State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

150 South Main Street • Providence, RI 02903
(401) 274-4400
TDD (401) 453-0410

Patrick C. Lynch, Attorney General

February 18, 2008

VIA ELECTRONIC AND REGULAR MAIL

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

Re: Block Island Power Company – Rate Change Application Filed On November 9, 2007 – Commission Docket No. 3900

Dear Ms. Massaro:

Enclosed for filing in the above-captioned proceeding are an original and nine (9) copies of the prefiled testimony, and schedules supporting the pre-filed testimony, of Mr. David J. Effron on behalf of the Rhode Island Division of Public Utilities and Carriers. Copies of this letter and its enclosure will be filed with you electronically, and provided to all persons on the service list for this docket.

Very truly yours,

William K. Lueker (R.I. Bar # 6334)
Special Assistant Attorney General
Tel. (401) 274-4400, ext. 2299
Fax (401) 222-3016

Encl.

cc: Service List PUC Docket No. 3900

BLOCK ISLAND POWER COMPANY

GENERAL RATE FILING

RIPUC DOCKET NO. 3900

BEFORE THE
RHODE ISLAND PUBLIC UTILITIES COMMISSION

TESTIMONY AND EXHIBITS
OF DAVID J. EFFRON

ON BEHALF OF THE

DIVISION OF
PUBLIC UTILITIES AND CARRIERS

FEBRUARY 19, 2008

RIPUC DOCKET NO. 3900
DIRECT TESTIMONY
OF DAVID J. EFFRON

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is David J. Effron. My business address is 12 Pond Path, North Hampton, New Hampshire, 03862.

Q. What is your present occupation?

A. I am a consultant specializing in utility regulation.

Q. Please summarize your professional experience.

A. My professional career includes over thirty years as a regulatory consultant, two years as a supervisor of capital investment analysis and controls at Gulf & Western Industries and two years at Touche Ross & Co. as a consultant and staff auditor. I am a Certified Public Accountant and I have served as an instructor in the business program at Western Connecticut State College.

Q. What experience do you have in the area of utility rate setting proceedings?

A. I have analyzed numerous electric, gas, telephone, and water filings in different jurisdictions. Pursuant to those analyses I have prepared testimony, assisted attorneys in case preparation, and provided assistance during settlement negotiations with various utility companies.

I have testified in over two hundred cases before regulatory commissions in Alabama, Colorado, Connecticut, Florida, Georgia, Illinois, Indiana, Kansas, Kentucky, Maryland, Massachusetts, Missouri, Nevada, New Jersey, New York, North Dakota, Ohio, Pennsylvania, Rhode Island, South Carolina, Texas, Vermont, Virginia, and Washington.

Q. Please describe your other work experience.

A. As a supervisor of capital investment analysis at Gulf & Western Industries, I was responsible for reports and analyses concerning capital spending programs, including project analysis, formulation of capital budgets, establishment of accounting procedures, monitoring capital spending and administration of the leasing program. At Touche Ross & Co., I was an associate consultant in management services for one year and a staff auditor for one year.

Q. Have you earned any distinctions as a Certified Public Accountant?

A. Yes. I received the Gold Charles Waldo Haskins Memorial Award for the highest scores in the May 1974 certified public accounting examination in New York State.

Q. Please describe your educational background.

A. I have a Bachelor's degree in Economics (with distinction) from Dartmouth College and a Masters of Business Administration Degree from Columbia University

II. PURPOSE AND SUMMARY OF TESTIMONY

Q. On whose behalf are you testifying?

A. I am testifying on behalf of the Rhode Island Division of Public Utilities and Carriers ("the Division").

Q. What is the purpose of your testimony?

A. I am addressing the revenue requirement of Block Island Power Company ("BIPCo" or "the Company") based on its proposed test year consisting of the twelve months ended May 31, 2007 and its proposed rate year consisting of the twelve months ending May 31, 2009.

Q. Please summarize your testimony.

A. I have calculated a net revenue requirement of $2,246,632 for services provided pursuant to rates authorized by the Rhode Island Public Utilities Commission ("Commission"). This net revenue requirement is equal to the total cost of service less miscellaneous revenues and is 6.66% greater than the revenues produced by the base rates presently in effect.

III. REVENUE REQUIREMENT

A. SUMMARY

Q. Have you prepared a summary of BIPCo's net revenue requirement?

A. Yes, I prepared a summary on Schedule DJE-1. On this schedule, I compare the Company's presentation of its revenue deficiency to the Division's recommendation. I have begun with BIPCo's total rate year cost of service. The cost of service includes all elements of the Company's revenue requirement, including the return on rate base. I then subtract the miscellaneous rate year revenues earned by BIPCo. The miscellaneous revenues include items such as interest income and rental income.

These revenues come from services that are not provided pursuant to the Company's approved tariffs for electric service. The cost of service net of miscellaneous revenues is the revenue requirement from services that are provided pursuant to Commission approved tariffs. The difference between the net revenue requirement and the rate year revenues earned from tariff services is the Company's revenue deficiency.

BIPCo has calculated a revenue deficiency of $400,027, which is equal to 18.99% of rate year tariff revenues. I have calculated a revenue deficiency of $140,380, which is equal to 6.66% of rate year tariff revenues

B. COST OF SERVICE

Q. What are the elements of the cost of service?

A. The elements of the rate year cost of service are operation and maintenance expenses, depreciation, taxes other than income taxes, income taxes, and return on rate base. These elements of the total cost of service are summarized on Schedule DJE-2.

Q. Are you proposing adjustments to the rate year cost of service calculated by the Company?

A. Yes. The Company has calculated a pro forma cost of service, based on its Fiscal 2009 rate year, of $2,691,719. Based on the adjustments to the Company's position that I have identified, I am proposing a total cost of service of $2,432,072. I address the individual adjustments to the Company's cost of service in the following testimony.

1. Operation and Maintenance Expenses

a. Management Fees

Q. What are the management fees included by the Company in its cost of service?

A. The management fees are the payments to the principal officers of the Company – the president, the chief financial officer, and the chief operating officer. The total of payments to the principal officers included by the Company in the rate year revenue requirement is $168,000.

Q. How does this compare to the management fees expense included in the Company's revenue requirement in its last base rate case, Docket No. 3655?

A. The management fees expense included in the Company's last case was $135,611. The expense in this case is an increase of $32,389, or approximately 23.9%.

Q. Has the Company offered a justification for the increase in management fees expense of $32,369?

A. Yes. On pages 11-12 of his direct testimony, Mr. Edge explains that after the settlement in Docket No. 3655, the Company had intended to pay the principal officers $133,000 plus dividends of $35,000 to bring their total compensation to $168,000, a level that BIPCo felt was reasonable. However, the principal officers subsequently agreed to forego the dividends, in order to improve the Company's debt/equity ratio.

In Fiscal Year 2007, the total compensation was increased to $168,000, all in the form of salaries and none in the form of dividends. According to Mr. Edge, the compensation was paid entirely as salaries, rather than a mix of salaries and dividends, “because it is cheaper for the ratepayers to do so in this fashion.”

Q. Did Mr. Edge explain the basis of his belief that “it is cheaper for the ratepayers” to pay the compensation as all salaries rather than a combination of salaries and dividends?

A. Yes. In response to Division Data Request 1-21, Mr. Edge stated that if the additional $35,000 of compensation had been paid in dividends rather than in salaries, the BIPCo federal income tax expense would have been higher (salaries are deductible for income tax purposes, while dividends are not), and, as federal income tax expense is included in the Company’s revenue requirements, reducing the income tax expense (by increasing the salaries) results in savings to ratepayers.

Q. Is Mr. Edge’s explanation of why it is cheaper for ratepayers to pay the compensation as all salaries rather than a combination of salaries and dividends valid?

A. No. Mr. Edge fails to take account of the fact that salaries are included in the revenue requirement while dividends are not. Although the revenue requirement is lower than it would be if the salaries were not deductible for income taxes, the increase in salaries expense results in an increase to the Company’s revenue requirement, even after taking account of the reduction to income taxes. Paying the incremental compensation of $35,000 as salaries rather than as dividends increases the Company's revenue requirement by $35,000.

Q. Are you proposing to adjust the management fees expense included in the Company's revenue requirement?

A. Yes. The management fees expense included in the revenue requirement in Docket No. 3655 was based on the management compensation paid to what was deemed to be a comparable electric utility. This has not been shown to be an improper basis for the determination of the management fees expense to be included in BIPCo's cost of service in the present case. On Schedule DJE-3, I have calculated that adjusting the management fees allowed in Docket No. 3665 for inflation, assuming an annual inflation rate of 2.5%, the result is rate year management fees expense of $146,038. This is $21,962 less than the management fees expense included by the Company in its cost of service. Accordingly, I have reduced the pro forma rate year management fees expense by $21,962.

b. Pension Expense

Q. Is the Company including any new pension expense in its revenue requirement in addition to what has already been approved by the Commission?

A. Yes. The Company is including an additional annual pension expense of $24,000 in its revenue requirement. This pension expense represents payments to the former president of the Company, Mr. Edwards. This pension expense increases the previously approved annual expense of $48,000 by 50%, to $72,000. As explained by Mr. Edge, this pension expense was awarded to Mr. Edwards in recognition of his "years of excellent service" and his "accomplishments for the Company and the ratepayers."

Q. Did the Company actually set any funds aside to provide for the retirement of Mr. Edwards during his years of service to the Company?

A. No, it did not.

Q. Is BIPCo legally obligated to make these pension payments to Mr. Edwards?

A. In response to Town Data Request 1-8, the Company stated that it "believes" it is under a legal obligation to include Mr. Edwards under its employee benefit plan. However, that belief appears to be based on a vote by the Board of Directors in June 2005 to pay Mr. Edwards a pension of $2,000 per month, rather than any obligation that actually accrued to Mr. Edwards during his term of service. In fact, in the response to Division Data Request 2-3, the Company provided documentation supporting its accrued pension liability as of May 31, 2007. The liability to Mr. Edwards is explicitly shown as zero.

Q. Should the pension payments to Mr. Edwards be included in the Company's revenue requirement?

A. No. As "exemplary" as the service provided by Mr. Edwards may have been, it is not clear that BIPCo has any obligation to make these payments, or that Mr. Edwards would have any right to expect them, absent the unilateral action of the Board of

Directors in June 2005. The right of an employee to receive pensions during retirement is a form of compensation to employees for service rendered. There is no evidence that Mr. Edwards was under-compensated during his years of service or that there was any understanding, either implicit or explicit, that his compensation during those years would be augmented by additional payments during retirement. Given these circumstances, regardless of the merits of his service, the pension to Mr. Edwards appears to be little more than a gratuity. As such, it should be excluded from the Company's revenue requirement. I have therefore reduced pro forma rate year operation and maintenance expense by $24,000 (Schedule DJE-3).

c. SCR and Engine Maintenance

Q. What amount of Selective Catalytic Reduction ("SCR") and engine maintenance has the Company included in its rate year revenue requirement?

A. The Company has included $238,917 of SCR and engine maintenance expense in its rate year revenue requirement

Q. How does this compare to the allowance for such maintenance presently included in the Company's cost of service?

A. The present allowance for SCR and engine maintenance is $210,272. Pursuant to the Stipulation and Settlement in Docket No. 3655, the Company accrues this annual allowance to a reserve account, with actual maintenance expenditures to be charged to that reserve. I address the balance in the reserve account in the rate base section of this testimony.

Q. How did the Company determine the pro forma expense amount?

A. The pro forma maintenance expense is based on a forecast of the average expense for fiscal years 2009, 2010, and 2011. In response to a request for "all relevant documentation supporting the schedule of engine maintenance and the cost of such maintenance" the Company provided some hand written notes and e-mail exchanges. The average of forecasted maintenance expenditures for fiscal years 2009, 2010, and 2011 is $301,584. The Company is also proposing to amortize the credit balance in the reserve account as of May 31, 2007, approximately $188,000, over three years. When the annual amortization of this credit balance, $62,667, is netted against the forecasted expenditures, the Company's proposed pro forma annual expense is $238,917.

Q. Are you proposing to modify the pro forma SCR and engine maintenance expense calculated by the Company?

A. Yes. I am proposing an annual allowance of $200,000. This is more in line with the average of actual expenditures incurred in fiscal years 2006 and 2007. It is also approximately equal to the Company's forecasted three year average of maintenance expenditures, net of amortization of the actual reserve balance of $300,619 as of October 31, 2007 over three years. An annual expense allowance of $200,000 represents a reduction of $38,917 to the pro forma expense calculated by the Company (Schedule DJE-3).

Q. Are you proposing that the Company actually amortize the credit balance in the reserve account existing as of October 31, 2007?

A. No. However, the existence of the credit balance should be taken into account in determining the annual expense allowance. That is, the credit balance will be available to absorb any maintenance expenditures in excess of the $200,000 per year. The Company should employ the accounting method just as specified in the Stipulation and Settlement in Docket No. 3655 and should accrue the annual allowance, which would now be $200,000, to the reserve account and charge actual SCR and engine maintenance expenditures against that reserve account.

Q. Has the Company employed the accounting method specified in the Stipulation and Settlement in Docket No. 3655 correctly?

A. No. BIPCo has been accruing the annual allowance to the reserve account correctly but has been making the offsetting entry to a regulatory asset account (3283.0002), instead of to the appropriate maintenance expense accounts. When the actual SCR and engine maintenance expenditures are incurred, the maintenance expense accounts are charged, and both the regulatory asset and reserve accounts are reduced by the amounts of the actual expenditures.

The Company should credit the allowance to the reserve account with the offsetting entry to the relevant maintenance expense accounts. Then actual expenditures should be charged to the reserve account, as specified in the Stipulation and Settlement in Docket No. 3655. No regulatory asset exists, and none should appear on the Company's balance sheet.

d. Rate Case Expense

Q. What level of rate case expense is BIPCo seeking to include in its revenue requirement?

A. BIPCo is seeking to include $57,169 of rate case expense in its rate year revenue requirement. This amount consists of estimated rate case costs of $125,000 in this case amortized over three years (approximately $42,000 per year), plus $15,169 annual amortization of rate case costs incurred in the Company's prior rate case in excess of what was allowed in its revenue requirement in that case.

Q. Should the rate case expense included in the Company's revenue requirement be adjusted?

A. Yes. The amortization of excess rate case costs related to the prior rate case should be eliminated. While it is unfortunate that the actual rate case expense in the last case exceeded the estimated costs, allowing recovery of those excess costs prospectively from ratepayers would be nothing more than retroactive ratemaking. Elimination of the amortization of excess costs from the prior rate case reduces the pro forma rate case expense by $15,169 (Schedule DJE-3).

e. Lobbying

Q. Has the Company included lobbying costs in pro forma rate year operation and maintenance expenses?

A. Yes. Lobbying expenses of $3,825 are included in other outside services expenses. As a matter of public policy, expenditures to influence legislation, such as lobbying, should not be included in the cost of service of a public utility company. Therefore, I have eliminated this $3,825 of lobbying expense from the Company's revenue requirement (Schedule DJE-3).

f. Meter Replacement Survey

Q. Did the Company include the cost of a meter replacement survey in pro forma rate year expenses?

A. Yes. The Company has included $10,000 of costs associated with a meter replacement survey in pro forma expenses.

Q. Should the annual meter replacement survey expense included in the Company's revenue requirement be modified?

A. Yes. It is my understanding that the meter replacement survey will not be an annual event. Therefore, the cost of the survey should be spread over three year period. Doing so reduces the expense included in the cost of service by $6,667 (Schedule DJE-3).

g. Condo Fees

Q. Do rate year expenses include condo fees?

A. On Schedule Wee-3, there are $1,330 of condo fees included in rate year operation and maintenance expenses.

Q. Should the condo fees be eliminated from pro forma operation and maintenance expenses?

A. Yes. In response to Town Data Request 1-34, the Company states these fees should not be included in rate year expenses. Therefore, I have eliminated this expense from the cost of service on my Schedule DJE-3.

2. Depreciation Expense

Q. Have you analyzed the Company's rate year depreciation expense?

A. Yes. The details of the rate year depreciation expense were provided in the response to Division Data Request 1-31. That response shows the individual property items by account and the annual depreciation expense on each of those property items in the test year and in the rate year.

Q. Are you proposing any adjustments to the Company's calculation of its rate year depreciation expense?

A. Yes. I am proposing two adjustments. First, I am proposing to modify the pro forma annual pro forma depreciation expense on capitalized overhaul costs of Engine #24. Second, I am proposing to modify the pro forma depreciation expense on the new bucket truck.

Q. Please explain your proposed modification to the rate year depreciation expense on capitalized overhaul costs of Engine #24.

A. In May 2006, the Company capitalized $130,945 of overhaul costs associated with Engine #24. Those costs are being amortized over three years. As of the beginning of the rate year, the unamortized balance will be $43,103. The pro forma depreciation expense reflects the amortization of that amount, so that the remaining balance at the end of the rate year is zero. If the rates established in this case are in effect for more than one year, then those rates will continue to reflect that depreciation expense even after the capitalized overhaul cost is completely depreciated. Therefore, the depreciation of capitalized overhaul costs should be adjusted.

Q. How should the depreciation expense be adjusted?

A. For the purpose of normalizing rate case expense, the Company has assumed that the rates established in this case will be in effect for three years. Accordingly, the net book value of the capitalized overhaul costs remaining as of May 31, 2008 should be amortized over a period of three years. As can be seen on Schedule DJE-4, this modification results in annual depreciation expense of $14,368, which is $28,375 less than the depreciation expense calculated by the Company. Thus, the effect of depreciating the remaining net book value as of May 3l, 2008 over a period of three years is to reduce rate year depreciation expense by $28,375.

Q. Please explain your proposed modification to the rate year depreciation expense on the new bucket truck.

A. BIPCo includes a bucket truck added in Fiscal Year 2008 in its rate year plant in service. The Company is proposing to depreciate this new bucket truck over five years. All the other plant items in the Transportation Equipment account, including other bucket trucks, are being depreciated over twenty years. Consistent with this practice, the new bucket truck should also be depreciated over twenty years. Doing so reduces the rate year depreciation expense by $12,900 (Schedule DJE-4).

3. Taxes Other Than Income Taxes

Q. Should the gross receipts tax included by the Company in its cost of service be modified?

A. Yes. The Company has reflected the gross receipts tax based on its own calculation of the rate year revenue requirement. To the extent that other elements of the cost of service are modified, the pro forma gross receipts tax expense will also have to be adjusted. I have adjusted the Company's gross receipts tax based on my proposed adjustments to the Company's revenue requirements, as shown on my Schedule DJE-5.

4. Income Tax Expense

Q. Have you calculated the pro forma income tax expense to be included in the Company's revenue requirement?

A. Yes. I have calculated the pro forma income tax expense on my Schedule DJE-6. I have used what is commonly referred to as the return method of calculating pro forma income tax expense. This method begins by calculating the taxable income base (that is, the net income after income tax expense) by applying the weighted return on equity to the rate base. To determine the taxable income, the net income must then be grossed up (which step was erroneously omitted on Schedule WEE-15), as the income tax expense itself is not deductible for federal income taxes. Finally, the income tax rate of 34% (the rate on taxable income in excess of $75,000 but less than $100,000) is applied to the taxable income to calculate the pro forma income tax expense to be included in the Company's revenue requirement.

In addition, the return method implicitly assumes that book-tax timing differences are normalized and implicitly takes account of the deferred tax expense on any book-tax timing differences. Therefore, no separate allowance for deferred income tax expense is necessary. The expense that I have calculated on my Schedule DJE-6 replaces not only the current income tax expense calculated by the Company but also the elements of deferred income tax expense on Schedule WEE-3, Page 4.

5. Return on Rate Base

Q. How is the return on rate base to be included in the total revenue requirement calculated?

A. The return on rate base is calculated by multiplying the rate of return by the rate base. The rate base is the net investment in facilities necessary to provide utility service. I am proposing adjustments to both the rate base and rate of return proposed by the Company.

a. Rate Base

Q. What adjustments to the Company's rate base are you proposing?

A. I am proposing two adjustments to the Company's rate base. First the accrued reserve related to the SCR and engine maintenance should be deducted from rate base. Second, the surcharge payable related to the IRP and DSM recovery should be deducted from rate base.

Q. Why should the accrued reserve related to the SCR and engine maintenance be deducted from the Company's rate base?

A. As I noted I my testimony on operation and maintenance expense, in Docket No. 3655, an annual accrual of $210,272 for SCR and engine maintenance was included in the Company's cost of service. That amount was accrued to the reserve account, and when actual maintenance expenditures were made, the reserve balance was reduced accordingly. Thus, the amount in the reserve account represents the amount collected from ratepayers for the SCR and engine maintenance above amounts actually expended by the Company. As such, the reserve account should be deducted from rate base as ratepayer supplied funds. As of October 31, 2007, the balance in the reserve account was $300,618. I have reflected this balance as a rate base deduction on Schedule DJE-7

Q. Why should the surcharge payable related to the IRP and DSM recovery be deducted from rate base?

A. The Company has funded its IRP and DSM programs by means of a $0.01 per kWh surcharge applied to sales in the months June through September. The amounts recovered in rates are credited to the payable account, with actual expenditures being charged against that account. The balance in the payable account represents the amount collected in from ratepayers above amounts actually expended, and as such should be deducted from rate base as ratepayer supplied funds. As of October 31, 2007, the balance in the reserve account was $52,492. I have reflected this balance as a rate base deduction on Schedule DJE-7

Q. Have you reflected any adjustments to the projected rate year rate base as a result of your other proposed adjustments?

A. Yes. I have proposed an adjustment to rate year depreciation expense. Consistent with the adjustment to expense, the rate year depreciation reserve should also be adjusted. The reduction to depreciation expense results in a reduction to the depreciation reserve, which in turn increases the balance of net plant in service included in the rate year rate base. I have reflected that increase to the average rate year net plant in service on my Schedule DJE-7.

b. Rate of Return

Q. How is the rate of return calculated?

A. The rate of return is the sum of the weighted average cost of debt and the weighted return on equity.

Q. What is the Company's presently authorized return on equity?

A. The Company's presently authorized return on equity is 10.50%.

Q. What return on equity has the Company reflected in determining its weighted average rate of return?

A. The Company has reflected a return on equity of 10.70%

Q. What return on equity have you reflected in determining the weighted average rate of return?

A. The Company has not presented any convincing reason why its authorized return on equity should be increased from 10.50% to 10.70%. Therefore, I have reflected a return on equity of 10.50% in my calculation of the weighted average rate of return.

Q. Are you proposing any adjustments to the capital structure used to calculate the overall rate of return?

A. Yes. In Fiscal Year 2006 the Company sold certain parcels of land and recorded a gain of $828,196 on that sale net of relevant expenses. The gain increased the balance of retained earnings, which is a component of the common equity included in the Company's capital structure. I am proposing to modify the composition of the common equity included in the capital structure, to share the benefits of the gain between shareholders and ratepayers.

Q. In your experience, as a general matter, what is the treatment of the gain on the sale of property of regulated utility companies?

A. As a general rule, if the property sold was included in rate base during its period of ownership by the utility, then the gain will go to ratepayers, usually by amortizing the gain to the utility's revenue requirement over some number of years. If the property sold was not included in rate base during its period of ownership by the utility, then the gain will inure to the benefit of shareholders and will not be recognized in the determination of the utility's revenue requirement.

Q. Was the property sold by BIPCo in Fiscal Year 2006 included in its rate base for ratemaking purposes?

A. In Division Data Requests 1-16 and 1-17, the Company was asked to provide information regarding the accounts in which the property had been carried and whether the property had been included in rate base prior to it sale. Based on the responses, the Company's records do not allow an exact determination of the accounts in which the property had been carried and the extent to which it had been included in rate base before the sale. However, it appears that at least some, if not all, of the property had been included in rate base for at least some, if not all, of the period of the Company's ownership of the property.

Q. Based on this information (or lack of information), how do you recommend that the gain on the sale of the property be treated for ratemaking purposes?

A. I believe that a sharing of the benefits of the gain on the sale between ratepayers and shareholders would be appropriate. I recommend that the benefit of the gain be allocated 50% to ratepayers and 50% to shareholders, as I have no sound basis to recommend that either get a larger or smaller share.

Q. Are you proposing to amortize the ratepayers' share of the gain as a credit to the cost of service in this case?

A. No. Given the Company's financial condition, I believe the management acted prudently in not distributing the income from the gain as dividends to shareholders. In these circumstances, I believe that it would be reasonable for the ratepayers' share of the gain to remain with the Company to finance its investment in operations. However, the ratepayer share of the gain should then be recognized for what it is – ratepayer supplied capital – and accorded a zero return. As compared to amortizing the gain to the cost of service, this will provide the Company with a shorter term benefit of improved cash flow while providing the ratepayers with the longer term benefits of reduced return requirements in future cases. When the financial health of the Company improves to the point where dividends can be paid, then amortization of the ratepayers' share of the gain can be considered.

Q. What is the effect of your proposed treatment of the ratepayers' share of the gain on the sale of property?

A. The ratepayers' share of the gain is $414,098 (Schedule DJE-8, Page 2). This represents 8.10% of the total capital structure. The common equity earning a return of 10.50% should be reduced from 25.95% to 17.85%, and the ratepayers' share of the gain on the sale, representing 8.10% of the total capital, should be included in the capital structure at zero cost. The result is a weighted average rate of return of 5.78% (Schedule DJE-8, Page 1).

Q. What return on rate base have you calculated?

A. I have calculated a return on rate base of $225,428 (Schedule DJE-7) and included this return component in the Company's total revenue requirement.

Q. Does this conclude your direct testimony?

A. Yes.

BLOCK ISLAND POWER COMPANY
RATE YEAR REVENUE REQUIREMENT

		Company Position	Adjustments	Division Position
Base Rate Cost of Service	(A)	$ 2,691,719	$ (259,647)	$ 2,432,072
Miscellaneous Revenues	(B)	185,439	-	185,439
Net Revenue Requirement		2,506,279	(259,647)	2,246,632
Tariff Revenues, Present Rates	(B)	2,106,252	-	2,106,252
Revenue Deficiency		$ 400,027	$ (259,647)	$ 140,380
Percentage Rate Increase		18.99%		6.66%

Notes:
- (A) DJE-2
- (B) Schedule WEE-2

BLOCK ISLAND POWER COMPANY
COST OF SERVICE

	(A) Company Position	Adjustments		Division Position
Operation and Maintenance Expense	$ 1,838,589	$ (111,869)	(B)	$ 1,726,720
Depreciation	353,093	(41,635)	(C)	311,458
Taxes Other Than Income Taxes	166,441	(17,804)	(D)	148,637
Income Taxes	50,801	(30,972)	(E)	19,829
Return on Rate Base	282,795	(57,367)	(F)	225,428
Total Cost of Service	$ 2,691,719	$ (259,647)		$ 2,432,072

Sources:

(A)	Schedules WEE-1, WEE-3
(B)	DJE-3
(C)	DJE-4
(D)	DJE-5
(E)	DJE-6
(F)	DJE-7

BLOCK ISLAND POWER COMPANY
OPERATION AND MAINTENANCE EXPENSE

Management Fees	(A)	$ (21,962)
Pension Expense	(B)	(24,000)
Production Maintenance	(C)	(38,917)
Prior Rate Case Expense	(D)	(15,169)
Lobbying	(E)	(3,825)
Meter Replacement Survey	(F)	(6,667)
Condo Fees	(G)	(1,330)
Total Adjustment to Operation and Maintenance Expense		$(111,869)

Sources

(A)	Management Fees Docket No. 3655	Order, TSC-11	135,611
	Allowance for Inflation to Rate Year in Current Case		10,427
	Proposed Management Fee Allowance		146,038
	Rate Year Management Fees, per Company	WEE-3	168,000
	Adjustment to Management Fees		(21,962)
(B)	Edge Testimony, Page 19		
(C)	Proposed Production Maintenance Allowance		200,000
	Production Maintenance Allowance, per Company	WEE-3	238,917
	Adjustment to Production Maintenance		(38,917)
(D)	Edge Testimony, Page 21	42000-57169	
(E)	Edge Testimony, Page 13		
(F)	Schedule WEE-3	10000/3-10000	
(G)	Response to Town Data Request 1-34		

Schedule DJE-4

BLOCK ISLAND POWER COMPANY
ADJUSTMENTS TO DEPRECIATION EXPENSE

Engine 24 Overhaul Capitalized, Net Book Value 5/31/2008	(A)	43,103
Amortization Period	(B)	3
Annual Depreciation Expense		14,368
Annual Depreciation Expense, per Company	(A)	43,103
Adjustment to Depreciation Expense		(28,735)
2008 Bucket Truck	(C)	86,000
Approved Service Life	(C)	20
Annual Depreciation Expense		4,300
Annual Depreciation Expense, per Company	(C)	17,200
Adjustment to Depreciation Expense		(12,900)
Total Adjustment to Depreciation Expense		(41,635)

Sources:

(A) Book Asset Detail 6/01/08-5/31/09, Page 26

(B) See Testimony

(C) Book Asset Detail 6/01/08-5/31/09, Page 30

BLOCK ISLAND POWER COMPANY
ADJUSTMENTS TO TAXES OTHER THAN INCOME TAXES

Operation and Maintenance Expense	(A)	1,726,720
Depreciation	(A)	311,458
Taxes Other Than Gross Receipts and Income Taxes	(B)	58,772
Income Taxes	(A)	19,829
Return on Rate Base	(A)	225,428
Miscellaneous Revenues	(C)	(185,439)
Net Revenue Requirement Excluding Gross Receipts Tax		2,156,767
Gross Receipts Tax Gross-up Rate 0.04/(1-0.04)		4.167%
Pro Forma Gross Receipts Tax		89,865
Company Pro Forma Gross Receipts Tax	(D)	107,669
Adjustment to Company Expense		(17,804)

Sources:

(A)	DJE-2		
(B)	Taxes Other Than Income Taxes	WEE-3	152,006
	Gross Receipts Tax	WEE-3	93,234
	Taxes Other Than Gross Receipts and Income Taxes		58,772
(C)	DJE-1		
(D)	Schedule WEE-3		93,234
	Schedule WEE-1		14,435
	Total		107,669

Schedule DJE-6

BLOCK ISLAND POWER COMPANY
INCOME TAX EXPENSE

Rate Base	DJE-7	$ 3,897,062
Weighted Return on Equity	DJE-8	1.87%
Taxable Income Base		73,051
Taxable Income	(A)	92,880
Income Tax Rate	(B)	34%
Income Tax Expense at Rate in Bracket		31,579
Lower Tax Bracket Credit	(C)	11,750
Net Income Tax Expense		$ 19,829

Notes:

(A)	Taxable Income Base		73,051
	Lower Bracket Credit		11,750
	Adjusted Taxable Income Base		61,301
	Taxable Income (Base/(1-Tax Rate))		92,880
(B)	Rate on Taxable Income in Relevant Range		
(C)		<	>
	Taxable Income Base	74,627	74,627
	Marginal Tax Rate	34%	39%
	Bottom of Bracket	75,000	100,000
	Tax at Full Rate	25,500	39,000
	Actual Tax at Bracket Bottom	13,750	22,250
	Lower Tax Bracket Credit	11,750	16,750

Schedule DJE-7

BLOCK ISLAND POWER COMPANY
RETURN ON RATE BASE

	(A) Company Position	Adjustments		Division Position
Net Utility Plant	$ 4,348,850	20,818	(B)	$ 4,369,668
Working Capital	165,382			165,382
Inventory	116,517			116,517
Prepaid Expenses	27,284			27,284
Deferred Credits	(160,478)	(353,110)	(C)	(513,588)
Deferred Taxes	(268,201)	-		(268,201)
Net Rate Base	4,229,354	(332,292)		3,897,062
Rate of Return	6.69%	-0.90%		5.78%
Return on Rate Base	$ 282,795	$ (57,367)		$ 225,428

Sources

(A)	Schedule WEE-13	
(B)	Schedule DJE-4. Depreciation Adjustment/2	
(C)	Accrued Maintenance Reserve	(300,618)
	Accrued IRP and DSM Reserve	(52,492)
	Total Adjustment to Deferred Credits	(353,110)

BLOCK ISLAND POWER COMPANY
RATE OF RETURN

Company Position

		Percent of Total	Cost Rate	Weighted Cost
Long Term Debt	(A)	74.05%	5.28%	3.91%
Common Equity	(A)	25.95%	10.70%	2.78%
Total Capital		100.00%		6.69%

Division Position

		Percent of Total	Cost Rate	Weighted Cost
Long Term Debt		74.05%	5.28%	3.91%
Zero Cost Capital	(B)	8.10%	0.00%	0.00%
Common Equity	(B)	17.85%	10.50%	1.87%
Total Capital		100.00%		5.78%

Source:
- (A) Schedule WEE-14
- (B) DJE-8, Page 2
  ROE from Docket No. 3655

BLOCK ISLAND POWER COMPANY
PROPOSED CAPITAL STRUCTURE

Long Term Debt	(A)	3,787,060	74.05%
Average Common Equity - Total	(A)	1,326,848	
Shared Gain on Sale of Property	(B)	414,098	8.10%
Remainder of Common Equity		912,750	17.85%
Total Capital		5,113,908	100.00%

Sources:

(A)	Schedule WEE-14		
(B)	Gain on Sale of Assets	927,213	Schedule DGB-2
	Expenses of Sale	99,017	Schedule DGB-2
	Net Gain on Sale of Assets	828,196	
	Sharing %	50%	
	Ratepayer Share of Gain	414,098	

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the within prefiled testimony, and schedules relating to the prefiled testimony, of David J. Effron was served this 18th day of February, 2008, via electronic and first class mail, postage prepaid, upon each person on the official service list in this proceeding.

Meghan Tobin