

General Field Representative with the Rural Utilities Service. The Advocacy Section did not present any witnesses in this docket.

Mr. Edge provided pre-filed direct testimony in this case.¹ He also sponsored three supporting exhibits, including a copy of the unexecuted FFB promissory note.² Mr. Edge summarized the terms of the financing agreement as follows:

1) Loan amount: \$3,420,000

This amount represents the maximum funds available to BIPCO at the FFB that can be drawn down as needed for the items listed on Exhibit 2 of this testimony.

2) Interest rate:

The interest rate is established by the FFB on the date of each draw down based primarily upon the useful life of the asset(s) purchased. The life of the asset becomes a guide for the term of the loan (BIPCO hopes to use the full 25 year term for most draw downs). The current FFB quarterly rates range from 3 months (5.88%) to 30 years (6.54%) (see letter dated February 24, 2000 from the Acting RUS Director).

3) Other fees:

The note allows for prepayment/refinancing; however a fee is required. There is also a fee for each advance of 1/8% to cover FFB expenses (this fee is included in the rates shown on Exhibit 1). There is a late payment fee. There is a one thousandth of one percent annual fee (0.001). There are no other fees that we are aware of.

4) Term:

The note has a 25-year term. However, the maturity date of each advance can vary with each draw down. BIPCO currently hopes to set the term at the 25 year limit for most advances, although the RUS will have the final say.

5) Method of payment:

Interest and principal are paid quarterly. Principal payments can be deferred for the first two years if RUS and FFB consent. Payments may be designed to include 1) equal principal payments and interest, 2) level debt service payments or 3) graduated principal installments (less in the first one third of the loan) plus interest. At this time BIPCO is leaning toward level debt service payments and the two years deferral of principal to facilitate stable rate setting. All payments must be made by wire transfer.

¹ See BIPCO Exhibit 2.

² See BIPCO Exhibits 3-5.

6) Prepayment premium:

As stated in 3 above there is a prepayment premium. The cost varies with the prepayment option selected. Given the current market conditions relating to interest and the favorable rates provided by the RUS/FFB, BIPCO intends to select the least cost prepayment option. The minimum prepayment amount is \$100,000 of principal.

7) Collateral:

RUS/FFB require a first mortgage and security interest position on all of the assets of BIPCO. As a condition of this borrowing, Washington Trust Company (our existing mortgage holder) must give up its first position on BIPCO's assets and take a second position on all of BIPCO's assets. Washington Trust Company has preliminarily agreed to do so and the final subordination documentation is in process.

8) Guarantors:

There are no personal guarantees required from the owners. This note is guaranteed by RUS to the FFB.

9) General Information:

The note will contain a 'Last Day for an Advance' date, a 'Maximum Principal Amount', a 'Final Maturity Date', and a 'First Principal Date'. These items will be filled in at the closing. (BIPCO Exhibit 2, pp. 1-3).

Mr. Edge testified that in his opinion the terms and conditions of the proposed financing are in the best interests of BIPCO and its ratepayers. He related that BIPCO has worked hard to secure this below market rate financing, which provides not only low interest rates, but maximum flexibility in terms of draw downs and repayments (Id., p. 3).

Mr. Edge did explain, however, that the proposed RUS/FFB financing would adversely affect BIPCO's current debt/equity ratio. He testified that the loan, if approved, would increase BIPCO's debt/equity ratio from its current ratio of 1.68/1 to a ratio of 3.38/1 (Id., p.4). Despite the increase, Mr. Edge opined that a ratio of 3.38/1 "is still within the range of reasonableness" (Id., pp. 4-5). He predicted that the higher debt/equity ratio would not degrade BIPCO's current borrowing position (Id., p.5).

Mr. Edge also opined that the borrowing will have very little, if any, ratepayer impact. He related that BIPCO currently has in its rates a \$75,000 environmental surcharge and approximately \$250,000 of engine rental expense. He testified that the need for these two items will be substantially reduced after BIPCO uses the RUS proceeds to buy an engine and a “Selective Catalytic Reduction” (“SCR”) pollution control add-on for the engine. He related that BIPCO plans to buy the new engine and install the SCR “before this summer” (Id., pp. 5-6). Mr. Edge testified that the savings from these two revenue sources could offset much of the debt service on the RUS financing.

Mr. Edge next discussed the items that BIPCO will finance with the proposed RUS/FFB loan. He explained that as a condition of the RUS/FFB loan, the Division is required by RUS to “specifically identify” in its order the items that the Division is approving to be financed with the instant loan proceeds. BIPCO has provided the Division with the details of each item with its filing.³

In closing, Mr. Edge stated that it is too early to tell if BIPCO will need to increase rates to pay the debt service on the proposed RUS/FFB loan. He related that BIPCO plans to file a rate case with the Public Utilities Commission in August of this year. Mr. Edge testified that BIPCO hopes that the \$75,000 environmental surcharge and the \$250,000 for engine rentals, described above,

³ A complete list of these items, along with their concomitant estimated costs, was included with the application filing (See BIPCO Exhibit 4.) An amended exhibit, reflecting clarification on some projects, was filed subsequent to the May 4 hearing and made part of the record by agreement (See BIPCO Exh. 6), attached to this Report and Order).

will be adequate to finance the proposed loan on a going forward basis.

Messrs. Wagner and Um were offered by BIPCO to answer specific cross-examination questions regarding BIPCO's operations and the RUS/FFB loan.

For the Division's Advocacy Section, Ms. Kelleher stated that the filing appears reasonable based on the exhibits and testimony provided by BIPCO. The Advocacy Section supported the filing. However, Ms. Kelleher recommended that the Division direct BIPCO to report all draw downs associated with the RUS/FFB loan within thirty days. She suggested that the reports specify the amount, term, interest rate and specific use of each draw down. As in all financing dockets, the Advocacy Section also reserved its right to question the propriety of all subsequent BIPCO rate filings and debt service requests before the Public Utilities Commission ("Commission").

FINDINGS

Based upon a careful examination of the record in this docket, the Division finds the proposed RUS/FFB loan reasonable and in the best interests of BIPCO's ratepayers.

The Division further finds the Advocacy Section's recommendation that BIPCO report on the details of each loan advance or draw down to be reasonable. Such reporting shall be adopted.

Accordingly, it is

(16267) ORDERED:

1. That the March 17, 2000 filing by the Block Island Power Company seeking authority to execute a \$3,420,000 RUS/FFB loan is hereby granted as filed.
2. That the Division's approval of the instant loan authorization request is based on the projects identified and on the RUS/FFB terms and

conditions detailed in record of this docket. BIPCO shall act in accordance with the loan's terms and conditions.

3. Financing is hereby approved for the projects described in the attachment appended to this Report and Order as "Appendix 1" (BIPCO Exh. 6). Said document is incorporated by reference.
4. That BIPCO shall report the details of each loan advance (draw down) to the Division in a manner consistent with the Advocacy Section's recommendation in this docket.
5. That the authority granted herein shall not be construed to release BIPCO from the regulatory approvals required by the Public Utilities Commission for any rate change modifications that may be necessitated by this loan.

Dated and Effective at Providence, Rhode Island on May 23, 2000.

RI Division of Public Utilities and Carriers

John Spirito, Jr. Esq.
Hearing Officer

Thomas F. Ahern
Administrator

Appendix 1

BLOCK ISLAND POWER COMPANY

GENERATION ENGINE/SCR COST ANALYSIS

RI01 "A8" BLOCK ISLAND

Engines/SCR's

- | | | | |
|----|---|---|----------------------|
| 1. | "B" Engine (\$485,000) with installation (\$40,000) | = | \$525,000 (25 years) |
| 2. | "B" Engine (\$485,000) with installation (\$40,000) | = | \$525,000 (25 years) |
| 3. | "B" Engine (\$485,000) with installation (\$40,000) | = | \$525,000 (25 years) |
| 4. | SCR purchase (\$160,000) with installation (\$40,000) | = | \$200,000 (25 years) |
| 5. | SCR purchase (\$160,000) with installation (\$40,000) | = | \$200,000 (25 years) |
| 6. | SCR purchase (\$160,000) with installation (\$40,000) | = | \$200,000 (25 years) |

7. Tanks

Remove and Replace Tanks (reimbursement) = \$350,000 (20 years)

8. Soft Costs:

- | | | | |
|----|---------------------------------------|---|----------------------|
| a. | Engineering (preliminary and project) | = | \$100,000 (25 years) |
| b. | Legal (general and PUC) | = | \$140,000 (25 years) |
| c. | Legal (environmental and permitting) | = | \$ 50,000 (25 years) |
| d. | Accounting (general and PUC) | = | \$ 90,000 (25 years) |
| e. | Project Manager | = | \$ 75,000 (25 years) |
| f. | Permitting | = | \$100,000 (25 years) |

- | | | | |
|----|---|---|----------------------|
| 9. | <u>Distribution Costs</u> (including substation): | = | \$340,000 (35 years) |
|----|---|---|----------------------|

\$3,420,000

Plus such other uses of the above funds as may be approved by the Rural Utilities Service.

