BEFORE THE

PUBLIC UTILITIES COMMISSION

OF RHODE ISLAND

UNITED WATER OF	**)**	
RHODE ISLAND, INC.	**)**	**DOCKET NO. 4255**

DIRECT TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

SEPTEMBER 30, 2011

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 20904

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OF RHODE ISLAND

UNITED WATER OF RHODE ISLAND, INC.	))	DOCKET NO. 4255

Direct Testimony of Thomas S. Catlin

Introduction

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q. WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A. From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility construction projects. I also served as project engineer for two utility valuation studies.

From June 1977 until September 1981, I was employed by Camp Dresser & McKee, Inc. Prior to transferring to the Management Consulting Division of CDM in April 1978, I was involved in both project administration and design. My project administration responsibilities included budget preparation and labor and cost monitoring and forecasting. As a member of CDM's Management Consulting Division, I performed cost of service, rate, and financial studies on approximately 15 municipal and private water, wastewater and storm drainage utilities. These projects included: determining total costs of service; developing capital asset and depreciation bases; preparing cost allocation studies; evaluating alternative rate structures and designing rates; preparing bill analyses; developing cost and revenue projections; and preparing rate filings and expert testimony.

In September 1981, I accepted a position as a utility rates analyst with Exeter Associates, Inc. I became a principal and vice-president of the firm in 1984. Since joining Exeter, I have continued to be involved in the analysis of the operations of public utilities, with particular emphasis on utility rate regulation. I have been extensively involved in the review and analysis of utility rate filings, as well as other types of proceedings before state and federal regulatory authorities. My work in utility rate filings has focused on revenue requirements issues, but has also addressed service cost and rate design matters. I have also been involved in analyzing affiliate relations, alternative regulatory mechanisms, and regulatory restructuring issues. This experience has involved electric, natural gas transmission and distribution, and telephone utilities, as well as water and wastewater companies.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have previously presented testimony on more than 250 occasions before the Federal Energy Regulatory Commission and the public utility commissions of Arizona, California, Colorado, Delaware, the District of Columbia, Florida, Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New Jersey, Ohio, Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as before this Commission. I have also filed rate case evidence by affidavit with the Connecticut Department of Public Utility Control and have appeared as a witness on behalf of the Louisiana Public Service Commission before the Nineteenth Judicial District Court.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

A. Yes. I am a member of the American Water Works Association (AWWA) and the Chesapeake Section of the AWWA. I serve on the AWWA's Rates and Charges Committee and on the AWWA Water Utility Council's Technical Advisory Group on Economics.

Q. ON WHOSE BEHALF ARE YOU APPEARING**?**

A. I am presenting testimony on behalf of the Division of Public Utilities and Carriers (the Division).

Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES BEFORE THIS COMMISSION?

A. Yes, I have been asked by the Division to address water utility issues on numerous occasions. I testified on revenue requirement, cost of service and/or rate design issues in Newport Water Division, Docket Nos. 2029, 2985, 3457, 3578, 3675, 3818 4025 and 4243; Providence Water Supply Board, Docket Nos. 2022, 2048, 2304, 2961, 3163, 3446, 3684, 3832 and 4061; Kent County Water Authority, Docket Nos. 2098 and 3942, Woonsocket Water Department, Docket Nos. 2099 and 2904; United Water Rhode Island, Inc., (formerly Wakefield Water Company), Docket Nos. 2006 and 2873; and Pawtucket Water Supply Board, Docket Nos. 3193, 3378, 3497, 3674 and 4171.

Purpose and Summary

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Exeter Associates was retained by the Division to assist it in the evaluation of the rate filing submitted by the United Water of Rhode Island, Inc. (United or the Company) on June 3, 2011. This testimony presents my findings and recommendations with regard to United's rate year rate base and net operating income at present rates. Based on these amounts, I have determined the overall revenue increase that would be required to generate the return on rate base recommended by Mr. Matthew I. Kahal on behalf of the Division. My associate, Mr. Jerome D. Mierzwa addresses cost allocation and rate design on behalf of the Division.

Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR TESTIMONY?

A. Yes. I have prepared Schedules TSC-1 through TSC-15, which are attached to my testimony. These schedules present my findings regarding United's rate year revenue requirements.

Q. WHAT TIME PERIODS HAVE YOU UTILIZED IN MAKING YOUR DETERMINATION OF UNITED'S REVENUE REQUIREMENTS?

A. Consistent with United's filing, I have accepted the 12 months ending December 31, 2010 as the test year. I have also accepted the 12 months ending December 31, 2012 as the rate year for purposes of determining the Company's revenue requirements and the revenue increase necessary to recover those requirements.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THE APPROPRIATE INCREASE IN REVENUES IN THIS PROCEEDING?

A. As shown on Schedule TSC-1, it is my recommendation that United receive a revenue increase of $896,196 in this proceeding. This amount is $322,506 less than the increase of $1,218,702 that United has requested based on rate year revenues at present rates.

Q. PLEASE SUMMARIZE YOUR FINDINGS REGARDING THE COMPANY'S REVENUE REQUIREMENTS.

A. As shown on Schedule TSC-1, I have determined the Company has a revenue deficiency of $896,196. This is the amount by which revenues at present rates are less than those required to generate an overall return of 7.58 percent after reflecting my adjustments to United's claimed rate year rate base and operating income. The return of 7.58 percent represents Mr. Kahal's findings regarding the Company's overall cost of capital.

Schedule TSC-2 summarizes my adjustments to United's proposed rate year rate base. Schedule TSC-3 provides a summary of my adjustments to rate year revenues and expenses and the resulting net income at present rates. Schedule TSC-4 presents a proof of income taxes at present and proposed rates.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. In the remainder of my testimony, I document and explain each of the adjustments to rate base and operating income which I have made to arrive at the test year revenue surplus shown on Schedule TSC-1. My discussion of these adjustments is organized into sections corresponding to the issue being addressed. These sections are set forth in the Table of Contents for this testimony.

Indian Lake Shore Plant

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO PLANT IN SERVICE RELATED TO THE INDIAN LAKE SHORE DEVELOPMENT.

A. In March 2012, the transmission main that services the Indian Lake Shore Development is scheduled to be turned over to United as a contributed asset. In its filing, the Company included $198,000 in contributions in-aid-of construction, but failed to include the $198,000 cost of the main in plant in service. As shown on the rate base summary provided on Schedule TSC-2, I have increased plant in service by $198,000 to include this investment.

Materials and Supplies

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THE BALANCE OF MATERIALS AND SUPPLIES?

A. In its filing, United assumed that the balance of materials and supplies would remain at its historical 13-month average balance of $103,664 that existed during the 2010 test year. However, since mid-2010, the balance of materials and supplies has declined. To reflect this decline and more accurately reflect known investment levels, I am proposing to update that balance of materials and supplies to reflect the most recent 13-month average balance available. As shown on Schedule TSC-5, this adjustment reduces the average balance of materials and supplies by $15,575.

Cash Working Capital

Q. HOW HAS UNITED CALCULATED ITS CLAIMED ALLOWANCE FOR CASH WORKING CAPITAL?

A. The Company has calculated its claimed cash working capital allowance as one-eighth (1/8th) of operating and maintenance (O&M) expense.

Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO MAKE TO UNITED'S CLAIM?

A. I am proposing to make two adjustments to United's claim. First, I have eliminated tank painting amortization expense from the expense base used in the calculation of cash working capital. United records the amortization of deferred painting costs as O&M expense. However, given that the balance of deferred costs is recorded as a regulatory asset and included in rate base, the amortization should be treated like all other depreciation and amortization expenses and not included in the calculation of cash working capital. Second, I have adjusted the O&M base to which the one-eighth factor is applied to reflect the adjustments to O&M expense that I have made on behalf of the Division.

Q. HAVE YOU PREPARED A SCHEDULE SHOWING YOUR ADJUSTED CASH WORKING CAPITAL ALLOWANCE?

A. Yes, Schedule TSC-6 presents my calculation of the Division's recommended allowance for cash working capital based on the one-eighth method. As shown there, I have calculated a cash working capital allowance of $219,609, which is $15,419 less than amount included in United's filing.

Deferred Tank Painting Expense

Q. WHAT CLAIM HAS UNITED MADE FOR DEFERRED TANK PAINTING COSTS?

A. United has three water tanks – the Howland Aerator Tank, the Sherman Tank and the Boston Neck Tank – that require painting every 10 or so years. The Sherman and Howland Aerator tanks were painted in 2008 and the Boston Neck Tank is scheduled to be painted in 2012. United is proposing to include the amortization of the costs of painting of all three tanks over 10 years in rate year expense. In addition, the Company has included the unamortized balance of the tank painting costs net of deferred taxes in rate base. (For income tax purposes, tank painting costs can be expensed when incurred, thereby creating deferred income taxes when the costs are deferred for ratemaking purposes.)

Q. WHAT CONCERN DO YOU HAVE WITH THE COMPANY'S CLAIM?

A. The balance of deferred tank painting costs claimed by the Company assumes that the amortizations of the costs of painting the Sherman and Howland Aerator tanks that took place in 2008 does not begin until February 1, 2012.

Q. IS THIS APPROPRIATE?

A. No. The amortization of tank painting costs should begin when the painting is completed and should take place over the interval between tank paintings – ten years in this case. It is inappropriate to postpone the start of the amortization for almost four years. While tank painting costs are technically an expense, not a capital cost, if the costs are to be deferred and amortized, then amortization should begin when the tank is placed back in service just as the depreciation or amortization of a capital addition begins when the project is placed in service.

Q. IF TANK PAINTING COSTS ARE TECHNICALLY AN EXPENSE, DID UNITED REQUEST COMMISSION APPROVAL TO BE ALLOWED TO DEFER AND AMORTIZE THE COSTS?

A. No. United did not request approval to be allowed to defer and amortize the costs or to be allowed to postpone amortization until some future date when it filed a rate case. I have accepted the deferral of the costs because doing so is common practice. However, as discussed above, amortization should have begun when the painting was completed.

Q. WHAT REASON DID THE COMPANY PROVIDE FOR NOT BEGINNING THE AMORTIZATION OF THE 2008 COSTS OF PAINTING THE HOWLAND AERATOR AND SHERMAN TANKS UNTIL FEBRUARY 1, 2012?

A. According to the response to Div. 2-9, the Company delayed the amortization to match the amortization with recovery from ratepayers. However, this rationale fails to recognize that an allowance for tank painting amortization was already included in rates. In the Company's 1999 rate case in Docket No. 2873, the rate year cost of service reflected the ongoing amortization of tank painting costs incurred in prior years. Since no adjustment was made to remove the amortization of those costs when it was completed in early 2003, matching tank painting amortization with rate recovery is not a basis for postponing the amortization of tank painting costs incurred in 2008.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING?

A. I am proposing to adjust the balance of deferred tank painting costs included in rate base to reflect the amortization of the costs of the Howland Aerator and Sherman Tanks beginning in 2008. The painting of both tanks was completed in April 2008.

Therefore, I have accounted for the 45 months of additional amortization from May 2008 up to February 2012 when United assumed amortization would begin.

As shown on Schedule TSC-7, this adjustment reduces the unamortized balance of deferred tank painting costs by $88,401. After accounting for the associated reduction in accumulated deferred income taxes, the net reduction in rate base is $57,461.

Deferred Rate Case Expense

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO ELIMINATE DEFERRED RATE CASE EXPENSE FROM RATE YEAR EXPENSES.

A. United is proposing to amortize its projected rate case expense in this proceeding over three years and has included the projected average balance of unamortized rate case expense during the 2012 rate year in rate base. Consistent with this Commission's long-standing practice, as affirmed by the Rhode Island Supreme Court in Providence Gas Company v. Malachowski (656 A 2d. 949 at 953 (R.I. 1995)), I have eliminated the balance of deferred rate case expenses from rate base. As shown on my rate base summary schedule (TSC-7), this adjustment reduces rate base by $272,756. I address the amortization of rate case expense subsequently.

Q. DO YOU HAVE ANY OTHER COMMENTS WITH REGARD TO DEFERRED RATE CASE EXPENSE?

A. Yes. Like tank painting costs, rate case expenses are deductible for income tax purposes when incurred. Accordingly, if unamortized rate case costs were to be included in rate base, the amount should be stated on a net of tax basis.

Accumulated Deferred Income Taxes

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE BALANCE OF ACCUMULATED DEFERRED INCOME TAXES?

A. In developing its projection of the balance of accumulated deferred income taxes (ADIT) in the rate year, the Company did not take into account the provision for federal bonus depreciation of 100 percent in 2011 and 50 percent in 2012. As a result, United's projected rate year ADIT balance is understated. I have adjusted the projected balance of ADIT for the rate year to take federal bonus depreciation into account. As shown on Schedule TSC-8, this adjustment increases the balance of ADIT and reduces rate base by $44,972.

Incentive Compensation

Q. PLEASE SUMMARIZE UNITED'S CLAIM FOR INCENTIVE COMPENSATION EXPENSE.

A. As shown on Exhibit 4 (Lippai), Schedule 2A, page 1 of 4, the Company's claimed rate year payroll expense includes $32,758 for incentive compensation, of which 78.91 percent is charged to O&M and 21.09 percent is capitalized. This amount is based on all employees receiving their targeted bonus payments under the Company's Short Term Incentive Plan (STIP). For exempt employees, these target payments range from five percent to 15 percent of their salaries and are based on achieving a combination of financial and performance goals. However, no bonuses are paid if the 80 percent threshold for the financial goals is not achieved. For non-exempt employees, the two percent award is determined by management.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO INCENTIVE COMPENSATION EXPENSE?

A. I am proposing two adjustments to the incentive compensation amounts included for United's exempt employees. First, I have reduced the amounts included for the Manager and Superintendent from the full targeted bonus levels of 15 percent and 10 percent to 12.45 percent and 7.55 percent, respectively, of their base salaries. These lower percentages reflect the average bonus each employee received over the last three years (2008 through 2010). Over that period, neither employee received the full targeted bonus in any year. To be conservative, I have accepted the full five percent target award for the Supervisor position because the employee in that position was a new hire in 2010 and there is no historical data for that position.

The second adjustment I am making is to include only 60 percent of the overall bonuses for the Manager, Superintendent and Supervisor as an allowable expense for ratemaking. This adjustment excludes the 40 percent of the incentive compensation amounts that are directly associated with meeting financial goals.

Q. PLEASE EXPLAIN WHY YOU ARE PROPOSING TO ELIMINATE 40 PERCENT OF STIP EXPENSE FOR EXEMPT EMPLOYEES.

A. The portion of STIP expense that is directly attributable to meeting financial performance goals is not properly recoverable from ratepayers for several reasons. First, if the financial goals are set properly, achieving the necessary performance should be self-supporting. That is, measures that achieve additional cost savings, improve sales, or otherwise improve the financial results of the Company should provide the income necessary to fund the awards. Second, the payouts are made independent of the quality of service, efficiency or safety goals. Finally, the incentive to improve financial performance is not necessarily consistent with ratepayers' interests.

Q. WHAT IS THE EFFECT OF YOUR TWO ADJUSTMENTS TO THE INCENTIVE COMPENSATION AMOUNTS INCLUDED IN RATES FOR UNITED'S EXEMPT EMPLOYEES?

A. As shown on Schedule TSC-9, adjusting the incentive compensation expense included in rates to reflect historical payment percentages and exclude the amounts associated with achieving financial goals reduces rate year labor expense by $10,332. Accounting for the concomitant reduction in payroll taxes of $790 results in a total reduction in test year expenses of $11,122.

Q. ARE YOU PROPOSING AN ADDITIONAL ADJUSTMENT TO THE INCENTIVE COMPENSATION EXPENSE BILLED TO UNITED IN BILLINGS FROM THE SERVICE COMPANY?

A. Yes. In addition to the amounts included in rate year expenses for United employees in Rhode Island, Management and Service (M&S) fees billed to the Company by United Water Management and Services (UWM&S) also include incentive compensation paid to UWM&S employees. The amounts for UWM&S employees include bonuses paid under three plans: the STIP, the Long-Term Incentive Plan (LTIP) and the non-Exempt Bonus Plan. According to the response to Div. 8-1, rate year M&S fees include $26,000 for incentive compensation payments to UWM&S employees. Of this total, $17,000 represents amounts attributable to meeting corporate financial goals. For the same reasons that I excluded incentive compensation payments attributable to meeting financial goals for United's Rhode Island employees, I am also proposing to eliminate those amounts paid to UWM&S employees. As shown on Schedule TSC-10, this adjustment reduces M&S billings by $18,301 when the FICA taxes associated with the incentive compensation payments are taken into account.

Q. ON WHAT BASIS ARE AWARDS UNDER THE LTIP AND NON-EXEMPT BONUS PLANS AWARDED?

A. The LTIP applies only to United Water, Inc. employees in salary grades 22 through 24 (senior management employees) and all awards are based on financial performance. The Non-Exempt Bonus Plan applies to all non-exempt employees and the awards are based 50 percent on meeting financial performance and 50 percent on meeting safety and customer service goals.

Benefits Transferred Out

Q. PLEASE EXPLAIN YOUR ADJUSTMENT OF BENEFITS TRANSFERRED OUT.

A. In its filing, United has adjusted the test year fringe benefit capitalized or transferred out to reflect rate year levels separately from its adjustment to bring test year benefits expense to rate year levels. In response to Div. 6-5, the Company agreed that in calculating rate year benefits transferred, it inadvertently omitted the rate year amount for the OPEB transition obligation. As shown on Schedule TSC-11, including this item increases benefits transferred out and reduces O&M expense by $1,078.

Medical Benefits Expense

Q. WOULD YOU BRIEFLY SUMMARIZE HOW UNITED DEVELOPED ITS PROJECTION OF MEDICAL BENEFITS EXPENSE FOR THE RATE YEAR?

A. Yes. The Company's projection of rate year medical benefits expense is based on estimates of the premiums for medical, dental and vision insurance and the number of employees subscribing to the various types of coverage (employee, family, etc.).

For those employees who opted out of medical coverage, the Company has included a medical waiver payment of $1,000 annually.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO UNITED'S CLAIMED EXPENSE FOR MEDICAL BENEFITS?

A. In response to Div. 2-23, the Company indicated that corrections were necessary to its filed estimate of medical benefits costs related to the number of employees subscribing to the various types of coverage. Instead of two employees receiving waiver payments for opting out of medical coverage, the correct number is three. In addition, there are two less employees receiving medical coverage than originally shown and one less employee receiving vision insurance. As shown on Schedule TSC-12, the net effect of these changes is to reduce benefits expense by $10,051 before accounting for the portion of benefits capitalized. Of this total, 21.09 percent or $2,120 is "transferred out" or capitalized for a net reduction in O&M expense of $7,931.

Rate Case Expense Amortization

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE AMORTIZATION OF RATE CASE EXPENSE?

A. United has proposed to amortize the costs associated with this rate proceeding over three years. I am proposing to extend the amortization period to five years. The use of a five-year amortization period is conservative in light of the fact that the Company's last rate case in Docket No. 2873 was in 1999 and the case prior to that was in 1991 in Docket No. 2006. This represents an average interval between rate cases of approximately 10 years.

Q. WHAT IS THE EFFECT OF THIS ADJUSTMENT ON RATE EXPENSES?

A. As shown on Schedule TSC-13, this adjustment reduces the rate case amortization expense by $42,733.

Outside Services Expense

Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OUTSIDE SERVICES EXPENSE.

A. As part of the adjustment to outside services expense shown on Exhibit 4 (Lippai), Schedule 15A, United increased Other Outside Service costs to reflect a three-year average plus inflation. As shown in note (e) on that schedule, the costs recorded in 2009 and 2010 were both significantly less than in 2008. In response to Div. 2-35 and Div. 6-7 parts (1) and (2), United has indicated that Other Outside Services includes the costs for Consumer Confidence Reports (CCR) that are undertaken every year. However, in 2009 and 2010, the costs were recorded in a different account. Accordingly, there is no need to adjust Other Outside Services to effectively include costs that already included elsewhere in the rate year cost of service. Accordingly, I have eliminated this adjustment, which reduces rate year expenses by $4,403 as shown on Schedule TSC-14.

CIS Amortization

Q. PLEASE SUMMARIZE THE COMPANY'S CLAIM RELATED TO A NEW CUSTOMER INFORMATION SYSTEM.

A. United Water Resources, Inc. (United Corporation) is replacing its existing Customer Information System (CIS) in 2011. The Company is seeking to include its allocated share of the CIS investment in the amount of $472,333 in rate base and is proposing to amortize that investment over seven years.

Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO UNITED'S CLAIM?

A. I am proposing to adjust the amortization period for the new CIS from seven years to ten years. As shown on Schedule TSC-15, this adjustment reduces CIS amortization expense by $20,243. In addition, it reduces the average rate year balance of accumulated depreciation and amortization by $14,358. After accounting for the increase in ADIT due to the increase in the excess of tax over book depreciation, the net increase in rate base is $9,333.

Q. WHY ARE YOU RECOMMENDING THE USE OF A TEN-YEAR AMORTIZATION PERIOD?

A. I believe that the seven-year amortization period proposed by United is unnecessarily short. In two recent rate cases in which I was involved, the utilities had recently installed totally new Customer Information Systems as a result of changes in ownership.[1] Both of those utilities identified the expected lives of their new systems to be ten years. While I have not conducted a detailed review, ten years is also generally consistent with the service life uses CIS systems in other cases in which I have participated. Accordingly, I am recommending the use of a ten-year amortization for United's new CIS.

Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY

A. Yes it does.

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[1] The two cases were Peoples Natural Gas Company, LLC, Docket No. R-2010-2201702 before the Pennsylvania Public Utility Commission and Northern Utilities, Inc,. Docket No. 2011-92 before the Maine Public Utilities Commission.

BEFORE THE

PUBLIC UTILITIES COMMISSION

OF RHODE ISLAND

UNITED WATER OF	**)**	
RHODE ISLAND, INC.	**)**	**DOCKET NO. 4255**

SCHEDULES ACCOMPANYING THE

DIRECT TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

SEPTEMBER 30, 2011

EXETER

ASSOCIATES, INC.
10480 Little Patuxent Parkway
Suite 300
Columbia, Maryland 20904

UNITED WATER RHODE ISLAND, INC.

Summary of Operating Income
Rate Year Ended December 31, 2012

	Amount per Company at Present Rates	Division Adjustments	Amount per Division at Present Rates	Revenue Increase/ (Decrease)	Amounts After Revenue Incr. / (Decr.)
Operating Revenues					
Metered Sales	$ 2,569,432		$ 2,569,432	$ 896,196	$ 3,465,628
Fire Protection	252,568		252,568	-	252,568
Other Operating Revenues	36,302		36,302		36,302
Total Operating Revenues	$ 2,858,302	$ -	$ 2,858,302	$ 896,196	$ 3,754,498
Operating Expenses					
O&M Expense	$ 1,877,083	(84,778)	$ 1,792,305	2,309	$ 1,794,613
Depreciation Expense	510,632	(20,243)	490,389	-	490,389
Property Tax	271,022		271,022	-	271,022
Payroll Rax	56,446	(790)	55,656	-	55,656
Gross Receipts Tax	35,729	-	35,729	11,202	46,931
Income before Income Taxes	$ 107,390	$ 105,811	$ 213,201	$ 882,685	$ 1,095,886
Current Income Taxes	(159,075)	35,788	(123,287)	308,940	185,653
Deferred Federal Income Taxes	83,486	7,085	90,571		90,571
Amortization of ITCs	(4,668)	-	(4,668)	-	(4,668)
Total Operating Expenses	$ 2,670,655	$ (62,939)	$ 2,607,716	$ 322,451	$ 2,930,167
Utility Operating Income	$ 187,647	$ 62,939	$ 250,586	$ 573,745	$ 824,331
Rate Base	$ 11,073,931		$ 10,875,081		$ 10,875,081
Rate of Return	1.69%		2.30%		7.58%

UNITED WATER RHODE ISLAND, INC.

Determination of Revenue Increase
Rate Year Ended December 31, 2012

	Amount per Company (1)	Amount Per Division	Amount per Division Source
Proposed Rate Base	11,073,931	$ 10,875,081	Schedule TSC-2
Required Rate of Return	8.74%	7.58%	
Net Operating Income Required	$ 967,862	$ 824,331	
Net Operating Income at Present Rates	187,647	250,586	Schedule TSC-1, page 1
Net Income Surplus/(Deficiency)	$ (780,215)	$ (573,745)	
Revenue Multiplier (2)	1.5620102	1.5620102	
Base Rate Revenue Increase	$ 1,218,703	$ 896,196	

Verification

Revenue Increase/(Decrease)		$ 1,218,703	$ 896,196
PUC Assessment	0.25759%	$ 3,139	$ 2,309
Gross Receipts Tax	1.25%	15,234	11,202
Federal Taxable Income		$ 1,200,330	$ 882,685
Federal Income Tax	35.00%	420,116	308,940
Net Income		$ (780,215)	$ (573,745)

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 10.

(2) Calculation of Conversion Factor

	Tax Rates	
Revenues		1.000000
PUC Assessment	0.25759%	0.002576
Gross Receipts Tax	1.25%	0.012500
Net Federal Taxable Income		0.984924
Federal Income Tax	35.00%	0.344723
Revenue Conversion Factor		0.6402007
Revenue Multiplier		1.56201025

UNITED WATER RHODE ISLAND, INC.

Summary of Rate Base
Rate Year Ended December 31, 2012

Description	Amount per Company (1)	Division Adjustments (2)	Adjusted Per Division
Utility Plant in Service	$ 22,270,513	$ 198,000	$ 22,468,513
Less: Accumulated Depreciation and Amortization	(6,213,068)	14,358	(6,198,710)
Net Utility Plant in Service	$ 16,057,445	$ 212,358	$ 16,269,803
Materials and Supplies	103,664	(15,575)	88,089
Cash Working Capital	235,028	(15,419)	219,609
Deferred Tank Painting (net of Deferred Income Tax)	147,639	(57,461)	90,178
Deferred Rate Case Expense	272,756	(272,756)	-
Total Additions	$ 759,087	$ (361,210)	$ 397,877
	-	-	-
Contributions in Aid of Construction	(3,596,531)	-	(3,596,531)
Accumulated Deferred Income Taxes	(1,534,287)	(49,997)	(1,584,284)
Unamortized ITCs	(98,414)		(98,414)
Unfunded FAS 106 (net of Deferred Income Tax)	(513,369)	-	(513,369)
Total Deductions	$ (5,742,601)	$ (49,997)	$ (5,792,598)
Total Rate Base	$ 11,073,931	$ (198,850)	$ 10,875,081

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 1, page 4 of 4.

(2) Refer to page 2 of this Schedule.

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Rate Base
Rate Year Ended December 31, 2012

		Amount	Source
Rate Base per Company Filing	$	11,073,931	Per Exhibit 3, Schedule 1, page 4
Division Adjustments			
Indian River Transmission Main		198,000	Response to Div. 2-30
Materials and Supplies		(15,575)	Schedule TSC-5
Cash Working Capital		(15,419)	Schedule TSC-6
Deferred Tank Painting		(57,461)	Schedule TSC-7
Deferred Rate Case		(272,756)	Refer to Testimony
Accumulated Deferred Income Taxes		(44,972)	Schedule TSC-8
CIS Amortization Changes		9,333	Schedule TSC-15
Total Division Adjustments	$	(198,850)	
Division Adjusted Rate Base	$	10,875,081	

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Net Income
Rate Year Ended December 31, 2012

	Amount	Source
Net Income per Company	$ 187,647	Exhibit 3 (Michaelson), Schedule 10
Division Adjustments		
Incentive Compensation-Company Employees	7,230	Schedule TSC-9
Incentive Compensation-UWM&S Fees	11,895	Schedule TSC-10
Benefits Transferred Out	701	Schedule TSC-11
Corrected Medical Benefits	5,155	Schedule TSC-12
Rate Case Amortization	27,776	Schedule TSC-13
Other Outside Services	2,862	Schedule TSC-14
CIS Amortization	13,158	Schedule TSC-15
Interest Synchronization	(5,839)	Schedule TSC-4
Total Division Adjustments	$ 62,939	
Net Income Per Division	$ 250,586	

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Net Income
Rate Year Ended December 31, 2012

	Revenues	O&M Expenses	Depreciation Expense	Taxes Other Than Oincome	Current Federal Income Taxes	Deferred Federal Income Taxes	ITC Amortization	Net Operating Income
Net Income per Company	$ 2,858,302	$ 1,877,083	$ 510,632	$ 363,197	$ (159,075)	$ 83,486	$ (4,668)	$ 187,647
Division Adjustments								
Incentive Compensation-Company Employees		(10,332)		(790)	3,893	-	-	7,230
Incentive Compensation-UWM&S Fees		(18,301)			6,405	-	-	11,895
Benefits Transferred Out		(1,078)			377	-	-	701
Corrected Medical Benefits		(7,931)			2,776	-	-	5,155
Rate Case Amortization		(42,733)			14,957	-	-	27,776
Other Outside Services		(4,403)			1,541	-	-	2,862
CIS Amortization			(20,243)		7,085	-	-	13,158
Interest Synchronization					5,839			(5,839)
Total Division Adjustments	$ -	$ (84,778)	$ (20,243)	$ (790)	$ 42,873	$ -	$ -	$ 62,939
Division Adjusted Net Income	$ 2,858,302	$ 1,792,305	$ 490,389	$ 362,406	$ (116,202)	$ 83,486	$ (4,668)	$ 250,586

Docket No. 4255
Schedule TSC-4

UNITED WATER RHODE ISLAND, INC.

Calculation of Current Income Tax
Rate Year Ended December 31, 2012

	Amount per Company at Present Rates (A)	Division Adjustments (B)	Adjusted per Division at Present Rates (C)	Revenue Increase/ (Decrease) (D)	Amounts After Revenue Increase (E)
Operating Revenue	$ 2,858,302	$ -	$ 2,858,302	$ 896,196	$ 3,754,498
O&M Expense	1,877,083	(84,778)	1,792,305	2,309	1,794,613
Depreciation Expense	510,632	(20,243)	490,389	-	490,389
Property Tax	271,022	-	271,022		271,022
Payroll Rax	56,446	(790)	55,656		55,656
Gross Receipts Tax	35,729	-	35,729	11,202	46,931
Operating Income Before Income Taxes	$ 107,390	$ 105,811	$ 213,201	$ 882,685	$ 1,095,886
Interest Expense	323,359	(16,682)	306,677		306,677
Exceess Tax Depreciation	238,531	20,243	258,774		258,774
Current Federal Taxable Income	(454,500)	102,251	(352,249)	882,685	530,436
Federal Income Tax at 35%	$ (159,075)	$ 35,788	$ (123,287)	$ 308,940	$ 185,653
Deferred Federal Income Tax	83,486	7,085	90,571	-	90,571
Investment Tax Credit Amortization	(4,668)	-	(4,668)	-	(4,668)
Total Federal Income Tax	$ (80,257)	$ 42,873	$ (37,384)	$ 308,940	$ 271,555

Notes:

(1) Calculation of Interest Deduction	(A)	(B)	(C)	(D)	(E)
Rate Base	$ 11,073,931		$ 10,875,081		$ 10,875,081
Weighted Cost of Debt	2.92%		2.82%		2.82%
Interest Deduction	$ 323,359	$ (16,682)	$ 306,677		$ 306,677
		-			
Federal Income Tax Effect at 35%		5,839			
Interest Synchronization Adjustment		$ 5,839			

Docket No. 4255
Schedule TSC-5

UNITED WATER RHODE ISLAND, INC.

Adjustment to Materials and Supplies to
Reflect Most Recent 13 Month Average Balance
Rate Year Ended December 31, 2012

		Balance (1)
August	$	101,586
September		101,027
October		108,169
November		85,305
December		86,030
January 2011		77,218
February		92,724
March		87,121
April		84,078
May		83,025
June		75,377
July		83,889
August		79,871
Average Balance	$	88,109
Balance per Company		103,684
Adjustment to Balance of Materials & Supplies	$	(15,575)

Note:
(1) Per Exhibit 3 (Michaelson), Schedule 1 and the response to Div. 2-3.

Docket No. 4255
Schedule TSC-6

UNITED WATER RHODE ISLAND, INC.

Cash Working Capital Analysis
Rate Year Ended December 31, 2012

	Expense Amount	Working Capital
O&M Expense per Company (1)	1,880,222	235,028
Division Adjustments (2)		
Exclude Tank Painting Amortization	(38,574)	(4,822)
Incentive Compensation-Company Employees	(10,332)	(1,292)
Incentive Compensation-UWM&S Fees	(18,301)	(2,288)
Benefits Transferred Out	(1,078)	(135)
Corrected Medical Benefits	(7,931)	(991)
Rate Case Amortization	(42,733)	(5,342)
Other Outside Services	(4,403)	(550)
Adjustment to Cash Working Capital		(15,419)
Cash Working Capital Per Division		$ 219,609

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 1, page 4 of 4.

(2) Reflects exclusion of tank painting amortization and Division adjsustments as summarizd on Schedule TSC-3.

Docket No. 4255
Schedule TSC-7

UNITED WATER RHODE ISLAND, INC.

Adjustment to Deferred Tank Painting Costs
Rate Year Ended December 31, 2012

		Amount
Average Balance Ber Company		
Deferred Tank Painting	$	227,137
Accumulated Deferrred Income Taxes		79,498
Net Balance per Company	$	147,639
Adjustment to Reflect Amortization from Completion		
Monthly Amortization for Howland Aerator and Sherman Tanks		1,964
Months from May 2008 through January 31, 2012		45
Additional Amortization	$	88,401
Accumulated Deferred Income Tax Effect		30,940
Net Reduction in Balance	$	57,461
Adjusted Balance per Division		
Deferred Tank Painting		138,736
Accumulated Deferrred Income Taxes		48,558
Net Balance per Division	$	90,178

Docket No. 4255
Schedule TSC-8

UNITED WATER RHODE ISLAND, INC.

Adjustment to Accumulated Deferred Income Taxes to
Reflect Federal Bonus Deprecaiton
Rate Year Ended December 31, 2012

		Amount
Increase in ADIT Balance due to Bonus Depreciation (1)		
December 2011	$	37,454
January 2012		45,598
February		45,598
March		45,598
April		45,598
May		45,598
June		45,598
July		45,598
August		45,598
September		45,598
October		45,598
November		45,598
December		45,598
13 Montrh Average Increase	$	44,972

Note:
(1) Per response to Div. 6-1.

Docket No. 4255
Schedule TSC-9

UNITED WATER RHODE ISLAND, INC.

Adjustment to Company Incentive Compensation Expense
Rate Year Ended December 31, 2012

	2012 Base Salary (1)	Historal Incentive Payment % (2)	Non Financial Percentage (3)	Recoverable Incentive Compensation
Supervisor	$ 64,277	5.00%	60.00%	$ 1,928
Superindentent	$ 78,632	7.55%	60.00%	3,562
Manager UWRI	$ 99,695	12.45%	60.00%	7,447
Total				$ 12,938
Amount per Company (1)				26,031
Reduction in Total Eligible Incentive Compensation				$ (13,093)
Amount Charged to Capital at 21.09% (1)				(2,761)
Adjustment to O&M Expense				$ (10,332)
Adjustment to FICA Taxes at 7.65%				(790)
Total Adjustment to Rate Year Expense				$ (11,122)

Note:
(1) Amounts per Exhibit 4 (Lippai), Schedule 2A, page 1 of 4.

(2) Percentages per Exhibit 4 (Lippai), Schedule 2A, page 1 of 4, multiplied by historical ratio of actual bonus to target bonus for Superintendent and Manager.

Docket No. 4255
Schedule TSC-10

UNITED WATER RHODE ISLAND, INC.

Adjustment to Incentive Compensation included in UWM&S Fees
Rate Year Ended December 31, 2012

	Amount
UWM&S Incentive Compenstion attributable to Meeeting Corporate Financial Goals (1)	$ (17,000)
FICA Taxes at 7.65%	(1,301)
Adjustment to Rate Year UWM&S Fees	$ (18,301)

Note:
(1) Per response to Div. 8-1.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Include OPEB Transition Obligation
In Determination of Benefits Transferred Out
Rate Year Ended December 31, 2012

	Amount
OPEB Transition Obligation (1)	$ 5,113
Percentage of Benfiets Transferred Out (2)	21.09%
Adjustment to Operating Expense	$ (1,078)

Notes:
(1) Amount per response to Div. 6-5.

(2) Per Exhibit 4 (Lippai), Schedule 3A, page 1 of 1.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Medical Benefits Expense
Rate Year Ended December 31, 2012

	Amount Per Fliling (1)	Corrected Amount (2)	Adjustment
Medical Waiver Payments	$ 2,000	$ 3,000	$ 1,000
Health, Dental and Vision Insurance	118,851	107,800	(11,051)
Adjustment to Operating Expesne	$ 120,851	$ 110,800	$ (10,051)
Amount Charged to Capital at 21.09% (3)			(2,120)
Adjustment to O&M Expense			$ (7,931)

Notes:
(1) Per Exhibit 4 (Lippai), Schedule 8 and 8A, page 1 of 1.

(2) Per response to Div. 2-23.

(3) Per Exhibit 4 (Lippai), Schedule 3A, page 1 of 1.

Docket No. 4255
Schedule TSC-13

UNITED WATER RHODE ISLAND, INC.

Adjustment to Rate Case Expense
Rate Year Ended December 31, 2012

		Amount
Projected Rate Case Expense (1)	$	320,500
Division Recommended Amortization Period-Years		5
Annual Amortization Expense	$	64,100
Amortization per Company (1)		106,833
Adjustment to Amortization Expense	$	(42,733)

Note:
(1) Per Exhibit 4 (Lippai), Schedule 13.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Outside Services Expense
Rate Year Ended December 31, 2012

	Amount
Increase in Other Outside Services per Company (1)	$ 4,403
Amount Per Division (2)	-
Adjustment to Outside Services Expense	$ (4,403)

Notes:

(1) Per Exhibit 4 (Lippai), Schedule 15A.

(2) Refer to testimony.

Docket No. 4255
Schedule TSC-15

UNITED WATER RHODE ISLAND, INC.

Adjustment to CIS Amortization Expense
Rate Year Ended December 31, 2012

		Amount
CIS Investment (1)	$	472,333
Division Recommended Amortization Period (Years)		10
Annual Amortiztion Expense per Division	$	47,233
Amortization Expense per Company (1)		67,476
Adjustment to Amortization Expense	$	(20,243)
Rate Year Accumulated Depreciation per Division (2)	$	33,501
Rate Year Accumulated Depreciation per Company (1)	$	47,859
Adjustment to Accumulated Depreciation	$	(14,358)
Deferred Income Tax Effect of Reduction in Accumulated Depr. at 35%	$	5,025
Net Adjustment tot Rate Base	$	9,333

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 3, page 13.

(2) Calculated using Excel version of Exhibit 3, Schedule 3 with 10 year life.