



**NORTH CAROLINA
PUBLIC STAFF
UTILITIES COMMISSION**

September 30, 2010

FILED

SEP 30 2010

Clerk's Office
N.C. Utilities Commission

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Mar 13-2023

Ms. Renné C. Vance, Chief Clerk
North Carolina Utilities Commission
4325 Mail Service Center
Raleigh, North Carolina 27699-4325

Re: Docket No. A-41, Sub 7
Bald Head Island Transportation, Inc.

Dear Ms. Vance:

In connection with the above-captioned docket, I transmit herewith for filing on behalf of the Public Staff, eighteen (18) copies of the following: Testimony of James G. Hoard, Assistant Director, Accounting Division.

By copy of this letter, I am forwarding a copy to all parties of record.

Sincerely,

Dianna W. Downey
Dianna W. Downey
Staff Attorney
dianna.downey@psncuc.nc.gov

ml
AG
Ford
Burns
Allen
Bennick
Foster
Hoard
Sessions
Krta
Brown

cc: Parties of Record

Executive Director
733-2435

Communications
733-2810

Economic Research
733-2902

Legal
733-6110

Transportation
733-7766

Accounting
733-4279

Consumer Services
733-9277

Electric
733-2267

Natural Gas
733-4326

Water
733-5610

BALD HEAD ISLAND TRANSPORTATION, INC. FILED

DOCKET NO. A-41, SUB 7

SEP 30 2010

TESTIMONY OF JAMES G. HOARD

**Clerk's Office
N.C. Utilities Commission**

ON BEHALF OF

THE PUBLIC STAFF - NORTH CAROLINA UTILITIES COMMISSION

September 27, 2010

1 Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND PRESENT
2 POSITION.

3 A. My name is James G. Hoard, and my business address is 430 North Salisbury
4 Street, Raleigh, North Carolina. I am an Assistant Director in the Accounting
5 Division of the Public Staff. My qualifications and experience are provided in
6 Appendix A.

7 Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY IN THIS
8 PROCEEDING.

9 A. The purpose of my testimony is to discuss the adjustments and computations
10 supporting the revenue requirement and rates reflected in the Agreement and
11 Stipulation of Settlement (Stipulation) between Bald Head Island Transportation,
12 Inc. (BHIT or the Company), and the Public Staff (collectively, the Stipulating
13 Parties) filed on September 27, 2010.

14 Q. HOW DOES THE RATE INCREASE PROPOSED BY THE COMPANY IN ITS
15 APPLICATION COMPARE TO THE RATE INCREASE AGREED TO IN THE
16 STIPULATION?

1 A. The Company proposed to increase its present annual level of ferry ticket
2 revenue from \$3,368,017 to \$6,135,565, a rate increase of \$2,767,548, or 82.2%.
3 The Stipulation reflects an annual increase in revenues of \$1,866,061 or 55.3%.

4 Q. PLEASE DESCRIBE THE ORGANIZATION OF YOUR EXHIBITS.

5 A. I am presenting four exhibits. Hoard Exhibit 1 is a computation of the cost of
6 service and revenue requirement that supports the Stipulation. Schedule 1 of
7 Exhibit 1 identifies, by issue, the revenue requirement impact of the various
8 stipulated adjustments on the rate increase proposed by the Company.
9 Schedule 1A summarizes the various adjustments to rate base and expenses
10 that are reflected in the Stipulation, and Schedule 1B provides details on the
11 items composing the stipulated cost of service. Additional details on the pro
12 forma adjustments and items that compose the cost of service are provided on
13 Schedules 2 through 8.

14 Hoard Exhibit 2 presents the net operating income for return, rate base, capital
15 structure, and cost of capital information normally included in the Commission's
16 rate case orders. Hoard Exhibit 2 also includes the customer growth adjustment
17 to end of period revenues.

18 Hoard Exhibit 3 presents the billing units, rate design assumptions, and other
19 information used to develop the stipulated rates.

20 Hoard Exhibit 4 presents the computation of the levelized annual payment
21 reflected in the Stipulation for the Deep Point terminal.

REVENUE REQUIREMENT

Q. PLEASE EXPLAIN THE ADJUSTMENTS TO THE COMPANY'S PROPOSED REVENUE REQUIREMENT REFLECTED IN THE STIPULATION.

A. As presented in Hoard Exhibit 1, the Stipulation reflects adjustments for the following items:

- (a) To include revenues associated with parking.
- (b) To reflect the gain on the transfer of the Indigo Plantation terminal to non-utility operations.
- (c) To include the actual net depreciated cost of the Bald Head Island terminal in rate base instead of as an operating lease.
- (c) To reformulate the lease for the Deep Point terminal as a cost-based lease.
- (d) To reflect additional revenues associated with intercompany tram transportation provided by BHIT to employees of affiliates.
- (e) To update fuel expenses.
- (f) To remove the Company adjustment that amortizes the balance of the fuel surcharge deferral account.
- (g) To update plant and related items to June 30, 2010.
- (h) To adjust the management fees.
- (i) To amortize revised rate case expenses over five years.
- (j) To adjust payroll and payroll taxes to June 30, 2010.
- (k) To adjust the capital structure, cost of debt, and return on equity.

Parking Revenues

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO PARKING REVENUES.

A. The Stipulation reflects an adjustment that reduces the proposed revenue requirement to reflect \$523,097 of revenues from the parking facility located at the Deep Point terminal that is owned and operated by an affiliate of the

1 Company, Bald Head Island Limited (Limited). The amount of the parking
2 revenue adjustment reflects a compromise between the Stipulating Parties that
3 considers projected operating results of the parking facility over a period of years.
4 Neither the investment nor the operating expenses associated with the Deep
5 Point parking facilities have been reflected in the revenue requirement
6 computation on a fully rolled-in basis, and thus the entire amount of the parking
7 revenue adjustment results in a direct reduction in the amount of the rate
8 increase. Had the parking facility been reflected in revenue requirement on a
9 fully rolled-in basis, the full amount of parking revenues would have been offset
10 by the pre-tax rate of return on the parking facility rate base investment,
11 depreciation expense, operation and maintenance expenses, property taxes and
12 payroll taxes. In my opinion, the revenue requirement impact of reflecting the
13 parking facility on a fully rolled-in basis would have been considerably less
14 favorable for ratepayers than the stipulated adjustment.

15 **Gain on Transfer of Indigo Plantation**

16 Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO THE GAIN ON THE
17 TRANSFER OF THE INDIGO PLANTATION TERMINAL.

18 A. The Stipulation reflects an adjustment that reduces revenue requirement by
19 \$73,683 for the gain on the transfer of the former ferry terminal located at Indigo
20 Plantation property from utility to nonutility property. Prior to June 2, 2009, BHIT
21 conducted its ferry operations from facilities located at Indigo Plantation. Hoard
22 Exhibit 1, Schedule 3-1, presents the computation of the \$368,415 gain amount
23 and an adjustment that amortizes the gain over a five-year period.

Bald Head Island Terminal

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO THE BALD HEAD ISLAND TERMINAL.

A. The Company reflected lease expense of \$350,000 for the terminal on Bald Head Island (BHI) pursuant to a lease agreement between BHIT and its affiliate, Limited. The \$350,000 annual amount of the lease payment by BHIT to Limited for the BHI terminal that is reflected in the Company's application was determined using an income capitalization approach commonly used by real estate appraisers to determine the market value of real property, where there is an income stream (rental value) that can be capitalized. In this particular case, the Company reversed the process and started with the fair market value of the property to determine the income stream or annual lease payment. Under this approach, the lease payments made by the lessee do not reduce the principal of a loan or mortgage that could be eventually paid off. Instead, the lessee makes perpetual payments without ever obtaining an ownership interest in the property.

The Stipulation reflects the inclusion of the BHI terminal in rate base at its depreciated net book value of \$363,503, as computed on Hoard Exhibit 1, Schedule 2-2. The impact of including the terminal in rate base at the rate of return reflected in the Stipulation, in lieu of including the lease payment as an operating expense, is in a reduction in revenue requirement of \$278,438. The treatment of the BHI terminal as a component of rate base, as reflected in the Stipulation, is the method typically used by the Commission to determine the revenue requirement for assets dedicated to the provision of utility service.

Deep Point Terminal

Q. PLEASE DESCRIBE THE DEEP POINT FACILITY.

A. The Deep Point facility is located on 77 acres along Fort Fisher Ferry Road and the Cape Fear River, in Southport. The facility includes several parking lots, access and entry roads, the terminal building, a channel to the Cape Fear River, a marina basin, the BHIT passenger and contractor ferry landings, a marine maintenance building and pier, a barge landing, and other facilities. The total cost of the facility was \$28.5 million, \$11.8 million of which has been allocated to BHIT. The chart shown below presents the portion of each property type that has been allocated to BHIT.

Property Type	Total	BHIT	BHIT %
Main Ferry Terminal	\$9,086,505	\$7,267,388	79.98%
Contractor Landing	448,080	448,080	100.00%
Marine Maintenance	825,513	586,114	71.00%
Bulkhead & Basin	3,423,955	1,673,470	48.88%
Sitework/Utilities	12,385,366	1,668,807	13.47%
Maintenance Pier	153,819	146,128	95.00%
Land	299,022	22,656	7.58%
Other	1,868,146	-	0.00%
Total Facility	<u>\$28,490,404</u>	<u>\$11,812,643</u>	41.46%

Q. PLEASE EXPLAIN THE ADJUSTMENT RELATED TO THE DEEP POINT TERMINAL.

A. Operating expenses have been increased by \$213,338 to reflect the annual impact of reformulating the lease of the Deep Point terminal as a cost-based lease. The annual amount of the lease payment by BHIT to Limited that is

1 reflected in the Company's application was determined by the Company using
2 the same income capitalization approach as was employed by the Company for
3 the BHI terminal lease. The Stipulation reflects a reformulation of the Deep
4 Point terminal lease as a levelized cost-based lease for the BHIT portion of the
5 facility. The computation of the levelized payment is presented on Hoard Exhibit
6 4.

7 Q. PLEASE EXPLAIN WHY THE TERMINAL HAS NOT BEEN INCLUDED IN RATE
8 BASE.

9 A. Over the long term, the levelized lease payment for the portion of the terminal
10 allocated to BHIT provides a better match of cost recovery with ridership levels
11 than including that portion in rate base. The terminal is a new, long-lived asset
12 that has been built with a view toward serving a growing customer base for many
13 years into the future. The terminal building has a 40-year depreciable life
14 (though other assets have shorter lives) and was placed in service in June 2009.
15 Consequently, very little depreciation has been recorded on the terminal as of
16 June 30, 2010, and the revenue requirement associated with the unrecovered
17 rate base investment would be relatively large. Including BHIT's allocated
18 portion of the terminal in rate base would result in an annual revenue
19 requirement of \$1,775,241.¹ The levelized payment approach results in an
20 annual revenue requirement of \$1,178,776, a 34% reduction from the revenue
21 requirement that would have resulted had the terminal been included in rate
22 base. In my opinion, the levelized payment approach results in the transfer of a
23 significant portion of the cost responsibility for the terminal to later periods when

¹ Year 2 revenue requirement as reflected in Hoard Exhibit 4, Schedule 1.

1 there should be more paying riders, and consequently a better matching of cost
2 recovery with ferry ridership.

3 **Intercompany Tram Revenues**

4 Q. PLEASE EXPLAIN THE STIPULATION ADJUSTMENT RELATED TO
5 INTERCOMPANY TRAM REVENUES.

6 A. BHIT provides on-island transportation service to employees of affiliates from the
7 BHI terminal to centralized drop-off points near the employees' places of work,
8 and then back again at the end of the work day. The test year reflected \$68,099
9 of revenues to BHIT for these charges. These charges were determined by BHIT
10 based on 2008 tram payroll, benefits, fuel, repairs and maintenance, and
11 departmental operating expenses. The stipulated adjustment reflects these
12 amounts at the full cost of providing the transportation service by including cost
13 elements for the depreciation expense and rate of return related to the trams and
14 shuttles. The Stipulation reflects a \$32,446 pro forma adjustment to increase the
15 amount of BHIT's revenues for these charges to affiliates for this service.

16 **Fuel Expenses**

17 Q. PLEASE EXPLAIN THE ADJUSTMENT TO FUEL EXPENSES.

18 A. Fuel expenses have been adjusted to reflect the actual cost to BHIT for diesel
19 fuel during the 12-month period ended June 30, 2010. The Stipulation reflects a
20 diesel price of \$2.53 per gallon as compared to the price of \$2.60 per gallon that
21 was reflected in the Company's application. The total fuel expense amount
22 reflected in the Stipulation is \$661,834, including \$615,745 for fuel used by the
23 ferries. For purposes of the fuel tracker, approved by the Commission in Docket

1 No. A-41, Sub 5, a computation of the fuel component of rates \$2.185 is reflected
2 on Hoard Exhibit 1, Schedule 4-2.

3 **Fuel Surcharge**

4 Q. PLEASE EXPLAIN THE ADJUSTMENT TO THE FUEL SURCHARGE.

5 A. The Stipulating Parties agree that the fuel surcharge should be set to zero and
6 that the present fuel tracker account and current quarterly report filed by BHIT
7 pursuant to the Commission's December 16, 2008, order in Docket No. A-41,
8 Sub 5 should continue. Hoard Exhibit 1, Schedule 3, reflects the removal of the
9 Company's adjustment that amortized the balance of the fuel tracker account
10 over three years.

11 **Plant Updates**

12 Q. PLEASE EXPLAIN THE ADJUSTMENT TO UPDATE PLANT AND RELATED
13 ITEMS.

14 A. The Stipulation reflects an adjustment to plant, accumulated depreciation,
15 accumulated deferred income taxes, and depreciation expense for plant
16 additions, retirements, and additional depreciation accrued through June 30,
17 2010. The details of this adjustment are presented on Hoard Exhibit 1, Schedule
18 2-1.

19 **Management Fees**

20 Q. PLEASE EXPLAIN THE ADJUSTMENT TO THE MANAGEMENT FEE.

21 A. The management fee has been adjusted to reflect the ongoing level of expense
22 charged by Limited to the Company and Patriot, LLC, the owner of the Patriot
23 and Ranger ferries. The management fee for Patriot, LLC, has replaced the

1 administrative fee charged by Patriot, LLC, to BHIT pursuant to the lease
2 agreement for these vessels. The details of this adjustment are presented on
3 Hoard Exhibit 1, Schedule 4-4.

4 **Rate Case Expenses**

5 Q. PLEASE EXPLAIN THE ADJUSTMENT TO RATE CASE EXPENSES.

6 A. The Stipulation reflects an adjustment to amortize the Company's rate case
7 expenses of \$153,525 over five years. The details of this revised estimate of rate
8 case expenses and the related adjustment are presented on Hoard Exhibit 1,
9 Schedule 4-5.

10 **Payroll and Related Taxes**

11 Q. PLEASE EXPLAIN THE ADJUSTMENT TO PAYROLL EXPENSES AND
12 RELATED TAXES.

13 A. Payroll expenses and the related taxes have been decreased to reflect the actual
14 amount of these costs for the 12 months ended June 30, 2010. The details of
15 the respective payroll and payroll tax elements of this adjustment are presented
16 on Hoard Exhibit 1, Schedules 4-1 and 6.

17 **Customer Growth**

18 Q. PLEASE EXPLAIN THE COMPUTATION OF THE END OF PERIOD BILLING
19 UNITS AND FERRY TICKET REVENUES REFLECTED IN THE STIPULATION.

20 A. The Company reflected the actual ferry ticket (excluding the fuel surcharge)
21 revenues of \$3,368,017 for the test year as end of period revenues. Overall ferry
22 ridership, on a rolling 12-months ended basis, peaked during 2007 and declined
23 throughout 2008 and has only recently begun showing increases for some rate

1 schedules, while other rate schedules have continued to show declining
2 ridership. The Stipulating Parties have agreed to determine end of period billing
3 units and ferry ticket revenues in the following manner:

4 1. The ridership levels for Class IV – Government Employee, Class V-
5 Special Event, Class VI – No Frills, Class VIII – Corporate Guest, Class XI
6 – Annual Pass, Class XII – Senior Citizen Pass, and Class XIV – Student
7 Ticket, which have continued to show declining ridership, were determined
8 based on the number of riders for the 12-months ended August 31, 2010.

9 2. The ridership levels for the Class I – General, Class II – Bulk, Class III –
10 Group Purchase, Class X – Children, Class XIII – Excess Baggage, and
11 Class XV – Lost Ticket, which have begun to show increases in ridership,
12 were determined by applying a 4.75% annual growth rate to the December
13 31, 2009 test year number of riders.

14 3. The ridership level for the Class VII – Contractor rate schedule was
15 determined based actual ticket sales for the 12 months ended August 31,
16 2010, reduced by 3,450. Contractor ridership was reduced to adjust for a
17 portion of the ridership on that fare associated with golf course
18 construction on BHI. That golf course construction project has now been
19 completed.

20 The overall effect of this adjustment is to increase actual test year ferry ticket
21 revenues by \$4,219 to \$3,372,236. The details of this adjustment are presented

1 on Hoard Exhibit 2, Schedule 3. Additional details and analysis regarding actual
2 ridership levels is provided in Hoard Exhibit 5.

3 **Cost of Capital**

4 Q. PLEASE IDENTIFY THE COMPONENTS OF THE COST OF CAPITAL THAT
5 ARE REFLECTED IN THE STIPULATION.

6 A. The Stipulation reflects a capital structure composed of 50% debt and 50%
7 equity. The Stipulated cost of debt is 6.65% and the return on equity is 10%.
8 These capital cost components produce an overall rate of return of 8.33% and
9 pre-tax interest coverage ratio of approximately 3.4 times. For purposes of
10 comparison, the overall rate of return reflected in recent rate orders for other
11 major utilities was PSNC Energy at 8.54% in Docket No. G-5, Sub 495, Piedmont
12 Natural Gas Company, Inc. at 8.55% in Docket No. G-9, Sub 550, Duke Energy
13 Carolinas at 8.38% in Docket No. E-7, Sub 909, and Carolina Pines Utility, Inc. (a
14 subsidiary of Utilities, Inc.) at 8.36% in Docket No. W-1151, Sub 5.

15 BHIT's status as a regulated utility presents a unique situation. There are very
16 few ferry operations regulated by state utilities commissions and their cost of
17 capital treatment is not useful for the instant proceeding. There are no known
18 publicly-traded ferry operations. Even among ferry operations, BHIT is unique
19 because it only transports passengers and not vehicles. In addition, as reflected
20 on Mayfield Exhibit 1, Schedule 3(a), the actual capital structure of BHIT at
21 December 31, 2009, was composed of more than 100% intercompany debt, due
22 to a significant amount of accumulated deficits. In view of the uniqueness of
23 BHIT, and in comparison to other regulated utilities in North Carolina, the

1 Stipulating Parties believe that the cost of capital components and the overall
2 cost rate reflected in the Stipulation is reasonable.

3 **RATE DESIGN**

4 Q. PLEASE IDENTIFY THE TYPES OF CUSTOMERS SERVED AND SERVICES
5 PROVIDED BY THE COMPANY.

6 A. The Company provides ferry transportation service to year-round residents for
7 whom Bald Head Island is their only residence; part-time residents who own a
8 home elsewhere; property owners; short-term and long-term renters; daily
9 visitors; construction contractors; and employees of affiliated businesses, non-
10 affiliated merchants, and the Village of Bald Head Island. In addition, the
11 Company provides baggage handling service; excess baggage service for large
12 items such as, golf clubs, kayaks, and bicycles; and on-island tram and shuttle
13 transportation service. From the ferry operations perspective, the characteristics
14 that differentiate customers include the frequency of use by the customer; the
15 season, days, and times that the ferry is used; the need for baggage and/or
16 excess baggage service; and the need for on-island tram or shuttle service.

17 Q. PLEASE DESCRIBE THE FACTORS THAT ARE TYPICALLY EMPLOYED BY
18 THE COMMISSION IN ITS EVALUATION OF RATE DESIGN.

19 A. In the design of utility rates, the Commission typically evaluates historical usage
20 and cost data and considers several factors including the following:

- 21 • Cost of service.
- 22 • Value of service.

- 1 • Historical rate design and customer impact.
- 2 • Usage or load equalization.
- 3 • Revenue stability.

4 **Cost of service** recognizes that the cost of providing utility service can vary
5 among customers. Depending upon their usage and other service characteristics
6 and the utility's cost structure, some types of customers may contribute more
7 revenue towards the fixed costs of the utility than others. In the case of BHIT,
8 some customers ride the ferry much more frequently than other customers, and
9 therefore contribute much more towards the fixed costs of operating the ferry.

10 **Value of service** recognizes that the price paid cannot be greater than the cost
11 to the customer of a satisfactory alternative. In the case of BHIT, there are
12 essentially no practical alternatives to the ferry for regular transportation service
13 to and from the island.

14 **Historical rate design and customer impact** recognizes the effects of past rate
15 design and the anticipated responses to rate increases and changes in rate
16 design.

17 **Usage or load equalization** recognizes the effect of load valleys and peaks on
18 the utility's costs and the ability of rate design to shift usage, reduce the
19 resources needed at peak times, and lower the unit cost of providing service.

20 **Revenue stability** recognizes that dramatic changes in rate design may
21 adversely affect the ability of the utility to attract new customers and maintain its
22 current customers.

1 The appropriate weight to be given these and other factors varies from utility to
2 utility and from case to case, with the goal being to design rates that are just and
3 reasonable without unjust discrimination or unreasonable preferences or
4 advantages.

5 Q. PLEASE EXPLAIN HOW THE STIPULATED RATE DESIGN REFLECTS
6 CONSIDERATION OF THESE FACTORS.

7 A. The stipulated rate design recognizes that price differences between rate classes
8 should reflect the relative characteristics and costs of the services. Frequent
9 users will be allowed to purchase tickets or passes at a discount because they
10 pay relatively more towards the peak load fixed costs of the Company than
11 infrequent users. In addition, customers that purchase tickets in bulk have been
12 allowed a discount in recognition of the cost savings that they provide the
13 Company. Customers who purchase tickets in bulk save the Company money by
14 requiring fewer transactions, which translates into lower administrative costs, and
15 by paying for tickets in-advance, which reduces the Company's working capital
16 requirements.

17 Q. PLEASE EXPLAIN THE PROCESS USED TO DEVELOP THE STIPULATED
18 RATES.

19 A. Hoard Exhibit 3 provides the data and other assumptions supporting the
20 stipulated rates. The first step in the process involved the determination of
21 changes to the number and types of rate schedules that the Company should
22 offer. The current rates, except for a few modifications, are the original rates that
23 existed at the time that the Company received its common carrier authority from

1 the Commission in 1993. My understanding is that the Commission did not
2 evaluate the particulars of the Company's rate design in place at that time.
3 Consequently, this docket is the first time that the Commission has evaluated the
4 overall rate structure of BHIT. The Stipulating Parties have agreed that the
5 following current rate schedules should be eliminated:

- 6 1. Class IV – Government Employees
- 7 2. Class V – Special Events
- 8 3. Class VIII – Corporate Guest
- 9 4. Class XII – Senior Citizen Annual Pass
- 10 5. Class XV – Student Ticket

11 The second step in the process involved determining the appropriate
12 reclassification adjustments to the end of period billing units that result from the
13 rate schedule changes. Next, the rate design target ratios and rate rebalancing
14 adjustments were determined. This step involved expressing the desired level
15 for each current rate as a ratio relative to the current General fare. The
16 stipulated ferry ticket revenue level was spread across the various rate schedules
17 using the billing units (including the reclassification adjustments) for each rate
18 schedule. Rate rounding adjustments were then applied to the individual rate
19 levels for rate administrative purposes.

20 Q. PLEASE EXPLAIN WHY THE PUBLIC STAFF SUPPORTED ELIMINATION OF
21 THE SENIOR CITIZEN ANNUAL PASS.

22 A. The Public Staff acknowledges that strong support for continuation of a Senior
23 Citizen Annual Pass was expressed by witnesses at the July 23rd public hearing,

1 and seriously considered a modest discount (perhaps 10%). The current Senior
2 Citizen Annual Pass provides a 50% discount off the regular Annual Pass. Using
3 the current annual ridership levels for the Senior Citizen Annual Pass and the
4 stipulated rates, it was determined that the Senior Citizen Annual Pass would
5 need to provide at least a 44% discount off the regular Annual Pass to provide
6 the pass-holder a more economical alternative than would be provided by the
7 new Bulk 80 rate. Because of the lack of value and higher upfront cost for a
8 Senior Citizen Annual Pass set at a discount of less than 44%, we did not believe
9 that continuation of the rate class was practical. My analysis of the breakeven
10 point for the Senior Citizen Annual Pass as compared to the Bulk 80 and Bulk 40
11 fares is provided on Hoard Exhibit 3, Schedule 6.

12 Q. PLEASE EXPLAIN THE RATE REBALANCING ADJUSTMENTS.

13 A. Company witness Fulton describes the rationale for the rate rebalancing
14 adjustments in his pre-filed testimony. The Stipulation reflects a refinement of
15 the specific amount of the rate rebalancing adjustments for some rates, but the
16 rationales supporting these adjustments remain essentially the same as was
17 discussed by Mr. Fulton.

18 **OTHER MATTERS**

19 Q. PLEASE EXPLAIN THE PROVISION OF THE STIPULATION RELATED TO
20 DEPRECIATION RATES.

21 A. The Stipulating Parties have agreed that the depreciation rates for regulatory
22 accounting purposes shall, with the exception of certain listed assets, be
23 determined by the Company based on the straight-line method and the life of the

1 asset used for federal income tax purposes. The depreciation rates applicable to
2 the specific listed assets listed shall be the rates set forth in Exhibit F to the
3 Stipulation. In my opinion, this provision clarifies how the Company's
4 depreciation expense should be determined for Commission regulatory
5 accounting purposes.

6 Q. PLEASE EXPLAIN THE PROVISION OF THE STIPULATION RELATED TO
7 LEASES.

8 A. BHIT has agreed that it shall, within 30 days after Commission entry of an order
9 approving the Stipulation (the Approval Order), file with the Commission
10 amendments to its affiliate agreements with Limited that reflect any changes
11 necessary to conform the affiliate agreements with the Approval Order.

12 Q. PLEASE EXPLAIN THE PROVISION OF THE STIPULATION RELATED TO
13 FINANCIAL REPORTING.

14 A. BHIT has agreed to submit to the Commission and Public Staff a quarterly
15 financial report of monthly information within forty-five days after the end of each
16 quarter. The report shall contain a calendar year-to-date income statement in a
17 format presently produced for internal management purposes, information on the
18 Company's month-end balances of plant, accumulated depreciation, and
19 accumulated deferred taxes by plant category, monthly book depreciation
20 expense by plant category, the number of customers by fare class for each
21 month, and the number of tram riders by month. In my opinion, this periodic
22 financial report will allow the Public Staff to perform its regulatory oversight
23 responsibilities more effectively.

1 Q. PLEASE EXPLAIN THE PROVISION OF THE STIPULATION RELATED TO
2 THE COMPANY'S ACCOUNTING POLICIES.

3 A. The Company employs a modified tax-basis of accounting for regulatory
4 reporting purposes. The financial statements produced by the Company for
5 internal management purposes are prepared on a tax-basis of accounting. The
6 tax basis financial statements are modified for regulatory reporting purposes to
7 reflect book depreciation expense. The Company agrees that it shall use the
8 same asset capitalization and asset retirement policies for regulatory reporting
9 purposes that it uses for tax purposes. The Stipulation also provides that,
10 consistent with codes of conduct governing transactions between other utilities
11 regulated by the Commission and their unregulated affiliates, charges to the
12 Company from affiliates will be priced at the lower of cost or fair market value
13 and that charges by the Company to affiliates will be priced at the higher of cost
14 or fair market value. In my opinion, this provision clarifies the accounting policies
15 that the Company should use for Commission regulatory accounting purposes.

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes.

JAMES G. HOARD

Qualifications and Experience

I graduated from the University of Rhode Island in 1979 with a Bachelor of Science degree in Business Administration. Subsequent to graduation I have completed various economics, statistics, and regulatory courses. I am a Certified Public Accountant and a member of the American Institute of Certified Public Accountants.

I joined the Public Staff as a Staff Accountant in October, 1979, and was promoted to Supervisor of the Electric Section in January 1984. At the end of 1985, I assumed the position of manager in a small regional certified public accounting firm. In that position, I was responsible for financial audits and utility matters involving many of the firm's governmental, electric cooperative, telecommunications, and water and sewer utility clients. In September 1987 I rejoined the Public Staff as Supervisor of the Telecommunications Section, and in March 1991 I became Supervisor of the Natural Gas Section. On August 1, 2000, I was promoted to Assistant Director of the Accounting Division. In my present position, I am responsible for all regulatory accounting matters involving the natural gas, communications, and transportation utilities regulated by the Commission. I have testified before the Commission on many occasions addressing a wide range of topics and issues.