

# Schacht & McElroy

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December 4, 2009

Luly Massaro, Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

Re: Block Island Power Company – \$0.01 summer only restricted fund surcharge filing pursuant to RIGL §39-26.1-7 – The Town of New Shoreham Project regarding newly developed renewable energy resources.

Dear Luly:

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

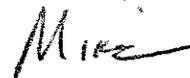
Enclosed for filing are the original and nine (9) copies of a proposed \$0.01 summer only restricted fund surcharge filing pursuant to RIGL §39-26.1-7. The purpose of this filing, as explained in enclosed supporting testimony of Walter E. Edge, Jr., CPA, is to fund BIPCo's participation in the Town of New Shoreham Project proceedings regarding newly developed renewable energy resources. This fund would generate approximately \$50,000 per year.

Attached to the testimony of Mr. Edge is the proposed new tariff. (The old tariff is also included for comparison).

Please inform me regarding any required publication requirements.

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

Very truly yours,



Michael R. McElroy

MRMc: tmg

BIPCo9:Rate07-Massaró

cc: Thomas Ahern, Administrator  
Cynthia Wilson-Frias, Esq.  
Leo Wold, Esq.  
Katherine A. Merolla, Esq.  
Alan Mandl, Esq.  
Block Island Town Clerk (certified mail, RRR)  
David Bebyn, CPA  
Walter Edge, CPA  
BIPCo owners

**Direct Testimony  
In Support of Block Island Power Company's  
Request for a \$0.01 per KWH Summer Only Surcharge  
As A Fully Reconciling Rate Adjustment  
Authorized by R.I.G.L. 39-26.1-7**

**By  
Walter E. Edge Jr. MBA, CPA**

**For  
Block Island Power Company**

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

**DECEMBER 2009**

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

2 A. My name is Walter E. Edge Jr., MBA CPA and my business address is B&E Consulting  
3 LLC., 21 Dryden Lane, Providence, Rhode Island 02904.

4  
5 **Q. What is your position with B&E Consulting?**

6 A. I am the President.

7  
8 **Q. Mr. Edge, have you testified as an expert witness prior to this docket?**

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

19  
20 **Q. What is your educational background?**

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

25  
26 **Q. What is the purpose of your testimony?**

27 A. Pursuant to R.I. General Laws 39-26.1-7, B&E Consulting (B&E) was engaged by  
28 BIPCo to provide testimony in support of BIPCo's request for an increase in rates in the  
29 form of a \$0.01 per kWh summer only surcharge to cover legal and other professional costs  
30 incurred by BIPCo with respect to BIPCo's participation in RIPUC Docket No. 4111 and  
31 any related dockets or other proceedings regarding the Town of New Shoreham Project for  
32 newly developed renewable energy resources.

1 **Q. What specifically is BIPCo requesting from the Commission?**

2 A. BIPCo is requesting a \$0.01 per kWh summer-time only surcharge to run from June 1<sup>st</sup>  
3 to September 30<sup>th</sup>. All revenue from this charge will be deposited into a restricted account  
4 and will be limited to funding BIPCo’s participation in matters relating to the Town of New  
5 Shoreham Project for newly developed renewable energy resources.

6

7 **Q. What authorization is BIPCo relying on to justify this filing?**

8 A. Section (c) of GL 39-26.1-7 authorizes the following:

9

10 **“ Any charges incurred by the Block Island Power Company or its successor**  
11 **pursuant to this section shall be recovered annually in rates through a fully**  
12 **reconciling rate adjustment, subject to approval by the commission.”**

13

14 BIPCo believes that a separate surcharge with a pre-determined rate (\$0.01 per kWh  
15 summer only) is the best way to comply the statutory language of a “fully reconciling rate  
16 adjustment”. BIPCo cannot at this time estimate the total cost of its participation in this  
17 project but BIPCo believes that an annual \$0.01 per kWh summer time surcharge will  
18 generate approximately \$50,000 per year and that amount should cover the majority, if not  
19 all, of the costs of BIPCo’s participation. Any funds remaining after the project is  
20 completed would be subject to review by the Commission regarding how the funds could be  
21 used for the benefit of the ratepayers. For example, the balance of the funds could be  
22 transferred to the restricted distribution account and used for improvements to the  
23 distribution system.

24

25 **Q. Why should BIPCo be a party to proceedings related to the Town of New**  
26 **Shoreham Project for newly developed renewable energy resources?**

27 A. First, the law states that, with regards to the Project:

28 **“To the extent that there are benefits for customers of the Block Island Power**  
29 **Company or its successor, the commission shall determine an allocation of cost**  
30 **responsibility between customers of [National Grid] and customers of Block**  
31 **Island Power Company or its successor after costs estimates are filed with the**  
32 **commission ....”**

1 Second, the law also states that:

2  
3 **“The allocation of costs shall assure that individual customers in the Town of**  
4 **New Shoreham pay higher charges related to the project on their individual**  
5 **bills than any charges for the same project that may be included in individual**  
6 **bills of customers of [National Grid]. The commission shall provide for an**  
7 **appropriate rate design and billing method between [National Grid] and Block**  
8 **Island Power Company....”**

9  
10 Third, the law states that, with regard to the portion of the Project related to the transmission  
11 cable between the town of New Shoreham and the mainland, if National Grid owns, operates  
12 and maintains the cable:

13  
14 **“The annual cost incurred by [National Grid] shall be recovered ... from**  
15 **customers of [National Grid] and/or from the Block Island Power Company or**  
16 **its successor, subject to any federal approvals that may be required by law....”**

17  
18 The parties are also required to attempt to “obtain socialization of the costs of the cable” in  
19 New England transmission rates.

20  
21 Also, the allocation of cable costs:

22  
23 **“shall be determined by the commission and assure that individual customers in**  
24 **the Town of New Shoreham pay higher charges related to the cable on their**  
25 **individual bills than any charges for the same project that may be included in**  
26 **individual bills of customers of [National Grid]”.**

27  
28 It appears obvious to me that to protect the interest of its customers, BIPCo will have to be a  
29 party in any proceedings in which costs relating to the Town of New Shoreham Project will  
30 be allocated and BIPCo’s rates will be set and /or designed, as required by law. However,  
31 there are also other reasons why BIPCo should be involved.

1 **Q. What are the other reasons?**

2 A. BIPCo must gain familiarity with the financial, engineering, and construction  
3 requirements that will be placed upon it (directly or indirectly) as a result of the New  
4 Shoreham Project. If BIPCo were to wait until the end of the process to engage its experts,  
5 BIPCo's legal counsel and consultants would have to catch up with weeks (if not months) of  
6 information before they could intelligently participate in the proceedings. BIPCo believes  
7 that participation of its legal counsel and experts throughout the proceedings will put BIPCo  
8 in a better position to protect its ratepayers.

9

10 The intent of the legislation, to lower electric rates on Block Island, provides a further  
11 reason for BIPCo's full participation in these proceedings. BIPCo will serve as a resource  
12 to the other parties in the docket as it relates to BIPCo's infrastructure as well as its current  
13 rates and rate design and the impact of the New Shoreham Project on future rates to BIPCo's  
14 ratepayers.

15

16 **Q. Mr. Edge you are aware that the Town of New Shoreham is a participant in**  
17 **Docket No. 4111. Can't the Town's lawyer and experts protect BIPCO's ratepayers?**

18 A. First, it is not the Town's responsibility to protect BIPCo's ratepayers. Second, it is my  
19 understanding that the Town's legal counsel and experts are being paid for by Deepwater  
20 Wind, one of the primary parties in this case. BIPCo will eventually have to negotiate with  
21 Deepwater Wind on a number of issues and believes that it must stay independent from  
22 Deepwater throughout the proceedings in Docket No. 4111 and any other related activities.

23

24 **Q. Have you prepared a proposed tariff for the \$0.01 per kWh summer surcharge?**

25 A. Yes, as attached hereto.

26

27 **Q. Is BIPCo also requesting a waiver of the other usual commission requirements**  
28 **relating to a general rate filing?**

29 A. Yes, because this is a special, statutorily authorized rate filing.

30

31

32

1 **Q. Is BIPCo also requesting an expedited decision?**

2 A. Yes. The proceedings are already underway in Docket No. 4111. BIPCo has no funds  
3 in its current rates to pay for professional fees for professional involvement in these  
4 proceedings. BIPCo needs to know as soon as possible if it will have the necessary funding  
5 available to it to actively participate as outlined above.

6

7 **Q. If BIPCo has no cash to pay for these services at this time, how will a summer**  
8 **surcharge that starts next summer provide BIPCo the opportunity to engage its**  
9 **experts to participate immediately?**

10 A. BIPCo has a long standing relationship with its legal counsel and its rate expert and both  
11 professionals have agreed to postpone payment for their services until next summer if the  
12 requested summer surcharge is approved by the Commission.

13

14 **Q. Does that conclude your testimony at this time?**

15 A. Yes.

## Existing Tariffs

## **FUEL ADJUSTMENT CLAUSE RIDER**

### **RATE "FAC"**

#### **FUEL ADJUSTMENT CHARGE**

The fuel adjustment charge will be calculated each month to cover the cost of financing fuel and urea inventories, transportation costs, as well as to cover the cost of fuel and urea usage in the following manner.

##### **FUEL AND UREA FINANCING COST:**

The beginning inventory value (fuel and urea) of the month being calculated will be multiplied times the prime rate (beginning of the month) plus 0.5% then divided by 12 (months) to arrive at the appropriate financing cost. This financing cost will then be divided by .96 to reflect the cost of gross receipt tax (GRT).

##### **FUEL AND UREA USAGE EXPENSE:**

The total number of gallons used of fuel for the month being calculated will be multiplied times the "weighted" cost of the fuel used and the related transportation cost (i.e. ferry, truck, driver, etc.) required for delivering the fuel to the Island. This calculated fuel cost will then be divided by .96 to provide for GRT.

The same calculation will be completed for the urea usage costs. The total number of gallons used of urea for the month being calculated will be multiplied times the "weighted" cost of the urea used and the related transportation cost required for delivering the urea to the Island. This calculated urea cost will then be divided by .96 to provide for GRT.

##### **DSI FUND:**

There is a surcharge of 1.00¢ per kWh for Distribution System Improvements (DSI), which shall be placed in a restricted account. These funds shall be used for professional fees specifically related to distribution system improvements. In addition, funds not needed for such fees shall be used to make improvements to the distribution system. The funds shall be collected on kWh consumption in June, July, August and September of each year through the fuel surcharge (FAC). This calculated DSI fund will then be divided by .96 to provide for GRT.

##### **FAC FACTOR:**

The combined financing cost and usage costs for fuel and urea along with the IRP and DSM funding will then be divided by the kWh sales for the same month to arrive at a FAC factor to be applied to all kWh sales for that month.

BLOCK ISLAND POWER COMPANY

Block Island, Rhode Island

R.I. PUC No. 3900

Sheet No. 2

Effective: June 1, 2008

APPROVAL:

The FAC factor will be submitted to the Division of Public Utilities and Carriers for review and approval before billing to the customers.

GENERAL TERMS AND CONDITIONS

This schedule is subject in all respects to the Company's "Terms and Conditions" for furnishing electric service.

BLOCK ISLAND POWER COMPANY

FUEL/UREA ADJUSTMENT WORKSHEET

	FUEL	DSI Funding	UREA
Calculation for the month of			
<b>Financing</b>			
Inventory quantity, beginning			
Value of beginning inventory (a)			
Prime rate ___ plus .5% (b)			
Financing Cost (a) x (b) / 12			
<b>Fuel Expense and Sales:</b>			
Number of gallons used (c)			
Weighted cost per gallon (d)			
Fuel/Urea Expense (c) x (d) / .96 (e1)			
DSI Funding 1.00¢ x (h) / .96 (e2)			
Financing cost from above / .96 (f)			
Total Fuel and Urea cost (e) + (f) (g)			
Sales for the month (kWh) (h)			
Fuel, Urea & DSI adj. factor (i)			
<b>TOTAL FAC</b>			

## Proposed Tariffs

## **FUEL ADJUSTMENT CLAUSE RIDER**

### **RATE "FAC"**

#### **FUEL ADJUSTMENT CHARGE**

The fuel adjustment charge will be calculated ~~each month~~ monthly to cover the cost of financing fuel and urea inventories, transportation costs, DSI and RE funding as well as to cover the cost of fuel and urea usage in the following manner.

#### **FUEL AND UREA FINANCING COST:**

The beginning inventory value (fuel and urea) of the month being calculated will be multiplied times the prime rate (beginning of the month) plus 0.5% then divided by 12 (months) to arrive at the appropriate financing cost. This financing cost will then be divided by .96 to reflect the cost of gross receipt tax (GRT).

#### **FUEL AND UREA USAGE EXPENSE:**

The total number of gallons used of fuel for the month being calculated will be multiplied times the "weighted" cost of the fuel used and the related transportation cost (i.e. ferry, truck, driver, etc.) required for delivering the fuel to the Island. This calculated fuel cost will then be divided by .96 to provide for GRT.

The same calculation will be completed for the urea usage costs. The total number of gallons used of urea for the month being calculated will be multiplied times the "weighted" cost of the urea used and the related transportation cost required for delivering the urea to the Island. This calculated urea cost will then be divided by .96 to provide for GRT.

#### **Distribution System Improvements (DSI) Fund:**

There is a surcharge of 1.00¢ per kWh for Distribution System Improvements (DSI), which shall be placed in a restricted account. These funds shall be used for professional fees specifically related to distribution system improvements. In addition, funds not needed for such fees shall be used to make improvements to the distribution system-. The funds shall be collected on kWh consumption in June, July, August and September of each year through the fuel surcharge (FAC). This calculated DSI fund will then be divided by .96 to provide for GRT.

#### **Renewable Energy (RE) Fund:**

There is a surcharge of 1.00¢ per kWh for Renewal Energy (RE), which shall be placed in a restricted account. These funds shall be used for professional fees specifically related to all activities regarding the New Shoreham Project for newly developed renewable energy resources. The funds shall be collected on kWh consumption in June, July, August and September of each year through the fuel surcharge (FAC). This calculated fund for RE will then be divided by .96 to provide for GRT.

BLOCK ISLAND POWER COMPANY

R.I. PUC No.

Block Island, Rhode Island

Sheet No. 2

Effective:

FAC FACTOR:

The combined financing cost and usage costs for fuel and urea along with the IRP and DSM-DSI and RE funding will then be divided by the kWh sales for the same month to arrive at a FAC factor to be applied to all kWh sales for that month.

BLOCK ISLAND POWER COMPANY

R.I. PUC No. 3900

Block Island, Rhode Island

Sheet No. 2

Effective: June 1, 2008

APPROVAL:

The FAC factor will be submitted to the Division of Public Utilities and Carriers for review and approval before billing to the customers.

GENERAL TERMS AND CONDITIONS

This schedule is subject in all respects to the Company's "Terms and Conditions" for furnishing electric service.

BLOCK ISLAND POWER COMPANY

FUEL/UREA and RESTRICTED FUNDS ADJUSTMENT WORKSHEET

	FUEL	DSI & RE Funding	UREA
Calculation for the month of			
<b>Financing</b>			
Inventory quantity, beginning			
Value of beginning inventory (a)			
Prime rate ___ plus .5% (b)			
Financing Cost (a) x (b) / 12			
<b>Fuel Expense and Sales:</b>			
Number of gallons used (c)			
Weighted cost per gallon (d)			
Fuel/Urea Expense (c) x (d) / .96 (e1)			
DSI Funding 1.00¢ x (h) / .96 (e2)			
<b>RE Funding 1.00¢ x (h) / .96 (e2)</b>			
Financing cost from above / .96 (f)			
Total Fuel and Urea cost (e) + (f) (g)			
Sales for the month (kWh) (h)			
<b>Fuel, DSI/RE adj. factor &amp; Urea (i)</b>			
<b>TOTAL FAC</b>			