

# *Schacht & McElroy*

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June 3, 2019

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

Re: Block Island Utility District – Application to Division for Authorization Pursuant to R.I.G.L. § 39-3-15 to incur \$5.8 million of debt

Dear Luly:

As you know, this office represents Block Island Utility District. Enclosed are the original and five (5) copies of the following:


1. An Application of Block Island Utility District for Division authorization pursuant to R.I.G.L. § 39-3-15 to incur \$5.8 million of debt.
2. A draft Notice as required by Division Rule 1.14(d). Please review it and let me know if it is acceptable and if you want me to publish it, or if you would prefer to publish it yourself in the usual fashion.
3. The testimony of Jeffery M. Wright, CPA, and David G. Bebyn in support of this Application. This testimony contains the information required by R.I.G.L. § 39-3-17 and Rule 1.14 of the Rules of Practice and Procedure of the Division.

I am sending a copy of the Application, together with the supporting testimony, to Christy Hetherington, Esq. at the Attorney General's office, to Katherine Merolla, Esq., Solicitor for the Town of Block Island, and to the Block Island Town Clerk.

Luly Massaro, Clerk  
June 3, 2019  
Page 2

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

Very truly yours,



Michael R. McElroy

MRMc:tmg

cc: Christy Hetherington, Esq.  
Katherine Merolla, Esq.  
David G. Bebyn, CPA  
Block Island Town Clerk (certified mail RRR # 7018 0360 0001 8667 6317)  
Jeffery Wright

*Schacht & McElroy*

STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: BLOCK ISLAND UTILITY DISTRICT : DOCKET No. D-19-

**APPLICATION FOR AUTHORIZATION PURSUANT TO R.I.G.L. § 39-3-15  
TO INCUR DEBT IN THE AMOUNT OF \$5.8 MILLION**

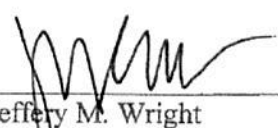
NOW COMES the Block Island Utility District ("BIUD"), pursuant to R.I.G.L. § 39-3-15, § 39-3-17, and Rule 1.14 of the Rules of Practice and Procedure of the Division of Public Utilities and Carriers ("Division"), and requests authorization from the Division to incur \$5,800,000 in debt for the purpose of refinancing existing debt incurred as a result of the acquisition of the assets and liabilities of the Block Island Power Company.

The information required by R.I.G.L. § 39-3-17 and Rule 1.14 of the Rules of Practice and Procedure is incorporated into the written testimony of Jeffery M. Wright and David G. Bebyn, CPA, which testimony is filed simultaneously herewith and is incorporated by reference herein.

WHEREFORE, BIUD respectfully requests that the Division approve the loan.

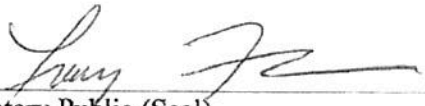
Block Island Utility District

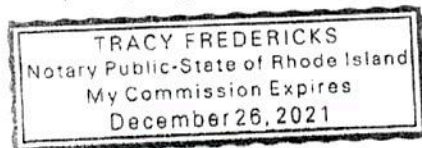
By: \_\_\_\_\_

  
Jeffery M. Wright  
President

STATE OF RHODE ISLAND  
COUNTY OF Washington

Sworn to, subscribed, and verified before me this 19<sup>th</sup> day of May, 2019, by Jeffery M. Wright, President of Block Island Utility District.

  
Notary Public (Seal)



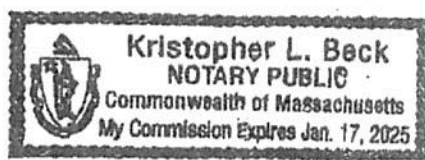
By: [Signature]  
Clyde Everett Shorey III  
Secretary

STATE OF Massachusetts  
COUNTY OF Middlesex

Sworn to, subscribed, and verified before me this 29<sup>th</sup> day of May, 2019, by Clyde Everett Shorey, III, Secretary of Block Island Utility District.

[Signature]  
Notary Public (Seal)

COMMONWEALTH OF MASSACHUSETTS  
Clyde Shorey  
personally appeared before me, the undersigned notary public, and proved to me his/her identity through satisfactory evidence, which were MA Drivers License and acknowledged he/she signed the foregoing instrument voluntarily for its stated purpose on this 29<sup>th</sup> day of May 2019  
[Signature]



STATE OF RHODE ISLAND  
DIVISION OF PUBLIC UTILITIES AND CARRIERS

IN RE: BLOCK ISLAND UTILITY DISTRICT : DOCKET No. D-19-\_\_\_\_\_

**NOTICE OF HEARING**

Pursuant to the provisions of R.I.G.L. §§ 39-1-1, 39-3-15, and 39-3-17 of the Rhode Island General Laws, as amended, the Division of Public Utilities and Carriers will conduct a public hearing on \_\_\_\_\_, 2019, at \_\_\_\_\_ in a hearing room of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, RI 02888. The hearing may continue thereafter from day to day and from time to time as required.

In this docket, the Division of Public Utilities and Carriers will consider an application by Block Island Utility District (“BIUD”) seeking consent and authorization to incur \$5.8 million of debt to refinance existing debt.

The application and related documents are on file at the office of the Division of Public Utilities and Carriers, 89 Jefferson Boulevard, Warwick, RI 02888 and at the office of Schacht & McElroy, 21 Dryden Lane, Providence, RI 02904 and may be examined there.

Reference is made to Chapters 39-1, 39-3, and 42-35 of the General Laws; also specific sections 39-1-7, 39-1-8, 39-1-11, 39-1-12, 39-1-16, 39-1-18, 39-1-20, 39-3-24, 39-3-25, 39-3-30, 42-35-8, 42-35-9, and 42-35-10.

THE DIVISION OF PUBLIC UTILITIES AND CARRIERS IS ACCESSIBLE TO THE HANDICAPPED. INDIVIDUALS REQUESTING INTERPRETER SERVICES FOR THE HEARING IMPAIRED MUST NOTIFY THE CLERK’S OFFICE AT 941-4500 FIVE DAYS IN ADVANCE OF HEARING DATE.

Kevin Lynch, Interim Administrator

\_\_\_\_\_, 2019

Direct Testimony  
Of  
Jeffery M. Wright  
For  
Block Island Utility District d/b/a Block Island Power Company

Before  
RHODE ISLAND DIVISION OF  
PUBLIC UTILITIES AND CARRIERS

Docket No. D-19- \_\_\_\_\_

May, 2019

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

2 A. My name is Jeffery M. Wright. My principal business address is 100 Ocean Avenue, Block  
3 Island, Rhode Island 02807.

4  
5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of the Block Island Utility District d/b/a Block Island Power Company  
7 ("BIUD").

8  
9 **Q. Can you please describe your education and experience?**

10 A. I have an Associate Degree in Accounting and have worked for electric utilities since  
11 1984 in various roles.

12

13 From 1999-2007 I worked at the Vermont Electric Power Company ("VELCO"). I was a  
14 member of the company's Senior Leadership Team and was responsible for managing  
15 the company's assets which included over 35 high voltage transmission substations,  
16 more than 700 miles of high voltage transmission lines, all rights of way, and the  
17 company's facilities and fleet assets. I also managed the assets of the Vermont Electric  
18 Transmission Company (VETCO) which owned and maintained Vermont's portion of the  
19 450 kV DC "Phase One" line.

20

21 From 2008-2016 I was the the Chief Operating Officer at the Vermont Electric  
22 Cooperative ("VEC"), the state's second largest utility and largest electric cooperative  
23 which served approximately 40,000 electric meters across nearly 1/3 of the state of  
24 Vermont. I was responsible for all of VEC's operations, including transmission and  
25 distribution operations, substations and system operations, and engineering. I worked  
26 closely with VEC's CFO in developing long capital plans, long range financial forecasting,  
27 and several rate cases.

28

29

1 **Q. What is the purpose of your testimony?**

2 A. The purpose of my testimony is to sponsor the BIUD's filing seeking approval of a long-  
3 term \$5.8 million loan, which will refinance existing short-term BIUD debt.

4  
5 **Q. Can you please describe the debt that the company is seeking to finance?**

6 A. In January of 2019, BIUD signed an Asset Purchase Agreement with the Block Island  
7 Power Company ("BIPCo") to purchase BIPCo's assets for \$5,800,000. The agreement  
8 included BIUD's assumption of all of BIPCo's existing debt and contract obligations.

9  
10 Prior to the closing, which occurred on March 25, 2019, the BIUD Commissioners  
11 solicited proposals from CoBank and the National Rural Utilities Cooperative Finance  
12 Corporation ("CFC") to finance the acquisition. The Commissioner's felt that CFC had  
13 the most to offer in terms of support services for smaller utilities. Also, CFC was willing  
14 to provide two unsecured short-term lines of credit. The first line of credit is for  
15 \$5,800,000 to fund the acquisition, including the pay off of BIPCo's RUS debt, the RUS  
16 prepayment penalty, and BIPCo's line of credit. The CFC second short-term line of credit  
17 is for \$670,000 to fund closing expenses, short term operating expenses, and a  
18 contingency for BIUD's maximum \$300,000 payment risk in the event BIPCo's minority  
19 shareholder (McGinnes) is awarded more than \$900,000 for the value of her stock.

20  
21 The financing that BIUD is seeking approval of at this time is a \$5,800,000 mortgage loan  
22 from CFC to pay off the \$5,800,000 CFC line of credit.

23  
24 **Q. Can you describe CFC, the services that they offer, and your experience with them?**

25 A. CFC is a \$25 billion member-owned cooperative association incorporated under the laws  
26 of the District of Columbia in April 1969. CFC's principal purpose is to provide its  
27 members with financing to supplement the loan programs of the Rural Utilities Service  
28 ("RUS") of the United States Department of Agriculture ("USDA").

29



1 CFC provides loans to its rural electric members so they can acquire, construct and  
2 operate electric distribution, generation and transmission systems and related facilities.  
3 CFC also provides its members with credit enhancements in the form of letters of credit  
4 and guarantees of debt obligations. As a cooperative, CFC is owned by and exclusively  
5 serves its membership, which consists of not-for-profit entities or subsidiaries or  
6 affiliates of not-for-profit entities.

7  
8 CFC's secured long-term debt is rated "A" by Standard and Poor's, "A1" by Moody's, and  
9 "A+" by Fitch. CFC is a "Well Known, Seasoned Issuer" under Securities and Exchange  
10 Commission rules and has longstanding relationships with global and domestic banks.

11  
12 I personally worked with CFC while at VEC. CFC financed a portion of VEC's ten year  
13 capital plan and provided lines of credit to VEC. I have found their trainings,  
14 benchmarking services and full time support to be invaluable for a small utility.

15  
16 **Q. Can you please describe the terms of the loan?**

17 A. CFC has agreed to finance \$5.8M at a stated interest rate of 4.58% and an effective rate  
18 of 4.18%, which includes cash discounts capital patronage distributions to its members.

19  
20 CFC is willing to: (1) fund the acquisition costs over 30 years; (2) fund the refinancing of  
21 the CoBank line of credit over 15 years; (3) fund the refinancing of the RUS debt over 7  
22 years; and (4) fund the RUS pre-payment over 10 years. Our rates and accounting  
23 Consultant David Bebyn will detail the various portions of the loan in his testimony.

24  
25 The debt service payments will be paid quarterly.

26 The annual cash flows are shown in Attachment JW-1.  
27  
28

1 **Q. Can you explain how Total Discounts Cash Patronage applies to the projected annual**  
2 **cash flow summary?**

3 A. Total Discounts are based on BIUD's ability to meet loan covenants. It is not guaranteed  
4 but we have demonstrated to CFC in our present financial forecasts that we will meet  
5 the covenants. Additional discounts will be applied when BIUD reaches an equity level in  
6 excess of 40%.

7

8 Cash Patronage is CFC's distribution of a portion of their excess earnings. It is based on  
9 historical cash patronage distributions from CFC to its member utilities and is also based  
10 on CFC's annual financial performance. This projection is based on historical  
11 distributions and although not guaranteed is our best estimate of our future debt  
12 service.

13

14 **Q. What types of loan covenants does CFC impose and does the Utility District have**  
15 **adequate funding to cover those covenants?**

16 A. CFC only monitors one covenant, Modified Debt Service Coverage ("MDSC"). MDSC is  
17 defined as Operating Margins + Interest Expense LTD + Depreciation, Amortization +  
18 Non-Operating Margins. The level of MDSC that CFC requires is 1.35 in the highest two  
19 out of the past three years.

20

21 **Q. Please describe the rate impact of the financing?**

22 A. As set forth in Mr. Bebyn's testimony, there is no rate impact from this filing.

23

24 **Q. Do you feel that this borrowing is in the best interest of BIUD's ratepayers?**

25 A. Yes.

26

27 **Q. Please explain why.**

28 A. CFC has a proven track record of lending their utility members funds at competitive  
29 rates and providing a variety of other services that others lenders don't such as cost of

1 service studies, board and employee trainings and key performance trend analysis  
2 (benchmarking). CFC is so much more than just a bank and they are very proud to be a  
3 trusted partner of the BIUD and to be a part of the new company set-up and financing.  
4 The BIUD's consumer/members will all benefit from the services and funding that CFC  
5 will provide.

6

7 **Q. Does this complete your pre-filed direct testimony?**

8 **A.** Yes it does.



CFC  
4.18%  
4.33%  
0.40%

Effective Interest Rate:  
Stated Interest Rate:  
Benefit of Patronage Capital

Co-op Name: Block Island Utility District  
Co-op ID: RI001  
Date Prepared: 5/10/2019  
Interest Rates as of: 4/26/2019  
Financing Amount: \$5,800,000  
Scenario Name: Term Out All Balances

**PROJECTED ANNUAL CASH FLOW SUMMARY**

31-Mar	CFC				
	Ending Balance	Principal Payments	Interest Expense	Total Discounts	Cash Patronage Flows
2019	0	(5,800,000)	(3,370,454)	92,400	307,728
2020	5,482,018	(317,982)	(213,178)	5,973	973
2021	5,130,833	(351,185)	(242,517)	6,773	11,546
2022	4,765,710	(365,122)	(227,261)	6,320	10,890
2023	4,385,977	(379,734)	(211,413)	5,854	10,190
2024	3,991,004	(394,973)	(194,821)	5,370	9,458
2025	3,646,014	(344,990)	(178,120)	4,884	8,694
2026	3,355,189	(290,825)	(163,323)	4,461	7,952
2027	3,227,292	(127,897)	(151,778)	4,135	7,307
2028	3,093,502	(133,790)	(145,732)	3,972	6,860
2029	2,953,548	(139,954)	(139,568)	3,802	6,588
2030	2,832,946	(120,602)	(133,542)	3,636	6,303
2031	2,706,753	(126,193)	(127,951)	3,483	6,038
2032	2,574,710	(132,043)	(122,100)	3,322	5,779
2033	2,436,545	(138,165)	(115,978)	3,154	5,509
2034	2,291,974	(144,571)	(109,572)	2,979	5,226
2035	2,183,174	(108,800)	(103,572)	2,814	4,930
2036	2,069,283	(113,891)	(98,480)	2,676	4,674
2037	1,950,061	(119,221)	(93,150)	2,531	4,439
2038	1,825,260	(124,801)	(87,571)	2,380	4,193
2039	1,694,619	(130,642)	(81,730)	2,221	3,935
2040	1,557,863	(136,756)	(75,616)	2,055	3,665
2041	1,414,707	(143,156)	(69,216)	1,881	3,383
2042	1,264,852	(149,855)	(62,516)	1,699	3,087
2043	1,107,984	(156,868)	(55,503)	1,508	2,777
2044	943,774	(164,210)	(48,162)	1,309	2,453
2045	771,879	(171,895)	(40,477)	1,100	2,114
2046	591,940	(179,939)	(32,432)	881	1,759
2047	403,579	(188,361)	(24,011)	652	1,387
2048	206,403	(197,176)	(15,196)	413	998
2049	0	(206,403)	(5,968)	162	164
2050	0	0	0	0	0
2051	0	0	0	0	0
2052	0	0	0	0	0
2053	0	0	0	0	0
2054	0	0	0	0	0
2055	0	0	0	0	0
2056	0	0	0	0	0
2057	0	0	0	0	0
2058	0	0	0	0	0
2059	0	0	0	0	0
2060	0	0	0	0	0
2061	0	0	0	0	0
2062	0	0	0	0	0
2063	0	0	0	0	0
2064	0	0	0	0	0
2065	0	0	0	0	0
2066	0	0	0	0	0
2067	0	0	0	0	0
2068	0	0	0	0	0
2069	0	0	0	0	0
2070	0	0	0	0	0
2071	0	0	0	0	0
2072	0	0	0	0	0
2073	0	0	0	0	0
2074	0	0	0	0	0
2075	0	0	0	0	0

\* Interest rates are calculated as a monthly internal rate of return.  
 \*\* The impact of patronage capital is estimated based upon CFC's historical patronage allocation and retirement. The timing of patronage capital distributions may also be affected by the dates that funds are advanced.  
 \*\*\* This information is confidential and is not to be disclosed to third parties without prior CFC consent. This presentation reflects CFC's programs and policies in effect at the time this presentation was created. No future represent.

**EXHIBIT**  
Pg. 1

JW-1



## Block Island Utility District

CFC Loan Scenario  
Term Out All Balances

Count	Variable or Fixed	Interest Rate	Amort. Type	Advance Date	Amortization Start Date	Interest Rate Term	Loan Term In Months	Months to defer	Balloon Date	Final Payment Date	Loan Amount	LCTC's required?	Loans w/ Volume	Loans w/ Performance	Loans w/ Collateral	Loans w/ Equity
1	F	4.150%	LD	4/1/2019	5/1/2019	1	13	0		2/29/2020	\$247,606	No	\$0	Y	N	N
2	F	4.200%	LD	4/1/2019	3/1/2020	2	25	10		2/28/2021	\$253,574	No	\$0	Y	N	N
3	F	4.200%	LD	4/1/2019	3/1/2021	3	37	22		2/28/2022	\$263,015	No	\$0	Y	N	N
4	F	4.250%	LD	4/1/2019	3/1/2022	4	49	34		2/28/2023	\$272,922	No	\$0	Y	N	N
5	F	4.250%	LD	4/1/2019	3/1/2023	5	61	46		2/29/2024	\$283,240	No	\$0	Y	N	N
6	F	4.300%	LD	4/1/2019	3/1/2024	6	73	58		2/28/2025	\$228,110	No	\$0	Y	N	N
7	F	4.300%	LD	4/1/2019	3/1/2025	7	85	70		2/28/2026	\$168,560	No	\$0	Y	N	N
8	F	4.400%	LD	4/1/2019	5/1/2019	10	120	0		1/31/2029	\$200,328	No	\$0	Y	N	N
9	F	4.450%	LD	4/1/2019	5/1/2019	15	180	0		1/31/2034	\$450,000	No	\$0	Y	N	N
10	F	4.600%	LD	4/1/2019	5/1/2019	30	360	0		1/31/2049	\$3,432,645	No	\$0	Y	N	N

**BLOCK ISLAND UTILITY DISTRICT d/b/a BLOCK ISLAND POWER  
COMPANY**

**PRE-FILED DIRECT TESTIMONY**

**OF**

**DAVID G BEBYN, CPA**

**FOR**

**RHODE ISLAND DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**DOCKET NO. D-19 - \_\_\_\_\_**

**June 2019**

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

2 A. My name is David G. Bebyn CPA and my business address is 21 Dryden Lane,  
3 Providence, Rhode Island 02904.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of B&E Consulting LLC (B&E). B&E is a CPA firm that  
7 specializes in utility regulation, expert rate and accounting testimony, tax and accounting  
8 services.

9

10 **Q. Mr. Bebyn, have you testified as an expert accounting witness prior to this**  
11 **docket?**

12 A. Yes. I have provided testimony on rate related matters before utility commissions in  
13 Rhode Island and Connecticut. Regarding the Rhode Island Public Utilities Commission, I  
14 have prepared testimony and testified in the Block Island Power Company's (BIPCo) last  
15 rate filings in Docket #4690 in support of the Power Procurement Plan and Standard Offer  
16 and Transmission Tariffs. In addition to BIPCo's Standard Offer and Transmission filings,  
17 I provided testimony in support of a review of BIPCo's Revenue Requirement under  
18 R.I.G.L. Section 39-3-11 in light of the Tax Cuts and Jobs Act in Docket #4793 and I filed  
19 testimony in support of BIPCo's Petition for Expedited/Emergency Rate Relief for  
20 Recovery of Engine Rental Costs in Docket #4635. I also prepared testimony in A&R  
21 Marine's general rate filing Docket #4586 and on behalf of the Pascoag Utility District in  
22 Docket #4341 in support of the adjusted test year, rate year and rate design. In addition to  
23 rate filings before the Commission, I provided testimony in support of Woonsocket's  
24 Water Division's last two financing requests with the Division in Dockets #D-18-06 and  
25 #D-17-43.

26

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

28 A. I received my Bachelor of Science Degree in Accounting (BSA) from Rhode Island  
29 College. I became a Certified Public Accountant in 2000 after passing the CPA exam.

30

31

1 **Q. What is the purpose of your testimony?**

2 A. I will provide information on proposed new debt refinancing for Block Island Utility  
3 District d/b/a Block Island Power Company (“BIUD”) in the amount of \$5,800,000. The  
4 borrowing is part of the transition from the old investor owner BIPCo to the new non-profit  
5 BIUD. I will address the financial impact of this proposed refinancing. I will provide the  
6 reasoning behind BIUD’s selection of the financing terms for the loans. I will also present  
7 the information required by the Rules of the Division, so that the Division can review and  
8 evaluate this proposed \$5,800,000 refinancing package.

9

10 **Q. Mr. Bebyn, before addressing the financial impact of the borrowing can you**  
11 **provide some background of transition from the old investor owner BIPCo to the new**  
12 **non-profit BIUD?**

13 A. Certainly. Prior to November 2016, all of the shares of BIPCo were held by three  
14 individual owners who each held one third of the outstanding shares of BIPCo. On  
15 November 7, 2016, the Town of New Shoreham purchased all of the BIPCo shares from  
16 two of the owners. This provided the Town with a 2/3 majority ownership in BIPCo and  
17 resulted in a change in the BIPCo’s Board of Directors. The new BIPCo Board moved  
18 towards transferring BIPCo into a utility district. On July 26, 2017, Senate Bill No. 729  
19 Substitute A became effective without the Governor’s signature. This new law (R.I.G.L. §  
20 45-67-1 et seq.) created the BIUD. Under the Act, once the assets of BIPCo transferred to  
21 BIUD, BIPCo ceased functioning as an electric utility. That transfer took place on March  
22 25, 2019 when BIUD purchased all of BIPCo’s assets with an unsecured \$5.8 million  
23 short-term loan from National Rural Utilities Cooperative Finance Corporation (“CFC”).

24

25 **Q. Why was the initial short-term CFC loan unsecured?**

26 A. It all came down to timing. Until BIPCo’s assets were transferred to BIUD, BIUD  
27 could not function as an electric distribution company. BIUD could not acquire BIPCo’s  
28 assets until they purchased them from BIPCo. Furthermore, until BIUD became a regulated  
29 utility, BIUD could not obtain long-term debt financing approval from the Division to



1 support the asset purchase. Therefore, BIUD's best option was to obtain an unsecured  
2 short-term loan to fund the purchase which did not need approval from the Division.

3

4 **Q. How will the proceeds of this borrowing be used?**

5 A. As explained in the Pre-Filed Testimony of Jeffery Wright, the proceeds of the  
6 \$5,800,000 mortgage loan will be used to repay the \$5,800,000 unsecured loan from CFC  
7 to purchase the assets of BIPCo. The original unsecured loan relating to the purchase of  
8 BIPCo's net assets was used as follows:

9

Fixed Assets	\$5,532,757
Cash & Investments	251,062
Accounts Receivable (net) & Unbilled revenue	290,691
Inventory	204,478
Prepaid Expenses	10,795
Deferred Regulatory Assets	393,238
Payables & Customer Deposits	(83,094)
Accrued Expenses	(188,389)
Deferred Regulatory Liabilities	(530,583)
Deferred Revenue	(80,955)
	<hr/>
Total	\$5,800,000

10

11 **Q. Mr. Bebyn, how does the repayment of the BIPCo's RUS debt, BIPCo's RUS**  
12 **prepayment penalty and BIPCo's line of credit factor into the \$5,800,000?**

13 A. The previous paragraph demonstrates the use of the funds on BIUD's books by  
14 showing what was purchased with the proceeds. The original \$5,800,000 unsecured loan  
15 relating to the purchase of BIPCo's net assets was used as follows per BIPCo's books:

16

Cash received by BIPCo	\$3,432,645
BIPCo's RUS Debt paid directly with proceeds	1,717,027
BIPCo's RUS prepayment penalty paid directly	200,328
BIPCo's Line of Credit paid directly with proceeds	450,000
	<hr/>
Total	\$5,800,000

17

1 These balances correspond to the “Term out all Balance” report per CFC which is attached  
2 to Mr. Wright’s testimony on page 2 of Attachment JW-1.

3  
4 **Q. Mr. Bebyn, what are the terms for the proposed \$5,800,000 mortgage loan?**

5 A. The loan will be secured by all of BIUD’s real and personal property. CFC provided a  
6 financial analysis which is attached to Mr. Wright’s testimony as Attachment JW-1. The  
7 interest rates used in the JW-1 document are rates as of 04/26/2019 (used as a guide to  
8 estimate the eventual rates at closing). The loan’s interest rates will be calculated using a  
9 revenue market rate not to exceed 4.58%, which would result in a projected subsidized rate  
10 of approximately 4.18%.

11  
12 There is no drawdown period since the \$5,800,000 mortgage funds will be used to repay in  
13 full the \$5,800,000 unsecured note. The repayment period will be 30 years with an  
14 amortization which is different for each portion of the loan which CFC is financing. I will  
15 cover this amortization in greater detail in the next section. There will be no balloon  
16 payment due at the end of the 30 years. The debt service on the loan will be designed to  
17 include level annual payments for the first seven years of less than \$575,500 and  
18 afterwards will range from a low of \$198,185 in the twenty seventh year of the payment  
19 period (FY 2046) to a high of \$269,133 in the tenth year of the payment period (FY 2029).

20  
21 **Q. Mr. Bebyn, why was the loan amortization structured with this seven-year period  
22 of higher debt service payments during the first seven years then declining for the  
23 remaining twenty-three years?**

24 A. This structure is what was CFC willing to provide. The “Term out all Balance” report  
25 per CFC which is attached to Mr. Wright’s testimony on page 2 of Attachment JW-1  
26 details the various components of the financing. Counts 1 through 7 represent the  
27 refinancing of BIPCo’s RUS debt which is amortized over 7 years. CFC prefers to set the  
28 amortization period with the maturity of the existing debt to be refinanced. The existing  
29 BIPCo RUS debt would have matured in 2024 and 2031. CFC evaluated debt service  
30 payments with the 2024 and 2031 maturities and believed that this would have been a too

1 aggressive repayment schedule for the cash flow at current rates. Based on this cash flow  
2 analysis CFC calculated a 7-year amortization period for the existing RUS debt. Count 8  
3 represents the RUS pre-payment which is amortized over 10 years. Since this portion deals  
4 with existing debt that would have matured prior to 2031 a shorter amortization period was  
5 recommended. CFC evaluated this item in conjunction with the existing RUS debt in order  
6 to set the 10-year amortization period. Count 9 represents refinancing of the CoBank line  
7 of credit which is amortized over 15 years. This line of credit was initially used to finance  
8 the replacement of its fuel storage tanks. CFC prefers to finance this type asset over a 15-  
9 year amortization period. Lastly CFC was willing to finance the remaining assets with an  
10 amortization period of 30 years. This remaining amount is listed on count 10 and  
11 corresponds to the cash received by BIPCo.

12

13 **Q. Mr. Bebyn, in your opinion does BIUD have sufficient rates in place to pay the**  
14 **debt service for the \$5,800,000 mortgage loan?**

15 A. Yes. Now that BIPCo has transitioned from an investor owned utility to a non-profit  
16 utility, it is no longer subject to taxes. These tax savings together with depreciation cost  
17 and return on rate base which is already included in BIUD's current rates are adequate to  
18 make the debt service in my opinion. This opinion is supported by CFC's review of  
19 BIPCo's financials and CFC's calculation of BIUD's proforma projections based upon  
20 CFC's Compass financial modeling. This review resulted in CFC offering this loan with  
21 amortization periods discussed in the previous paragraph.

22

23 **Q. What interest rates will be used for the loan?**

24 A. As I stated above, the interest rates used in the JW-1 CFC document are rates as of  
25 04/26/2019 (used as a guide to estimate the eventual rates at closing). The loan's interest  
26 rates will be calculated using the revenue market rate not to exceed 4.58% which would  
27 result in a projected subsidized rate of approximately 4.18%

28 **Q. Is there a prepayment premium?**

29 A. Yes. The loan is subject to a Prepayment Administrative fee and any make-whole  
30 prepayment premium.

1 **Q. What, if any, financial covenants are required?**

2 A. BIUD is to maintain a Modified Debt Service Coverage (“MDSC”). MDSC is defined  
3 as Operating Margins + Interest Expense LTD + Depreciation, Amortization + Non-  
4 Operating Margins. The level of MDSC that CFC requires is 1.35 for two out of the past  
5 three years.

6  
7 **Q. In your opinion, will BIUD be able to satisfy the 1.35 MDSC test?**

8 A. Yes. As previously mentioned, CFC’s calculation of BIUD’s proforma projections is  
9 based upon CFC’s Compass financial modeling. This review included satisfying this 1.35  
10 MDSC test. The Compass model resulted in factors in excess of 2.00 based upon current  
11 rates.

12  
13 **Q. Will this refinancing impact the ratepayers?**

14 A. No. There will be no rate impact on the ratepayers because the debt service cost will be  
15 covered by current rates in place.

16  
17 **Q. Will BIUD need to file with the PUC at some point to adjust rates?**

18 A. Yes, but not for the purpose of covering this debt service. In Commission Order No.  
19 23522 in Docket #4606, BIPCo was granted an extension of time to allow for the filing of a  
20 full rate case within 90-days of (1) the closing of the transfer of BIPCo’s assets to BIUD  
21 and (2) resolution of the McGinnes litigation. The asset sale has taken place but the  
22 McGinnes litigation has not yet been resolved.

23 **Q. Are the terms of the \$5,800,000 mortgage loan of the CFC in the best interest of**  
24 **the ratepayers?**

25 A. Absolutely. BIUD has worked hard to secure this below market rate financing, which  
26 provides not only a low interest rate, but also maximum flexibility in terms of the  
27 repayment.

28

29

1 **Q. Is there an impact of this proposed borrowing on the debt/equity ratio of BIUD**  
2 **or on any of the other information required by the Division's rules?**

3 A. No. The proceeds of this loan will be used to repay the unsecured loan from CFC and  
4 as a result will be just replacing existing debt and this debt can be covered by the current  
5 rates in place. Furthermore, BIUD is a newly created non-profit entity. As a result, it has no  
6 equity in retained earnings and no investor owned equity.

7

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

9 A. Yes.