the subject is considered fair due to the lack of visibility on a municipal roadway and the inferior access. In comparison to the subject in this regard, Sale #1 probably has the most attractive location as it is in the Old Harbor Village adjacent to other commercial generators. Sales #2 and #3 are not too distant from the subject but these properties are fronted on a municipal roadway and therefore possess much greater commercial potential. Therefore, in overall terms the location of Sale #1 is nearly twice as attractive as Sales #2 and #3 and as such any adjustment utilized in this regard should reflect this ratio of adjustment.

The intensity of the adjustments applied to the three sales for location is based on a number of factors including some common variations derived from mainland properties as well as rental differentials between highly traveled areas and those less accessible. Note that mainland values for similar use property would fall in the range of \$6.00/SF to \$8.00/SF so with the island influence the resulting value estimates support the applied location adjustments.

Physical Characteristics

Size

All other things being equal smaller parcels tend to sell for more per square foot than larger parcels and as such adjustments are required for all three sales. The intensity of the adjustments utilized is based on the results of a study made by the appraiser suggest that for a 100% increase in land size between two otherwise similar properties the unit sale price of the smaller parcel is typically about 20% greater and vice versa. Adjustments are therefore made accordingly.

Shape and Topography

The subject land as proposed will be elliptical in shape and with a slightly irregular topography. All three comparable sales are superior in this regard especially Sale #3. Therefore, a negative adjustment of 5% is made to Sales #1 and #2 and a more intense negative adjustment of 10% is made to Sale #3.

Utilities

The subject property has access to municipal sewer and water. All three sales are similar in this regard therefore no adjustments are made for utilities.

Zoning/Land Use

The subject property is zoned Service Commercial. All three comparable sales are zoned commercial. Therefore, no adjustments are made for zoning and/or land use.

Adjustment Summary

	SUBJECT	COMP #1	COMP #2	COMP #3
LOCATION	Ocean	Water St.	102 Ocean	217 Ocean
SALE PRICE/SF		\$18.05	\$23.95	\$25.30
RIGHTS CONVEYED	F.S.	FS	FS	FS
(ADJ)		0%	0%	0%
FINANCING		Cash	Cash	Cash
(ADJ.)		0%	0%	0%
CONDITIONS OF SALE		Normal	Distressed	Normal
(ADJ.)		0%	10%	0%
MARKET CONDITIONS	Mar-06	Sep-04	Aug-04	Sep-05
(ADJ.)		5%	5%	0%
MKT. ADJ. SALE PRICE		\$18.95	\$27.66	\$25.30
LOCATION	Fair	Good	Average	Average
		-50%	-30%	-30%
PHYSICAL CHARACT.				
SIZE, SF	30,000	44,327	5,227	21,344
(ADJ)		10%	-30%	-10%
SHAPE/TOPOGRAPHY	Irreg/irreg	Irreg/level	Irreg/level	Rect/level
(ADJ)		-5%	-5%	-10%
UTILITIES	All	All	All	All
(ADJ.)		0%	0%	0%
ZONING/LAND USE	SC	OHC	SC	SC
(ADJ.)		0%	0%	0%
TOTAL ADJUSTMENTS		-45%	-65%	-50%
INDICATED PRICE/ACRE		\$10.42	\$9.68	\$12.65

Conclusion on Land Valuation

Based upon the aforementioned methodology, an adjusted unit value range of \$9.68/SF to \$12.65/SF is obtained from the comparable sales. In the final analysis greatest consideration is given to Comparable Sale #1 which is considered most similar to the subject as indicated by the least net adjustment. Therefore, a unit value of \$10.42/SF is considered appropriate for the newly created lot.

Calculations are as follow:

$$30,000\pm \text{ SF of land @ } \$10.42/\text{SF} = \$312,600, \text{ round to } \$310,000$$

Cost Approach Valuation, New Lot

Direct Costs

The service garage that improves the property is considered an average quality, class "D" garage. Given the island location of the property the final cost per square foot is \$90.00. A contingency of 2.5% of the total direct cost is added for miscellaneous items and possible delays in construction.

Indirect Costs

Indirect costs include six months of property taxes on the land, legal and consultant work which may include the surveyor and appraiser, the construction loan fee which is estimated at 1.5% of the total hard costs and developer's insurance which is basically an umbrella policy over and above the builder's risk policy.

The insurance expense is based on a cost of approximately \$3.00 for every \$1,000 invested and pro-rated over a six month development period.

Accrued Depreciation

Accrued depreciation is defined as the loss in value from all causes including physical, functional and external. The most recognized form of depreciation is curable physical or deferred maintenance because it is easily observed. In the case of the subject property there is deferred maintenance to include the necessary replacement of several overhead doors and some wood trim. The estimated cost of these repairs is \$5,000.

Upon completion of the repairs to the cure the deferred maintenance the effective age of the property will be 14± years and the condition fair to average. The actual age of the property is ±35 years. Based on the age life method the indicated depreciation of the subject improvement is ±28%.

Cost Approach

Direct Costs:																																								
House		Out		\$0																																				
Service		2,358 SF @																																						
Garage		\$90.00/SF		\$212,220																																				
Site Improvements				\$5,000																																				
Contingency		2.5% of hard costs		<u>\$5,431</u>																																				
Total Direct Costs				\$222,651																																				
Indirect Costs:																																								
Construction Loan Fee		1.5% of total hard costs		\$3,258																																				
Legal/Consultation		Flat estimate		\$2,500																																				
Interim taxes		three months on land		\$3,000																																				
Developer's Insurance		\$3.00 for every \$1,000 in hard costs		<u>\$652</u>																																				
Total Indirect Costs				\$9,410																																				
Entrepreneurial Profit				\$0																																				
Total Replacement Cost New				\$232,060																																				
Depreciation:																																								
Curable physical				\$5,000 (\$5,000)																																				
Depreciable basis		\$227,060																																						
Incurable physical, short-lived:																																								
<table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Component</th> <th style="text-align: right;">Cost</th> <th style="text-align: center;">Eft. Age</th> <th style="text-align: center;">Age Life</th> <th style="text-align: center;">% Depre.</th> <th style="text-align: right;">Amount</th> </tr> </thead> <tbody> <tr> <td>Roof</td> <td style="text-align: right;">\$0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">20</td> <td style="text-align: center;">0%</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Parking Lot</td> <td style="text-align: right;">\$0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">15</td> <td style="text-align: center;">0%</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>HVAC</td> <td style="text-align: right;">\$0</td> <td style="text-align: center;">0</td> <td style="text-align: center;">15</td> <td style="text-align: center;">0%</td> <td style="text-align: right;">\$0</td> </tr> <tr> <td>Interior finish</td> <td style="text-align: right;"><u>\$0</u></td> <td style="text-align: center;">0</td> <td style="text-align: center;">10</td> <td style="text-align: center;">0%</td> <td style="text-align: right;"><u>\$0</u></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$0</td> <td></td> <td></td> <td></td> <td style="text-align: right;">\$0</td> </tr> </tbody> </table>					Component	Cost	Eft. Age	Age Life	% Depre.	Amount	Roof	\$0	0	20	0%	\$0	Parking Lot	\$0	0	15	0%	\$0	HVAC	\$0	0	15	0%	\$0	Interior finish	<u>\$0</u>	0	10	0%	<u>\$0</u>	Total	\$0				\$0
Component	Cost	Eft. Age	Age Life	% Depre.	Amount																																			
Roof	\$0	0	20	0%	\$0																																			
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HVAC	\$0	0	15	0%	\$0																																			
Interior finish	<u>\$0</u>	0	10	0%	<u>\$0</u>																																			
Total	\$0				\$0																																			
Total incurable physical, short-lived				\$0																																				
Incurable physical, long-lived:																																								
		Depreciable basis	\$227,060																																					
		Effective age, 14 years, life of 50 years:	28%	(\$63,576)																																				
Incurable functional				\$0																																				
External				\$0																																				
Land Value				\$310,000																																				
Indicated Value via Cost Approach				\$473,484																																				
			Round to	\$475,000																																				

Final Value Estimate, New Lot

The indicated value of the service garage with storage and approximately 30,000 SF of supporting land is \$475,000. Only one approach to value was utilized and the resulting unit estimate of \$201.44/SF appears high in comparison to mainland values. However residential property values are two and three times the value of mainland residential sales and nearly all of the differential is attributed to the island location of the subject. Therefore, the indicated value is reasonable and market supported.

Therefore, the indicated value of the proposed lot of 30,000 SF with the service and storage garage is:

Four Hundred Seventy - Five Thousand (\$475,000) – Dollars

Contingent & Limiting Conditions

1. This is a Summary Appraisal report which is intended to comply with the reporting requirements set forth under Standard Rule 2-2(b) of the Uniform Standards of Professional Appraisal Practice for a Summary Appraisal report. As such, it includes only a summary discussion of the data, reasoning and analysis that were used in the appraisal process to develop the final opinion of value. Supporting documentation concerning the data, reasoning and analysis is contained in the appraiser's file. All of the data contained in the file of Peter M. Scotti & Associates, Inc. is made part of this report by reference. The information contained in this report is specific to the needs of the client and for the intended use stated in this report. The appraiser is not responsible for unauthorized use of this report. Disclosure of the contents of this report is governed by the By-laws and Regulations of the Appraisal Institute.
2. Information furnished by others (for use within this report) is assumed to be true, factually correct and reliable. No effort has been made to verify such information and no responsibility for its accuracy is assumed by the appraiser. Should there be any material error in the assumptions in this report, the results of this report are subject to revision and/or review.
3. All mortgages, liens and encumbrances have been disregarded unless so specified within this report. The property is appraised as though under responsible ownership and competent management.
4. It is assumed that all required licenses, consents or other legislative or administrative authority from any local, state or national governmental or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.
5. No responsibility is assumed for matters legal in nature, nor is any opinion rendered as to title, which is assumed to be good and marketable.
6. Subsurface rights (minerals and oil) were not considered. We assume no hidden or unapparent conditions of the property, subsoil or structures that render it more or less valuable. We assume no responsibility for such conditions or for any studies required to discover them.
7. It is assumed that there is full compliance with all applicable federal, state and local environmental regulations and laws unless non-compliance was specifically stated, defined and considered within the report. Unless otherwise stated it is assumed that no information was provided to or obtained by the appraiser confirming, disproving or leading us to suspect the presence of environmentally hazardous substances. The appraiser is not qualified to detect such substances. We urge the client to retain experts in this field.
8. On January 26, 1992, The Americans with Disabilities Act (ADA) became effective. The Act requires compliance based on each property owner's financial ability with regard to the cost to cure the property's potential physical characteristics. Given that compliance is dependent upon the specific financial ability of each owner as determined by the U.S. Justice Department, it is not possible for the appraiser to comment on either current or potential adherence to the act or its impact on value. Consequently, a specific survey or analysis of the property to determine whether the physical aspects of the improvements meet the ADA accessibility guidelines has not been undertaken.

9. Unless specifically stated to the contrary the appraiser made no in-depth analysis of the ad/valorem tax burden for the subject property. Investigation into the zoning status of the property was limited to a determination of the conformity of the current use of the property.
10. The legal description used in this report is assumed to be correct. It is assumed that the utilization of the land is within the boundaries/property lines of the property described and that there are no encroachments or trespass unless otherwise noted. No survey has been made of the property specifically for this report. Sketches are included to assist the reader and no responsibility is assumed for accuracy.
11. Unless arrangements have been previously made, no appearances in court or requirements to give testimony in respect to the subject property will be assumed by the appraiser.
12. Neither all nor any part of the contents of this report, or copy thereof, shall be used for any purpose by anyone but the client without the previous written consent of the appraiser and/or client; nor shall it be conveyed by anyone but the client to the public through advertising, public relations, news, sales or other media without the written consent and the approval by the author(s), particularly as to valuation conclusions, the identity of the appraiser or firm.
13. The signatories of this appraisal are fully qualified commercial appraisers who have been involved in the valuation of several properties similar to the subject in the recent past. The education and experience of the appraisers satisfies the competency provisions of the Uniform Standards of Professional Appraisal Practice. The qualifications of the appraisers are attached in the Addenda.
14. This appraisal and report does not consider or address the impact upon the property that may result from recently (post 2001) enacted life saving legislation, specifically amendments to state and local fire and building codes. Unless specified it is assumed that the property meets all fire and building codes as of the effective date.

Competency Rule

Peter M. Scotti, MAI and Michael Kern, MAI are certified Rhode Island appraisers whose professional experience, education and knowledge qualify them to competently complete this assignment.

Market Value Defined

Market Value is: The most probable price in terms of money which a property should bring in an open and competitive market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- 1 Buyer and seller are typically motivated;
- 2 Both parties are well informed or well advised, and acting in what they consider their own best interest;
- 3 A reasonable time is allowed for exposure in the open market;
- 4 Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 5 The price represents the normal consideration for the property, sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.²

Appraised Interest, Defined

Fee Simple, defined is: an absolute fee; a fee without limitations to any particular class of heirs or restrictions, but subject to the limitations of eminent domain, escheat, police power and taxation. An inheritable estate.³

Leasehold Estate – A non-freehold estate, the tenant's or lessee's interest. An estate in property created by a lease.

² Rules and Regulations, Federal Register, Vol. 55, No. 165, Page 34696.
Real Estate Appraisal Terminology (Boyce), Page 102 and 149, respectively.

**QUALIFICATIONS OF MICHAEL KERN, MAI
SENIOR APPRAISER/BROKER
PETER M. SCOTTI & ASSOCIATES, INC.
PROVIDENCE, RHODE ISLAND 02903**

GENERAL ACTIVITIES

Associate of Peter M. Scotti for the past sixteen years. Daily activities consists mostly of appraisal and brokerage of commercial, industry and investment property. Also perform brokerage and appraisal of hospitality, recreation and specific use property. Geographic area of expertise include all of Rhode Island and portions of Southeastern Massachusetts.

EDUCATION

Formal:

Graduate, University of Rhode Island, 1981: BA, Economics.

Specific:

Successfully completed the following courses in the pursuit of membership within the Appraisal Institute;

S.R.E.A.-	Course 101, Introduction to Appraising Real Property Course 102, Applied Property Valuation Course 201, Principles of Income Property Appraising Course 202, Applied Income Property Valuation
A.I. -	Course 500, Narrative Report Writing Course 410, Standards of Professional Practice, Part A Course 420, Standards of Professional Practice, Part B

Recent Seminars:

A.I. -	The Expert Values the Business 9/00
A.I. -	Appraising for Federal Agencies 2/01
A.I. -	Appraising from Blueprints and Specifications 3/00
A.I. -	Appraisal of Local Retail Properties 5/99
A.I. -	Appraising and The Internet 4/99
A.I. -	Office Building Valuation 1/99
A.I. -	Uniform Standards of Professional Appraisal Practice (USPAP) 4/98
A.I. -	Analysis of Operating Expenses 2/98

MEMBERSHIP:

Appraisal Institute, Member #11007
Continuing Education Completed
Vice President, RI Chapter of Appraisal Institute, 1999, 2000, 2001
President, RI Chapter of Appraisal Institute, 2002
Board of Directors, RI Chapter of Appraisal Institute, 2003

LICENSURE

Certified General Appraiser, State of Rhode Island: #A00213G
Certified General Appraiser, Commonwealth of Massachusetts: #2829 CG
Broker, State of Rhode Island # B14926

APPRAISALS FOR:Financial Institutions:

- Bank of America, Providence, R.I. and Boston, MA
- First Federal Savings Bank, Fall River, MA
- Citizens Bank, Providence, RI
- South Shore Bank, Boston MA
- First National Bank of New England, Hartford, CT
- Bank Rhode Island, Providence, RI
- Sovereign Bank, Providence, RI
- Webster Bank, Hartford, CT
- Struever Bros, Eccles & Rouse
- Toyota North America

Regulatory Agencies:

- Federal Deposit Insurance Corporation, Franklin, MA
- R.I. Depositors Economic Protection Corporation, Warwick, RI

Governments\ Municipalities:

- City of Providence, Rhode Island, Department of Planning
- State of Rhode Island, Department of Administration
- United States Postal Service
- United States Navy
- United States Marshals Office, Providence, RI
- Rhode Island Department of Transportation (RIDOT)

Religious\Civic:

- Catholic Diocese of Providence, RI
- Salvation Army, Providence, RI
- University of Rhode Island, Kingston, RI

Attorney(s)\Private:

- Boyajian, Harrington, & Richardson
- Grande, Law Offices
- Hinckley, Allen and Snyder
- Adler, Pollock & Sheehan

QUALIFICATIONS OF PETER M. SCOTTI, MAI
RHODE ISLAND CERTIFICATION NO. A00110G
MASSACHUSETTS CERTIFICATION NO. 2805
REALTOR AND APPRAISAL SPECIALIST
PETER M. SCOTTI & ASSOCIATES

Engaged in Real Estate business for 30 years.

W. Henry Coleman, Inc., Office Manager, 1974-1980
 Providence Land Co., Treasurer/Principal, 1980-1983
 Henry W. Cooke Co., Chief Appraiser/Principal, 1983-1988
 Peter M. Scotti & Associates, President, 1988-Present

Licensed Real Estate Broker State of Rhode Island, License #B14864
 Licensed Real Estate Appraiser, State of Rhode Island, License #A00110G
 Licensed Real Estate Appraiser, Commonwealth of Massachusetts, License #2805
 Graduate of Washington and Jefferson College, Bachelor of Arts Degree, Political Science

Member:

Appraisal Institute Member, MAI
 Greater Providence Board of Realtors/Board of Directors, 1987
 Vice President, R.I.A.R./CID, 1989
 Chairman Rhode Island Appraisal Board 2003
 National Association of Realtors
 Greater Providence Chamber of Commerce
 Board of Directors RI Chapter Appraisal Institute
 President RI Chapter Appraisal Institute

Successfully completed the following:

GRI - Course #1 & #2
 SREA - Course #101 - Introduction to Appraising Real Property- Challenged 1986
 Course #102 - Applied Property Valuation - Challenged 1986
 American Institute - Course #201 - Principles of Income Property Appraising - 1989
 Course #202 - Applied Income Property Valuation - 1989
 Course #413 - Professional Practice Seminar - 10/89
 Course #1410 - Standards of Professional Practice Part A - 3/93
 Course #1410 - Standards of Professional Practice Part B - 12/95
 Appraisal Institute - USPA Update - 1/97
 Course #430 - USPAP - 4/98
 USPAP -4 /03
 Course #600 - Income Valuation Mixed Use - 3/01

Seminars - Appraising Apartments Seminar
 FNMA/Multi-Family, Condo Seminar & Workshop - 7/90
 Demonstration Report Seminar - 11/91
 Comprehensive Review Seminar - 2/93
 Appraisal of Complex Residential Properties - 3/93
 Feasibility Analysis - 5/93
 Valuation of Leased Fee Interest - 10/93
 Appraising Troubled Properties Seminar - 6/94
 Highest & Best Use Seminar

Market Extractions Income Properties - 4/95
 Appraisal Practices for Litigation - 9/95
 Mock Trial Seminar - 9/95
 Economic Factors in Real Estate Appraisal - 4/96
 Comprehensive Appraisal Workshop - 9/96
 Appraising 1-4 Family Income Properties - 11/96
 Eminent Domain & Condemnation - 10/97
 Expert Witness - 2/97
 High-Tech Appraisal Office - 2/97
 Appraising High Value & Historic Homes - 3/97
 Economic Factors in RE Appraisal - 3/97
 Data Collection, Analysis & Rep. - 10/97
 Loss Prevention - 11/97
 Condemnation Case Studies - 2/98
 Zoning Ordinances - 3/98
 Issues - Appraising Lodging Properties - 9/99
 Local Economic - 5/01
 Real Estate Disclosure - 11/01
 University of Rhode Island, Extension Division
 "Introduction to Real Estate Appraisal"
 "Fundamentals of Real Estate"
 "Income Property Appraisal"
 Guest Lecturer, Johnson & Wales College,
 "Fundamentals of Real Estate"

Instructor -

Qualified as an Expert Witness in the following Cities and/or
 Towns, Zoning Board of Review:

Barrington, Bristol, Burrillville, Central Falls, Coventry, Cranston, Cumberland, East Greenwich, East
 Providence, Exeter, Foster, Gloucester, Jamestown, Johnston, Lincoln, Middletown, Narragansett, Newport, New
 Shoreham, North Kingstown, North Providence, Pawtucket, Portsmouth, Providence, Richmond, Smithfield,
 South Kingstown, Tiverton, Warren, Warwick, West Warwick, Seekonk, MA.

Town of Barrington, Tax Review Board
 Town of Bristol, Tax Review Board
 City of Cranston, Tax Review Board
 Town of Cumberland, Town Council
 Town of Johnston, Tax Review Board
 Town of Lincoln, Town Council
 Town of Narragansett, Tax Review Board
 Town of North Kingstown, Tax Review Board
 Town of North Kingstown, Town Council
 Town of North Providence, Town Council
 City of Pawtucket, Tax Review Board
 City of Providence, Tax Review Board
 Town of South Kingstown, Tax Review Board
 City of Warwick, Tax Review Board
 Town of West Greenwich, Tax Review Board
 Town of West Warwick, Tax Review Board

Qualified as a Real Estate Expert to Testify:

Family Court, District Court, Superior Court - State of Rhode Island; United States Bankruptcy Court; U.S.
 District Court

Appraisals for:

Fleet National Bank
Citizens Trust Company
First Bank & Trust Company
Bank Rhode Island
Home Loan & Investment Co.
First International Bank of New England
First Bank & Trust Company
Compass Bank, Massachusetts
Westminster Development Bank
Union Bank
Greenwood Credit Union
Coastway Credit Union
Merrill-Lynch Relocation
EXXON
Texaco Corporation
Merritt Oil Co.
Blue Cross/Blue Shield
Metropolitan Insurance Corporation
Puritan Life Insurance Company
City of Providence
City of Woonsocket
City of Pawtucket
Town of North Kingston
Town of Middletown
Town of Richmond
Town of Somerset
Town of Portsmouth
Town of Lincoln
Coastal Resource Management Council/State of Rhode Island
Department of Environmental Management/State of Rhode Island
Department of Transportation/State of Rhode Island
Department of Administration / State of Rhode Island
State of Rhode Island Port Authority
United States Department of Justice
United States GSA/U.S. Small Business Administration
Rhode Island Housing Mortgage Finance Corporation
Bristol County Water Authority
Providence Water Supply Board
Edwards & Angell
Winograd, Shine & Zacks
Blais, Cunningham, Crowe, Chester
Lynch & Greenfield
Carroll, Kelly & Murphy
Boyajian, Harrington & Richardson
Hinckley, Allen, Snyder & Comen
Adler Pollack & Sheehan
Vetter & White

EXHIBIT A

That certain tract or parcel of land, in the Town of New Shoreham, County of Washington and State of Rhode Island and Providence Plantations, known as New Shoreham Assessors Plat 17 Lot 38 and a portion of Lot 37. Together with and subject to easements and restrictions of record and including all buildings and appurtenances thereon. Said premises are further known as Parcel IV and a portion of Parcel II in Volume 239 Page 085 of the Land Evidence Records of the Town of New Shoreham.

Said premises to be further shown on a Plan prepared by Geiser and Associates, May 2006 with Lot 38 on said Plan being the same as said Assessors Plat 17 Lot 38 and Lot 37B being that portion of said Lot 37, containing 30,000 square feet more or less, being bounded as follows:

Beginning at the northeast corner of said Lot 38, bounded EASTERLY by the remaining property of Block Island Power Company (Lot 37A), with the line running northerly to a point which is twenty-five feet easterly of the existing garage to the north of Lot 38, presently occupied by Old Town Auto and Ballard's Oil Company, and continuing to run northerly parallel to and easterly twenty-five feet to a point which is an additional twenty-five feet easterly of the northeasterly of the said garage building and then continuing an additional twenty-five feet northerly; thence turning a corner,

bounded NORTHERLY by the remaining property of Block Island Power Company (Lot 37A) and running westerly twenty-five feet northerly of said garage building and parallel with the northerly side of said garage to the mean high water mark of New Meadow Hill Swamp, also being Assessors Plat 17 Lot 38 and also being property of Block Island Power Company, and thence by the high water mark of said swamp, and also the line of said Lot 35, in a generally westerly and then southerly direction to a the southwesterly corner of Lot 38;

thence turning northerly, bounded EASTERLY by said Lot 38 to the northwesterly corner of Lot 38; thence turning a corner,

bounded SOUTHERLY by said Lot 38, and running easterly to the point and place of beginning.

Together with an easement and right of way for access and utilities, twenty-five feet wide, running parallel with the easterly line of Lot 38 and then continuing northerly, running easterly of Lot 37B and thence following the path of the existing traveled way and utility lines until said traveled way splits. The easement then runs in two directions, generally northerly to Ocean Avenue and also turning westerly and running Beach Street. The grantee herein shall jointly use said access roads and utility lines with Block Island Power Company, its representatives and assigns. Said roadways and utility lines shall continue to be maintained by Block Island Power Company, but the grantee herein reserved the right to maintain said roadways and utility lines in the event the owner of Lot 37A does not so maintain them.

REAL ESTATE PURCHASE AND SALES AGREEMENT

THIS AGREEMENT is entered into between, BLOCK ISLAND POWER COMPANY, P.O.Box 518, Ocean Avenue, Block Island, Rhode Island, 02807 (after this called "Seller") and CATIC EXCHANGE, acting for MARJORIE G. McGINNES ESTATE, P.O.Box 403, Block Island, RI 02807 (after this called "Buyer"), on the following terms:

1. CONVEYANCE BY SELLER

Seller agrees to sell and convey to Buyer, under the terms and conditions set forth herein, certain real estate situated in the Town of New Shoreham, County of Washington, State of Rhode Island and Providence Plantations. The property is generally known as Assessors Plat 17 Lot 38 and a portion of Lot 37, Block Island, RI 02807, It is further described in Exhibits A-1, A2 and A-3 as Lots 37B and 38. Together with and subject to all rights of way, easements, or other rights of property, appurtenant to said real estate ("Premises").

2. STATE OF TITLE.

Conveyance shall be made subject to (i) plat restrictions of record, (ii) applicable zoning and other municipal regulations, and (iii) taxes and municipal utilities assessed upon the Premises as of the December 31 next preceding the Closing Date. Taxes and assessments shall be apportioned in the manner set forth herein.

3. CLOSING DATE.

Unless some other time and place shall be mutually agreed upon in writing, the conveyance of title and payment of the unpaid portion of the purchase price, pursuant to this Agreement ("Closing"), shall take place on or before 1:00 P.M. on May 12, 2006 (the date of Closing being herein referred to as "Closing Date") at Taubman Law Offices, Ltd., Addison House, High Street, Block Island, Rhode Island 02807. Closing may be by mail or courier with appropriate powers of attorney.

4. PURCHASE PRICE.

Buyer agrees to purchase the Property and to pay the Seller the sum of EIGHT HUNDRED TWENTY FIVE THOUSAND AND 00/100 (\$825,000) DOLLARS, as possibly adjusted as set forth herein, to be paid as follows:

- (a) ONE THOUSAND dollars (\$1,000) shall be paid as a deposit to the Sellers, upon signing of this agreement and Buyer hereby assigns an additional \$40,250 of the funds which are in the hands of CATIC Exchange for the like-kind exchange; the said payments, set forth in this subparagraph, being referred to as the "Deposit". Said Deposit shall be held in the Schacht & McElroy client funds account and CATIC Exchange; and
- (b) The balance of the purchase price shall be paid upon closing and recording of the

Deed, by attorney's check, cash, or by certified or bank check, or other form agreed by Seller. Adjustments shall be as described further herein.

5. DEED

Conveyance shall be made by a good and sufficient Warranty Deed, conveying a good, clear and marketable title to the Premises, including rights of way and easements of record, free from all encumbrances except as set forth in Paragraphs 2, 6 and 11 herein. The portion of Lot 37 (37B) will be conveyed by a ninety-nine year lease, pending approval of a subdivision of the property. Upon approval of a subdivision the lease shall be converted by a warranty deed into a fee title.

6. POSSESSION, LEASES AND PERSONAL PROPERTY.

Full possession of the Premises shall be delivered to Buyer, subject to existing leases. All personal property and the rights on any leases, on the premises as of the date of closing, go with the sale. The Buyer shall accept the leases on the premises, and the rents shall be prorated as of the date of closing. Seller may seek an attornment agreement from the lessees, but Buyer agrees to accept the premises "as is" and Buyer will indemnify and hold Seller harmless from any claims by lessees thereon for any claims after the date of closing. This provision shall survive the closing.

7. DISCLOSURE.

Buyer recognizes receipt of the required Rhode Island real estate disclosures regarding this transaction. Buyer has elected not to do an environmental assessment, but has reviewed previous environmental assessments of the property, which the Administrator of the Estate has reviewed. This provision shall survive closing.

8. INSPECTION OF PREMISES; IMPROVEMENTS

The property is being sold in an "as is" condition. No warranty, except as to title, is made. Buyer reserves the right to make any inspections. Buyer shall pay for these inspections. Buyer accepts responsibility for any environmental violations, which are found on the premises after the date of closing except for environmental harm which spreads from the retained lands of the Seller. This portion shall survive closing.

9. INSURANCE.

The Seller agrees to keep the premises insured, at least for the current amounts of insurance pending the Closing. The responsibility to insure the Premises shall shift to the Buyer at Closing. In the event of a loss, the Seller may use the proceeds of insurance for repair, or at Seller's option, assign the proceeds to the Buyer.

10. APPLICATION OF PURCHASE PRICE.

Seller shall have the right, at the time of the delivery of the Deed, to use and apply the Purchase Price to the payment, discharge or release of any encumbrance on, or outstanding interest in, the Premises; provided that provision shall be made for recording the discharges or funds sufficient to pay for such discharge or release shall be held in escrow.

11. CONTINGENCIES; TAXES AND ASSESSMENTS; ADJUSTMENTS

There is no finance contingency in this sale. However, Seller shall cooperate with buyers as to any reasonable documentation required on an IRC B 1031 exchange, including amendments to this Purchase and Sale Agreement by the Exchange Agent, CATIC Exchange.

The only contingency, prior to closing, is title. If approvals and any necessary releases from the Rhode Island Division of Public Utilities (DPUC) Washington Trust Company(WTC), and the United States Rural Utilities Service (RUS), are not received prior to closing, then the proceeds shall be deposited in bank account by Schacht & McElroy, and not be rendered to the Seller until the approvals and any necessary releases are received. Buyer shall agree to provision of funds to a releasor, in order to obtain a release. The transaction shall be considered a completed closing on transfer of funds to the client funds account of Schacht & McElroy and recording of the deed. Schacht & McElroy shall payout all fees stated on the closing statement (HUD-1) on the date of closing, including any fees due for title insurance, Block Island Land Trust fees, recording fees and outstanding attorneys fees. Payment may be made by wire transfer or attorneys check, but must be provided by May 12, 2006 in order that recording may occur. The funds held by Schacht & McElroy shall, if possible, be held at interest and the interest shall flow to Seller if all conditions are satisfied, or the Buyer if Seller defaults on this agreement.

Seller shall bear the cost of obtaining the DPUC, WTC and RUS approvals. The cost of obtaining Planning Board approval shall be borne by Buyer. The parties shall equally share the cost of appraisals, engineering and surveying to prepare for the closing and immediate post closing. Ten-thousand dollars (\$10,000), each, of the Buyer's and Seller's funds shall be retained by Schacht & McElroy, for these purposes.

Real Estate taxes, municipal utility charges, and rents, if any, assessed or due upon the Premises shall be apportioned at the Closing on the basis of the calendar year of 2006, in such manner that Seller shall pay or, at Seller's election, allow to Buyer as a credit against the Purchase Price that portion thereof which corresponds to the portion of said calendar year which has expired on the Closing Date, and Buyer shall pay or assume the balance.

Adjustments may be made in the amount of land subject to the 99-year lease on Lot 37 (Lot 37B) and for any closing costs and other adjustments so that the amount of consideration equals or is less than the amount of funds held by CATIC Exchange. The price shall be determined by the independent appraisal, as amended, which has been done

for the seller. Unless otherwise agreed, the allocation shall be \$380,000 for Lot 38 and its appurtenances, and the balance, agreed by the parties, for Lot 37B, the closing costs, attorneys fees, and any other allocations. A further allocation shall be made for the cost of a sewer line (\$9,800), which has been paid by the current subtenant of Lot 38 and the replacement of two overhead doors (\$____) on the garage on Lot 37B. The intention is to both comply with the Like-kind exchange statute and regulations and to pay the appraised value of the property conveyed, as both parties are in a fiduciary capacity.

After closing, Buyer and Seller shall promptly, and in good faith, jointly proceed to seek approval from the New Shoreham Planning Board for the subdivision to be able to convey fee title to the land which will be a 99 year lease. Both parties agree to change the proposed boundaries if the Planning Board requests it, as long as buyer has the use of the existing house and garage, and seller retains land of the same value (The parties agree with the appraisers' determination that this is \$11 per square foot as to the initial 25,000 square feet and such discounted value as the appraiser shall determine as to the remaining 5,000 square feet more or less.)

This document and further documentation of the lease shall not be recorded by either party, unless the arbitrator, as further provided hereon, may order such recording.

The provisions of this section shall survive closing.

12. LAND TRUST TAX.

Buyer acknowledges that there is a three percent (3%) tax, on the full purchase price of real property, payable to the Block Island Land Trust, and it is agreed that seller is responsible for payment of this tax out of the proceeds which will be provided from CATIC Exchange in addition to the purchase price. The parties agree that this tax must be paid as a condition of recording the documents of transfer.

13. SELLER'S TITLE. DOCUMENTATION.

If Seller shall for any reason be unable to give title and make conveyance as required by this Agreement, all payments made by Buyer shall, at Buyer's option, be refunded, together and thereupon all obligations of either party hereto shall be terminated; provided, however, that in the event the reason that Seller is unable to give title and make conveyance as required by this Agreement is susceptible to being cured, Seller shall take such actions as are reasonably necessary to cure such title defect. Buyer and Seller hereby agree to any reasonable extension of the Closing to enable Seller to effect such cure, but no later than May 12, 2006, time being of the essence for the Buyer. Acceptance of a Deed, 99 year lease and possession by a Buyer shall in any event constitute conclusive evidence of full performance and discharge by Seller of all Seller's obligations hereunder, subject to defeasance in the event the releases, required herein to clear title, are not received after closing.

14. SELLER'S DEFAULT.

Upon default by Seller, Buyer shall have the right to the return of the Deposit, or the Buyer may have specific performance by arbitration, as otherwise provided for herein.

15. BUYER'S DEFAULT.

Upon default by Buyer, the Deposit and any interest accrued thereon shall be applied as liquidated damages to Seller.

16. BROKERS.

Seller and Buyer hereby represent and warrant, such representation and warranties to survive Closing and delivery of Deed in this transaction that they have dealt with no real estate brokers regarding this sale.

17. COMPLIANCE WITH ZONING LAWS.

Buyer acknowledges that buyers of real estate in Rhode Island are legally obligated to comply with all local real estate ordinances including, but not limited to, ordinances on the number of unrelated persons who may legally reside in a dwelling, as well as ordinances on the number of dwelling units permitted under the local zoning ordinance. The parties acknowledge that the buildings on Lots 38 and 37B do not have certificates of occupancy and Seller makes no representation that these buildings are residences and Buyer accepts title with this condition known.

18. WETLANDS DISCLOSURE.

For the purpose of compliance with the Rhode Island General Law Section 2-1-26 relating to disclosure of the existence of wetlands, the Seller represents that all or part of the Premises may have been previously determined by the Rhode Island Department of Environmental Management to be a coastal wetland, fresh water wetland, bay, pond, marsh, riverbank, or swamp, as these terms are defined in Chapter 1 of Title 2 of the Rhode Island General Laws, and may also be subject to Coastal Resources Management Council jurisdiction on such wetlands.

19. RADON DISCLOSURE.

Radon has been determined to exist in the State of Rhode Island. Testing for the presence of radon prior to purchase is advisable. No representation has been made by either Seller or its agents as to presence or absence of radon gas.

20. LEAD PAINT DISCLOSURE.

Every Buyer of real estate built prior to 1978 is hereby notified that the properties may have lead exposures that may place young children at risk of developing lead poisoning. Lead poisoning in young children may produce permanent neurological damage including learning disabilities, reduced IQ, behavioral problems, and impaired memory. The Seller of such property is required to provide the Buyer with a copy of any

lead inspection report in the Seller's possession and notify the Buyer of any known lead poisoning problem. Environmental lead inspection is recommended prior to purchase. Buyer acknowledges receipt of any documents required by law as to lead paint.

21. DEPOSIT AND ESCROW.

If proper notice by the date of closing has been given of non-satisfaction of the contingencies, and satisfaction cannot or will not be provided by Seller, then the escrow agent shall refund the deposit to the Buyer. If, by the date of closing, Buyer has not given Seller's attorney notice that such notice has not been satisfied and resolved, then the parties shall proceed to closing. If the Buyer is in breach, the escrow shall be turned over to the Seller.

22. ENTIRE AGREEMENT AND DISCLOSURES

This Agreement merges any and all understandings and Agreements between Buyer and Seller with respect to the Premises and shall bind and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, and assigns. The parties recognize to each other that all disclosures required by law have been made. This includes disclosure that the Seller is a United States and Rhode Island resident and that there is a requirement for withholding of capital gains for the Rhode Island Division of Taxation, if an individual Seller is not a resident of Rhode Island at closing. The parties agree to execute any documents required by tax authorities or a title insurance company at closing.

23. APPLICATION OF RHODE ISLAND LAW.

This agreement shall be deemed to have been executed in the State of Rhode Island and Providence Plantations and shall in all respects be governed and construed in accordance with the laws of said State.

24. NOTICES; ATTORNEYS.

Notices hereunder shall be made to the parties at the addresses stated above and to the following attorneys:

Michael McElroy, Esq., Schacht & McElroy, P. O. Box 6721, Providence, Rhode Island 02940-6721, (Seller)

and Elliot Taubman, Esq., Taubman Law Offices, Ltd., P.O.Box 277, Addison House, High Street, Block Island, RI 02807, (Buyer)

The attorneys shall share the responsibility to obtain the releases and approvals provided for herein, with the responsibility for physical actions required on the mainland being primarily done by McElroy, and the actions required from or on Block Island being done by Taubman. Their fees shall be paid out of the escrow upon presentation of a statement with a copy to the clients. Any disagreement as to attorneys fees shall be subject to

arbitration on the same terms as in the following section.


25. ARBITRATION PROVISION.

In the event that a dispute shall arise, pursuant to this Agreement as to the disposition of the deposit, or any other matter, which is not otherwise resolved, such dispute shall be submitted to binding arbitration under the aegis of the New Shoreham Probate Court. If the Court declines to arbitrate a matter, then the arbitration shall be done under the auspices of the American Arbitration Association (AAA). Such Probate Court arbitration shall take place on Block Island, Rhode Island unless the arbitrator shall direct otherwise, or the parties agree to the contrary. Judgment may be entered upon the decision of the arbitrator in any court of competent jurisdiction. The intention of this paragraph is to provide immediate adjudication of any dispute.

WITNESS OUR HANDS THIS th DAY OF MAY 2006.

SELLER

BUYER


by Albert R. Casazza, President
Block Island Power Company



by Clifford R. McGinnes, Sr.
Administrator, Marjorie G.
McGinnes Estate

EXHIBIT A-1
(Lot 38)

That certain tract or parcel of land, in the Town of New Shoreham, County of Washington and State of Rhode Island and Providence Plantations, being known as New Shoreham Assessors Plat 17 Lot 38. Together with and subject to easements and restrictions of record, including all buildings and appurtenances thereon. Said premises are further known as Parcel IV in Volume 239 Page 88 of the Land Evidence Records of the Town of New Shoreham.

Said premises to be further shown on a Plan prepared by Geisser Engineering Corp., May 2006, and an approximate plan attached hereto as Exhibit A-2, with Lot 38 on said Plan being the same as said Assessors Plat 17 Lot 38, containing 15,200 square feet more or less, and another lot (here designated as Lot 37B) being a portion of said Assessors Plat 17 Lot 37, being bounded as follows:

Beginning at the southwest corner of said Lot 38, bounded WESTERLY by the retained property, now or formerly of Block Island Power Company (Lot 37B), at an old fence line, with the line running northerly N. 23 E., for one hundred forty (140) feet to a point; thence turning a corner;

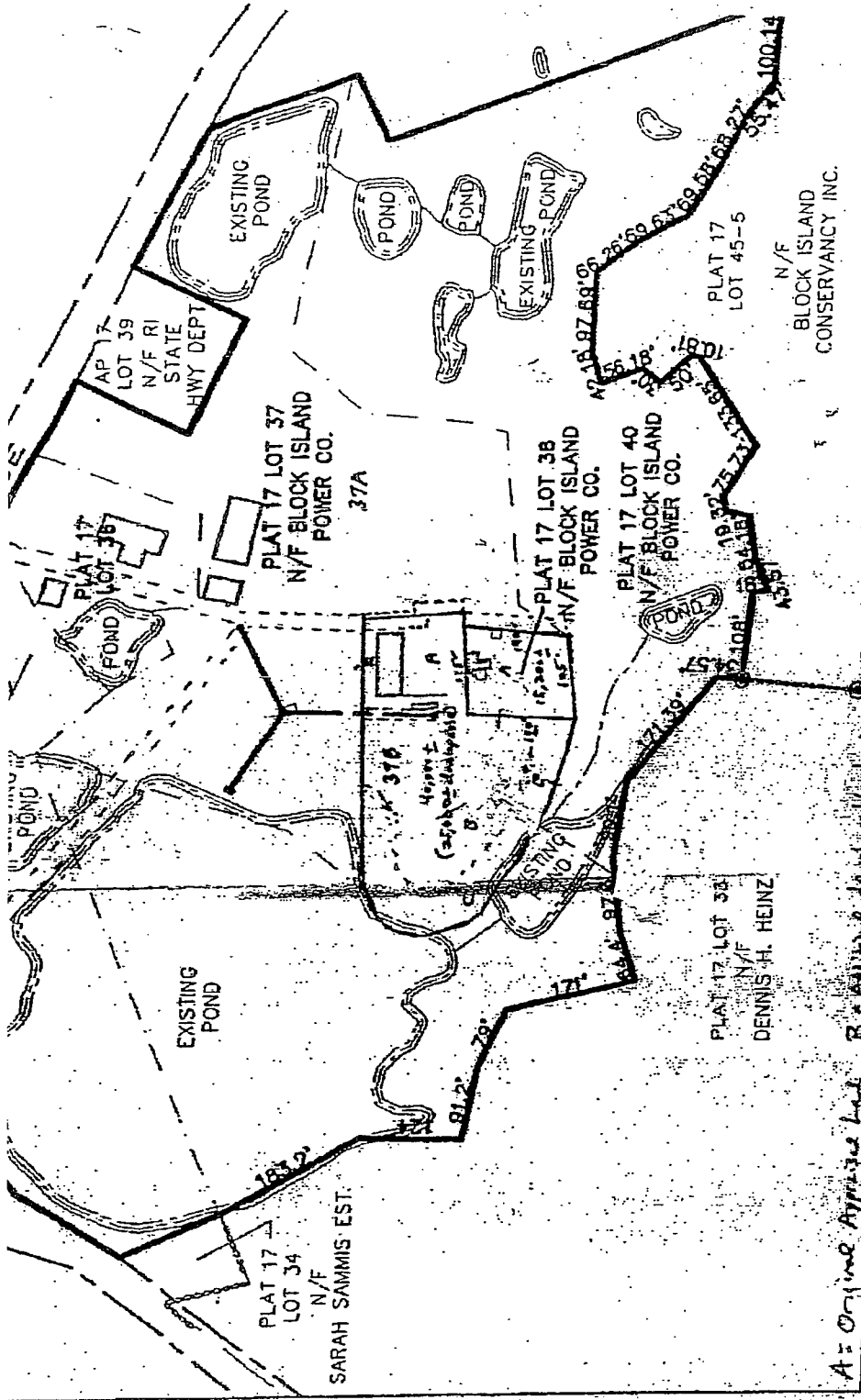
bounded NORTHERLY by the remaining property of Block Island Power Company (Lot 37B) and running easterly S. 78 degrees E., one hundred fifteen (115) feet abutting the northerly side of a residence on said Lot 38, to a point where there formerly was a stonewall, at the northeasterly corner of said lot 38; thence turning a corner;

bounded EASTERLY by Lot 37A, retained by Block Island Power Company, and running southerly, S. 24 degrees W., for one hundred forty (140) feet, to the intersection with Assessors Plat 17 Lot 40, being New Meadow Hill [Tug] Swamp and retained property of Block Island Power Company; thence turning a corner;

bounded SOUTHERLY by said Lot 40, and running westerly, N. 80 degrees W., for one hundred five (105) feet, by the edge of said Lot 40 and the said Swamp, to the point and place of beginning.

Being the same premises described in a deed from Frank C. Payne to Annie Arabella Payne, dated June 10, 1921 and recorded in Volume 21 Page 134 of the New Shoreham Land Evidence Records.

Together with an easement and right of way for access and utilities, twenty-five feet wide following the path of the existing traveled way and utility lines until said traveled way splits. The easement then runs in two directions, generally northerly to Ocean Avenue and also turning westerly and running to Beach Avenue. The grantee herein shall jointly use said access roads and utility lines with Block Island Power Company, its representatives and assigns. Said roadways and utility lines shall continue to be maintained by Block Island Power Company, but the grantee herein reserves the right to maintain said roadways and utility lines in the event the owner of Lot 37A does not so maintain them.



OVERALL SITE PLAN

SCALE: 1"=200'

EXHIBIT A2

EXHIBIT A3
Lot 37B

That certain tract or parcel of land, in the Town of New Shoreham, County of Washington and State of Rhode Island and Providence Plantations, being known as a portion of New Shoreham Assessors Plat 17 Lot 37. Together with and subject to easements and restrictions of record, including all buildings and appurtenances thereon. Said premises are further known as a portion of Parcel II in Volume 239 Page 85-87 of the Land Evidence Records of the Town of New Shoreham.

Said premises to be further shown on a Plan prepared by Geisser Engineering Corp., May 2006, and an approximate plan attached hereto as Exhibit A2, with Lot 38 on said Plan being the same as said Assessors Plat 17 Lot 38 and another lot (here designated as Lot 37B) being that portion of said Lot 37, containing 30,000 square feet more or less, being bounded as follows:

Beginning at the northeast corner of said Lot 38, thence running easterly twenty-five (25) feet to a point, thence turning northerly, bounded **EASTERLY** by the retained property of Block Island Power Company (Lot 37A), with the line running northerly to a point which is twenty-five feet easterly of the existing garage to the north of Lot 38, presently occupied by Oldfield Automotive and Ballard's Oil Company, and continuing to run northerly parallel to and twenty-five feet easterly of the said garage, to a point which is twenty-five feet easterly of the northeasterly corner of the said garage building and then continuing twenty-five feet northerly, thence turning a corner,

bounded **NORTHERLY** by the retained property of Block Island Power Company (Lot 37A) and running westerly twenty-five feet northerly of said garage building and parallel with the northerly side of said garage to the mean high water mark of New Meadow Hill Swamp, also being Assessors Plat 17 Lot 40 and also being property of Block Island Power Company, and thence by the high water mark of said swamp, and also the line of said Lot 40, in a generally westerly and then southerly direction to a the southwesterly corner of Lot 38;

thence turning northerly, bounded **EASTERLY** by said Lot 38 to the northwesterly corner of Lot 38; thence turning a corner,

bounded **SOUTHERLY** by said Lot 38, and running easterly to the point and place of beginning.

Together with an easement and right of way for access and utilities, twenty-five feet wide (except for a portion of Lot 37B where the traveled way is on said Lot 37B, where the easement is five feet in width), running parallel with the easterly line of Lot 38 and then continuing northerly, running easterly of Lot 37B and thence following the path of the existing traveled way and utility lines until said traveled way splits. The easement then runs in two directions, generally northerly to Ocean Avenue and also turning westerly and running to Beach Avenue. The grantee herein shall jointly use said access roads and utility lines with Block Island Power Company, its representatives and assigns. Said roadways

and utility lines shall continue to be maintained by Block Island Power Company, but the grantee herein reserves the right to maintain said roadways and utility lines in the event the owner of Lot 37A does not so maintain them. Also subject to an easement ten feet in width, surrounding the portion of the guy wire, and its appurtenances, for the FM-Wireless tower of the Block Island Power Company, for the inspection, maintenance, repair and replacement of said guy wire and its appurtenances, and an access easement, twenty feet wide, to be located by the parties herein, which is east and south of the existing garage, which are on Lot 37B for the sole purpose of the inspection, maintenance, replacement and repair of the said guy wire and appurtenances. Together with an access easement, twenty-five feet in width, on the retained land of Lot 37A southeast of the garage building and northeasterly of Lot 38. Together with an underground easement for the existing sewer line running easterly and northerly to Ocean Avenue, being twenty feet in width, for servicing, repair and replacement of said sewer line.

SETTLEMENT STATEMENT

Page 1

NAME OF BORROWER:
CATIC Exchange Solutions, Inc. as
Qualified Intermediary for
Marjorie G. McGinnes Estate
Rocky Hill, CT

NAME OF SELLER:
BLOCK ISLAND POWER COMPANY
P.O.Box 528
Block Island, RI 02817
PROPERTY: AP 17 L 38 AND PORTION L 37, BLOCK ISLAND, RI
TYPE OF LOAN: No loan

HOME ADDRESS:

SETTLEMENT AGENT:
Eliot Taubman, Esq.

FILE NO. LOAN NUMBER:
MORTGAGE INS. CASE NO.

SETTLEMENT: BLOCK ISLAND, RI

SUMMARY OF BORROWER'S TRANSACTION

SUMMARY OF SELLER'S TRANSACTION

100. GROSS AMOUNT DUE FROM BORROWER

400 GROSS AMOUNT DUE TO SELLER

101. Contract Sales Price 855000.00
102. Property taxes - N.S.
103. Settlement Charges 39633.96
To Borrower (Ln. 1400)
104. Balance of B.I. Taxes 3078.70
105. Repair Exp. (203-206) 15050.00

401. Contract Price 855000.00
402. Personal Prop.
403.
404.
405.

ADJUSTMENTS FOR ITEMS PAID BY SELLER IN ADVANCE

ADJUSTMENTS FOR ITEMS PAID BY SELLER IN ADVANCE

106. City/Town Taxes
107. County Taxes to
108. Assessments 8.00
109. Oil to
110. Schacht & McElroy Prepaid Exp. POC

406. City/Town Taxes to 0.00
407. County Taxes to
408. Assessments to 0.00
409. Oil to
410. Credit

120. GROSS AMT. FROM BORROWER 912812.68

420. GRS. AMT. DUE SELLER 855000.00

200. AMOUNTS PAID BY OR IN BEHALF OF BORROWER:

500. REDUCTIONS IN AMOUNT DUE SELLER

201. Deposit or earnest money
202. Like-kind exch. (IRC 1031) (CATIC) 912812.68
203. Town Taxes 2006 - 3087.70 3
204. Repair Payment - House
205. Repair Payment - sewer line 9800
206. Repair Payment - garage doors 5000

501. Excess Deposit (See Inst.)
502. Settlement Costs (Ln 1400) 20086.00
503. Payoff 1st Mortgage
504. Payoff 2nd Mtg.
505.
506. Fedex for Payoff

ADJUSTMENTS - ITEMS UNPAID BY SELLER

ADJUST. - ITEMS UNPAID BY SELLER

210. City/Town Taxes to Day #
211. County Taxes to Day #
212. Assessments to Day #
213. Water
214. Closing Costs
215. Like-kind Exchange (CATIC-Exch)
216. Unpaid Taxes - R.I. Div. Tax
217. Schacht & McElroy Prepaid Expenses

510. City/Town Taxes to 1113.39
511. County Taxes to 0.00
512. To 0.00
513. To 0.00
514. To 0.00
515.00
516. B&E Consulting Prepaid 10000.00
517. Schacht & McElroy Prepaid Exp. 10000.00

220. TOTAL PAID BY/FOR BORROWER 912812.68

520. REDUCT.S DUE SELL. 41199.39

300. CASH AT SETTLEMENT FROM/TO BORROWER

600. CASH AT SETTLEMENT FROM/TO SELLER

301. Grs. Amt. from Borrower (Ln 120) 912812.68
302. Less Amts. paid by/for Borrower (Ln 220)
303. CASH (FROM) (x TO) BORROWER

601. Amt. due Seller 855000.00
602. Less Reductions in Amt. Amount Due Seller (Ln 520) 41199.39
603. CASH (x TO) (FROM) SELLER 813800.61

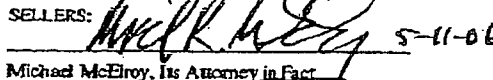
Michael R. McElroy
Attorney for BIPCO 5-11-06
Albert J. Farago
President, BIPCO
5-11-06


SETTLEMENT CHARGES	PAID FROM BORROWER'S FUNDS AT SETTLEMENT	PAID FROM SELLER'S FUNDS AT SETTLEMENT	Page 2
700. BROKER'S COMMISSION	0.00	\$	
Division of Commission (La 700) as Follows:			
701.			
#			
800. ITEMS PAID IN CONNECTION WITH LOAN			
801. Loan Orig. Fee TO NCM 1%			
802. Loan Discount			
803. Appraisal Fee to Scotti and Associates	2500.00	2500.00	
804. Credit Report to			
805. Broker's Fee to			
806. Document Preparation Fee to			
810. Processing Fee to			
811. Underwriting Fee to			
900. ITEMS REQUIRED BY LENDER TO BE PAID IN ADVANCE			
901. INT. FROM 11/07 TO @ \$			
902. Mort. Ins. Prem. for months			
903. Hazard Ins. Prem. for months			
1000. RESERVES DEPOSITED WITH			
1001. Hazard Ins. mos			
1002. Mort. Ins.			
1003. Town Prop. Tax @ mos			
1007. Aggregate Adjustment			
1100. TITLE CHARGES			
1101. Closing fees to B&B Consulting		5000.00	
1102. Abstract or Title Search to			
1103. Title Examination to			
1104. Title Insurance Binder to			
1105. Document Preparation to			
1106. Closing Fee - Schacht & McElroy		6500.00	
1107. Atty. Fee - E. Taubman (Inc 1101-1105)	6500.00		
1108. Title Insurance TO CATIC (E. Taubman)	2150.00		
109. Lender's Coverage			
110. Owner's Coverage \$866,000			
111. Fax/Freight/Telephone/Copies/Courier	290.00	POC	
200. GOVERNMENT RECORDING AND TRANSFER CHARGES			
201. Rec. Fee: Deed \$: Mort. \$: Ref. \$	130.00	141.00	
202. B. L. Land Trst: Deed \$: Mort. \$	25650.00		
203. S. T. x / Stamps: Deed \$		3420.00	
204. TAX CERTIFICATE	25.00		
205. Wiring	28.96	25.00	
300. ADDITIONAL SETTLEMENT CHARGES			
301. Surveying/Engineering: Geisser Eng. Corp.	2500.00	2500.00	
300. TOTAL SETTLEMENT CHARGES	39683.96	20086.00	

designated Borrower(s) acknowledge receipt of the above disclosure.

BORROWERS:

 by Clifford R. McGinness, Sr.

SELLERS:  5-11-06
 Michael McElroy, Its Attorney in Fact


 President, BAPCO
 5-11-06

OTHER INACCURCISES IN THE TOWN'S TESTIMONY

The following is only a partial list of those statements.

1. Pages 3, lines 20 and 21 and Page 4, lines 1-3:

“My recommended treatment of this net gain is consistent with a recent Company grant proposal submitted to the Rural Utilities Service, in which it proposed to sell other rate-base land and use the sales proceeds to help fund a distribution system upgrade and submarine cable to the mainland.”

This comment shows a total lack of knowledge regarding the difference between the use of cash and the impact on Company's equity. The comment is incorrect.

2. Page 5, lines 15-19:

“In addition, the Commission should direct a few improvements to BIPCo's existing rate design in this case in order to fix rate design problems that are not dependent upon the performance of a cost study and cost-based rate design.”

This recommendation comes with no revenue impact of the proposed changes or any support for the allegation that the current rate design is broken.

3. Page 6, lines 1-6:

“The net gain from the sale of company real estate should be credited entirely to ratepayers because the real estate has been accounted for as utility plant in service and included in company revenue requirements, along with expenses related to the real estate.”

Inclusion in rate base (utility plant) and accounting for revenues and expenses above the line does not automatically transfer ownership of the assets to the ratepayers.

As shown in my testimony, each asset must be reviewed to determine what, if any, ownership (through depreciation) has transferred to the ratepayers. Inclusion in rate base does not transfer ownership to the ratepayers in any case.

4. Page 6, lines 10-12:

“The Commission has consistently required that ratepayers should benefit from any gain on the sale of utility property that has been supported by ratepayers during the rate-setting process.”

Even if I interpret “support” as depreciation, this statement is simply wrong.

5. Page 7, lines 19-21:

“Where the asset was included in rate base and supported by ratepayers in the ratemaking process, the gain on the sale of the asset has been applied to the benefit of the utility’s customers.”

This statement is only true when the asset is fully depreciated and the ownership of the asset has transferred to the ratepayers. Even then, this Commission has not always ordered that the gain on the sale of assets must be applied to the benefit of the ratepayers. This Commission has always reviewed the fact and circumstances of each transaction and then made its informed decision based upon the specifics of each asset sold.

6. Page 9, line 22 and Page 10, line1-2:

“Any claims by BIPCo, at this point, that the property was actually comprised of utility and non-utility parts, would have no basis in their own accounting or ratemaking procedures”

This conclusion is wrong as I explained in my testimony. However, RUS has concluded that all of the assets transferred were non-utility assets, so BIPCo’s position is correct to RUS because there was no utility asset component (part).

7. Page 10, lines 20-21 and Page 11, lines 1-3:

“If the asset were in rate base, its full value, regardless of how much higher than book value its market value was, stayed a utility asset. Similarly, the amount of gain recognized does not alter whether that gain should be applied for the benefit of ratepayers where the asset has been a rate base asset supported by ratepayers.”

I agree with the first sentence. The second sentence shows the Town’s definition of “supported by ratepayers”. It appears that, in the Town’s opinion, inclusion in rate base means “supported by ratepayers”. As I have explained in great detail in my testimony, inclusion in rate base does not transfer ownership of the utility asset to the ratepayers, and to suggest that it does, shows a total lack of understanding of what the return on rate base represents.

8. Page 11, lines 9-10:

“This approach would be consistent with prior Commission policy.”

I am comfortable that the Commission knows its prior policies, but I disagree with this conclusion because it has not been the Commission prior policy to “treat the net gain on the sale of rate base assets as accruing solely for the benefit of the ratepayers” Page 11, lines 6-7 unless the asset was fully depreciated. None of the property transferred by BIPCo was depreciated at all.

9. Page 11, lines 13-15:

“Yes. The property was a part of rate base and its associated expenses were treated as above the line costs of service expenses. Consequently, all gain from the sale should be directed to the benefit of BIPCo customers.”

This is, once again, a wrong conclusion based upon a very limited understanding of the assets transferred and a weak understanding of utility regulation when it comes to rate base, rate of return and the weighted cost of debt and equity.

10. Page 11, lines 15-20:

“Potential sharing of the proceeds from the sale of an asset would relate to whether an asset was always fully in rate base or whether part of the asset was treated as non-utility property or if the asset was in or out of rate base over different periods of time. These circumstances have not been shown here, given BIPCo’s accounting and ratemaking practices regarding the land that it has sold.”

This quote misses the two most important points when determining ratepayer ownership of an asset which are: 1) what type of asset are we talking about (land or depreciable property) and 2) was the asset fully depreciated. Also, if the asset is a non-utility asset, regardless of the accounting treatment, the profit goes to the stockholders. RUS determined that the assets transferred were non-utility assets.

11. Page 12, lines 4-7:

“Among these are the symmetry of sales of assets wherein shortfalls from assets sold at below book value have typically become the responsibility of the customer and not required a write down of the equity of the utility”

I am not familiar with the “symmetry of sales of assets” concept that is suggested above but I know in RI, and specifically for BIPCo and Interstate Navigation Company, assets sold at below book value do reduce the equity of the utility.

12. Page 12, lines 12-14:

“No. BIPCo has claimed ownership of the full amount of the proceeds by claiming that the gain represents an increase in net income and, in turn, common equity. This completely unsupportable (sic).”

An increase in net income always increases common equity, this statement is accounting 101 and I just don’t understand why the Town doesn’t know that the statement is true. In fact, maybe they do.

Please note that on Page 13, lines 17-18 of the Town's testimony the Town states that "the sales proceeds have dropped to the bottom line for accounting purposes to inflate the Company's common equity balance." I can only conclude that the Town is continuing its efforts to bring up non-issues, false arguments, and misdirection, only to make BIPCo spend more money on rate case expense. The real question is why?

I should also point out that the subsequent explanation and conclusion on Page 12, lines 14-21 through Page 13, line 6 are simply misguided. They show a significant lack of understanding of Generally Accepted Accounting Principles (GAAP) and regulatory accounting, or an attempt to confuse the Commission. In the quote above it states that BIPCo is "claiming that the gain represents an increase in net income and, in turn, common equity".

In the example provided by the Town, the sale of a company at book value results in no gain, therefore the example is meaningless and the conclusion reached by the Town is wrong. The whole discussion about stockholders selling off the appreciated assets of a utility and pocketing the gain while keeping the below market value assets for the ratepayers to deal with is a red herring and impossible in the regulatory environment. These scare tactics are not appropriate for this rate filing.

13. Pages 13, lines 20-21 and Page 14, 1-3:

"Essentially, BIPCo is attempting to require its customers to pay twice for the same expense by recovering pre-sale expenses through the ratemaking process (whether or not paid these expenses or when it chose to pay them) and then depriving ratepayers of the benefit from the net gain on the sale of rate-base assets."

This statement is false for a number of reasons. However, the most important is the fact that the ratepayers have never paid for the property transferred.

There are many more incorrect statements and conclusions in the Town's prefiled testimony but I hesitate to take the time to point them all out. I believe that my rebuttal testimony clearly shows that the Town's positions in this docket for the most part are wrong, unsupported, unreasonable or impossible.