

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

1. *What is the proposal?*
2. *Why should the Town purchase BIPCo?*
3. *Is the price fair?*
4. *What are the detailed steps and timing?*
5. *How will BIPCo be run?*
6. *What are the benefits of community control of BIPCo?*
7. *What are some specific examples where community control might make a difference?*
8. *What is the expected impact on rates?*
9. *What is likely to happen to rates if the Town does not buy BIPCo now?*
10. *What will connecting to the cable do to rates?*
11. *Weren't the savings from the cable supposed to be much more?*
12. *How do we know that the proposed savings projected here won't disappear too?*
13. *Didn't the representative from the PUC say that rates were going to go up?*
14. *Will the Town own the company forever?*
15. *Why transfer it to a coop or utility district?*
16. *What is the difference between a coop and a utility district?*
17. *The timing and structure are complicated, why not wait?*
18. *What happens if the enabling legislation does not pass?*
19. *Who is going to run the company?*
20. *Some think that the Town cannot manage things. Why will this be different?*
21. *What will happen to current employees?*
22. *What will happen to the current owners?*
23. *Will it be possible to fill the proposed President position?*
24. *Why is the proposal for 2/3rds of the stock?*
25. *What will happen to the remaining 1/3rd?*
26. *Why is the price \$1.8 million for 2/3rds? How was it determined?*
27. *Has there been an appraisal or other determination whether this is a fair price?*
28. *Is there a big risk of environmental liabilities?*
29. *What other liabilities are there?*
30. *Why is the Town taking these liabilities on?*
31. *Does BIPCo have any real alternatives? Why not wait until they are desperate to sell?*
32. *What happens if the current owners keep the company?*
33. *What happens if someone else buys it?*
34. *What happens to the fuel tanks?*
35. *What about upgrading the distribution system?*
36. *What about the backup transformer to connect to National Grid?*
37. *How will these investments be different if the Town owns BIPCo?*

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

1. *What is the proposal?*

The Town will purchase a 2/3 majority interest in BIPCo and convert it to a nonprofit organization with professional management and a Board of Directors elected by the ratepayers. At the current time, only two of the three owners have expressed willingness to sell to the Town. While this makes the process somewhat more complicated, it does not change the underlying concept and approach.

2. *Why should the Town purchase BIPCo?*

BIPCo provides a service that is essential to the community. The decisions made by BIPCo on how, when and in what to invest affect the price and availability of electricity on Block Island. The Town Council and the EUTG have unanimously recommended pursuing the purchase of BIPCo so that the community controls those operating and investment decisions. In addition, community, nonprofit ownership is the only way to begin to lower or slow the increase in BIPCo's costs and rates.

3. *Is the price fair?*

The price of \$1.8m for 2/3 ownership was arrived at through negotiation between the Town and the selling shareholders. The EUTG has reviewed BIPCo's costs and has determined that, at the agreed on price, acquisition costs will be covered by savings from not paying dividends, management bonuses or earning a profit. An independent valuation analysis is underway and will be available before September 1st.

4. *What are the detailed steps and timing?*

This is and has been a complicated process and the steps may continue to evolve. At the current time, the plan is:

- The Town and BIPCo selling shareholders have signed a Stock Purchase Agreement (July 2016)
- The Town reviews the operations and potential environmental issues of BIPCo (July – September 2016)
- The Town holds a Special Financial Town Meeting to approve the debt necessary for the purchase of BIPCo shares from the selling shareholders (September 26, 2016)
- If the Special Town Meeting approves issuing the debt, the Town purchases the shares from the selling shareholders (November 2016)
- The Town holds a Special Town Meeting to determine the future structure of BIPCo – either a co-op or a special utility district. Either form of ownership will require approval of the Rhode Island Legislature. Based on public input, Town submits legislation for the January 2017 session to create a new entity

Buying BIPCo – Frequently Asked Questions of the EUTG

August 2016

to own the power company—either a utility district or coop. (Decision on structure late 2016, legislative approval early 2017)

- The Town will sell BIPCo assets to the new entity and repay the Town's debt
- The new entity will raise its own funds to purchase BIPCo assets from the Town and to make any needed future investments (Estimated mid-2017)
- The new entity will run BIPCo

5. *How will BIPCo be run?*

The ultimate decisions on how BIPCo will be run will rest with the ratepayers and the new organization. The expectation is to have a Board of Directors elected by ratepayers and for BIPCo to hire a new President with experience in power purchasing and utility operations. There is no plan for BIPCo to be a department of the Town.

6. *What are the benefits of community control of BIPCo?*

As a private company, the owners of the company get to make the decisions about how BIPCo operates, where it invests and how it spends money. Some of these decisions are reviewed by the Public Utilities Commission (PUC), which can stop BIPCo from doing things that would be detrimental to ratepayers. However, it is virtually impossible for the PUC to get BIPCo to do something it does not want to do even if it is in the best interests of ratepayers. The current role for the Town is to ask the PUC to approve or disapprove decisions. Neither the Town nor the community have any direct say in how BIPCo operates. In essence, BIPCo decides what it wants to do and the public makes comments.

7. *What are some specific examples where community control might make a difference?*

Issues coming up that deserve community involvement include:

- Under what conditions should BIPCo operate its remaining diesel generators?
- How should costs be allocated between residential and commercial customers?
- What sorts of conservation and alternative energy programs should BIPCo have? How should the costs of those programs be allocated between customers who use those programs and the customers who do not?
- How should BIPCo manage the required removal of its underground fuel tanks?
- Should BIPCo invest in upgrading the wires, poles and transformers?
- Should BIPCo dispose of any of its land and, if so, to whom and for what uses?

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

8. *What is the expected impact on rates?*

In the short term (at least into 2017) it is not likely that rates will change due to the acquisition of BIPCo. Rates may still be affected by other factors, but this would be the case whether BIPCo is purchased or not.

9. *What is likely to happen to rates if the Town does not buy BIPCo now?*

BIPCo is required to file new rates as part of the cable connection. It is almost a certainty that BIPCo would seek a rate increase at that time.

10. *What will connecting to the cable do to rates?*

The rates for the BIPCo portion of the bill are not directly related to the cable project. The “purchased power charge” will replace the current “fuel charge” with the cable connection.

11. *Weren't the savings from the cable supposed to be much more?*

The savings from the cable are in the “fuel charge”, which is largely based on the price of oil while the “purchased power charge” going forward is largely based on the price of natural gas. When the EUTG predicted savings of \$0.20 per kWh, oil was at or above \$100 per barrel. It is now much lower. The recent fuel charge has been \$0.13 per kWh. This is about what the “purchased power charge” will be. Savings have occurred due to the drop in the price of oil. If and when oil increases, then there will be savings from the cable relative to what we would have paid using diesel generators.

12. *How do we know that the proposed savings projected here won't disappear too?*

The change in the savings from the cable are due to the fluctuations in the price of oil and mainland electricity (mostly related to natural gas). These swings can be quite large and are mostly unpredictable.

The projected savings from purchasing BIPCo are from specific cost line items in BIPCo's financial statements, which do not fluctuate much – dividends, profits, and taxes. These projected savings assume no change in BIPCo operations. Pro forma financials will be provided shortly.

13. *Didn't the representative from the PUC say that rates were going to go up?*

The representative from the Division of Utilities and Carriers (Mr. John Bell) did say that he projected that rates would go up. He included an anticipated rate increase

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

for BIPCo during the restructuring process. The Town does not intend to seek an increase.

14. Will the Town own the company forever?

Assuming that legislation passes in 2017 to establish a Utility District or a Coop, then the Town will transfer BIPCo to that new organization.

15. Why transfer it to a coop or utility district?

First, there is an issue of accountability. The board of the Utility District or Coop will be elected by the ratepayers. This is a larger group than Block Island voters and matches the people who actually pay the bills. Second, this creates direct accountability for BIPCo. Thirdly, there seems to be a general consensus that BIPCo should not be a Town department.

16. What is the difference between a coop and a utility district?

They are, essentially, the same. A utility district is a governmental body and a coop is a private organization. In practice, they will operate virtually identically. Most importantly, in both cases decision-making will rest with ratepayers. Coops and utility districts have different national associations, each of which provides similar support services. It might be slightly easier to add Internet and other functions to a utility district. Further side-by-side analyses of the two structures will be discussed in the coming weeks.

17. The timing and structure are complicated, why not wait?

The proposed process does involve a two-step transaction. Waiting could, in theory, allow a one-step process. However, the company is available now and the Town believes that there is too big a risk that it would not be available later. Additionally, many of the restructuring decisions need to be made in late 2016 and early 2017. It would be much better for the community to have control over that discussion.

18. What happens if the enabling legislation does not pass?

The Town has reason to be optimistic that it will pass. Feedback from the 2016 legislative session will help the Town present a clear, reasonable justification for the proposed structure. RI already has a special utility district (Pascoag). In the unlikely event the legislation is unsuccessful, BIPCo would remain owned by the Town until a new plan was developed. As has been true throughout this process, you cannot control everything and you have to make and adjust plans as events change.

19. Who is going to run the company?

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

The ultimate decisions on how BIPCo runs will belong to the board of the new entity. In order to have an orderly transition, the Town has begun the process of seeking a new President to start as soon after the actual purchase as possible. The goal is to find a new President who has experience in power purchasing and in utility operations so that BIPCo has experienced professional management.

20. Some think that the Town cannot manage things. Why will this be different?

The goal is to bring on professional management and to use the support services of the associations for municipal or coop utilities to ensure the necessary skills.

21. What will happen to current employees?

They will continue in their jobs.

22. What will happen to the current owners?

They will receive pensions as former employees according to existing BIPCo pension plans. As appropriate and as needed they might be asked to serve in specific roles.

23. Will it be possible to fill the proposed President position?

There are good examples at both Pascoag in Rhode Island (a utility district) and Fox Island Power in Maine (a coop). Both organizations have skilled, experienced General Managers that were hired at salaries that we could afford.

24. Why is the proposal for 2/3^{rds} of the stock?

Only two of the three shareholders have agreed to sell at this time. Buying 2/3^{rds} of the stock gives the Town control and the ability to run the company as the community sees fit. While this is a sub-optimal situation, the Town Council and the EUTG believe that it is an acceptable first step towards total ownership.

25. What will happen to the remaining 1/3rd?

The remaining 1/3rd of the stock will remain outstanding for the time being. The Town does not anticipate paying any dividends. The remaining 1/3rd ownership will be retired at the time of transition to the coop or utility district.

26. Why is the price \$1.8 million for 2/3^{rds}? How was it determined?

The price of \$2.7 million for 100% of the shares was determined by negotiation between BIPCo and representatives from the Town. As in all negotiations, the BIPCo

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

shareholders sought a higher price and other terms. The Town's representatives sought lower ones. In addition to the price negotiation, the BIPCo shareholders want terms where the shareholders have no continuing liabilities. Basically once they sell, they are done. The Town agreed to the price and these terms because the price will not result in any increase in rates ("rate neutral") and because the ratepayers are already committed to pay virtually all of the likely potential liabilities. The indemnification clause in the stock purchase agreement was created and reviewed by our special environmental attorney and the Town solicitor.

27. Has there been an appraisal or other determination whether this is a fair price?

As part of the due diligence process, the Town has engaged an outside firm to review the financial position of BIPCo, including an assessment of the different valuation methods that can be applied to BIPCo and the resulting determination of fair value.

28. Is there a big risk of environmental liabilities?

It is the EUTG's understanding that BIPCo is in compliance with all environmental rules, has the appropriate permits and conducts some environmental monitoring. The Town has hired an environmental auditing firm to review the site and the environmental documentation and its initial report is expected in early September. The one known environmental issue is with the underground oil storage tanks, that must be removed and the soil cleaned in 2017. If there are other problems identified, the plan would be to correct them in order to protect Block Island's aquifer.

29. What other liabilities are there?

BIPCo has loans outstanding to the Rural Utilities Service and other organizations. These will remain. There are no other known liabilities outside the normal course of business and BIPCo has audited financial statements that will be reviewed prior to the Special Town Meeting.

30. Why is the Town taking these liabilities on?

Environmental cleanup and other operating liabilities are costs that can be passed through in rates to ratepayers. Therefore, ratepayers are the first source of funds to correct any environmental problems. Since tax payers and ratepayers are largely the same, the Town essentially is already responsible for the existing liabilities. The EUTG believes the Town is not taking on any significant new risk.

The Town's willingness to assume the environmental and other liabilities is a major benefit to the shareholders and represents one important reason why the

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

shareholders are willing to sell to the Town even though they have a higher offer from another group. This is an example of a way to give something in a negotiation of low cost to the Town but of high value to the sellers.

31. Does BIPCo have any real alternatives? Why not wait until they are desperate to sell?

There is a history of abortive discussions between BIPCo and other buyers, including the Town in the past. BIPCo has never really been interested in selling. Now at least two of the three shareholders seem to have decided that it is time to sell. Once that decision is made, an actual sale typically happens. There does seem to be another potential buyer on somewhat similar terms and a price 20% higher. There are reasons why the current sellers are willing to work with the Town. However, if the Town turns down those sellers now, they are very likely to either take the other offer or search for additional alternatives. The company is now very likely on a path to be sold. Waiting appears to be an extremely high risk of having BIPCo sold to some other private investor.

32. What happens if the current owners keep the company?

In the event that the current owners keep the company, then the status quo continues:

- The Town will not have any direct control over the restructuring and other agendas
- There will be a rate increase in 2016/2017
- The Town will need to spend money on legal and consulting fees during the rate setting and restructuring processes or have no role in them. This participation will probably cost \$75,000 each for the restructuring and for participation in rate setting.
- No one knows what decisions the company will make about future investments
- There will be no assurance of professional utility management

33. What happens if someone else buys it?

Depending on who buys it, the results will be largely the same as if the current owners keep the company. If someone buys the company for more than the value of the regulatory equity, then they will need to earn a rate of return in some manner other than rates. The most likely method will be to sell BIPCo's land for the highest price. This will lead to controversy and expense between the Town and the new owners at the PUC as well as an uncertain outcome.

Buying BIPCo – Frequently Asked Questions of the EUTG August 2016

It is likely that, if someone else buys BIPCo, there will not be another opportunity for the community to buy it within the next 5-10 years.

34. What happens to the fuel tanks?

Under environmental regulations, the existing underground fuel tanks must be removed and any residual oil in the ground must be either treated or removed. BIPCo has said that it intends to replace the underground tanks with a smaller storage capacity in above ground ones for a cost of approximately \$1 million. This will result in a rate increase of approximately \$0.01 per kWh.

35. What about upgrading the distribution system?

The existing distribution system (wires, transformers, poles and the voltage used) are outdated. Eventually they should all be upgraded to more standard voltage. This is an expensive proposition, estimated at \$4 million and \$0.03-0.04 per kWh rate increase. There have been studies on this topic but no final plan. At some point this will become a necessary upgrade.

36. What about the backup transformer to connect to National Grid?

The transformer used to connect the National Grid sub-station to the BIPCo one is non-standard. Therefore, there is a long lead time if it fails. There is a recommendation that a duplicate transformer needs to be in place. The Town has not had the opportunity to review this fully.

37. How will these investments be different if the Town owns BIPCo?

These investments exist no matter who owns the company. The difference is that the decision on whether and how to make them will be made by private investors if the company remains in private ownership. If the community owns the company, the ratepayers can decide if and when these, and other, investments are worthwhile.