

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**PAWTUCKET WATER)
SUPPLY BOARD) DOCKET NO. 23-30-WW**

**DIRECT TESTIMONY OF
JEROME D. MIERZWA**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

March 8, 2024

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I. INTRODUCTION

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

A. My name is Jerome D. Mierzwa. I am a Principal and Vice President of Exeter Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York in 1981 with a Bachelor of Science Degree in Marketing.¹ In 1985, I received a Master’s Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation (“NFG Distribution”) as a Management Trainee in the Research and Statistical Services (“RSS”) Department. I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the Company’s market research activity and state regulatory affairs. In April 1987, as part

¹ Effective August 1, 2023, Canisius College became Canisius University.

1 of a corporate reorganization, I was transferred to National Fuel Gas Supply
2 Corporation's ("NFG Supply") rate department where my responsibilities included
3 utility cost of service and rate design analysis, expense and revenue requirement
4 forecasting, and activities related to federal regulation. I was also responsible for
5 preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase
6 Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market
7 supply gas price projections. These forecasts were utilized for internal planning
8 purposes as well as in NFG Distribution's state purchased gas cost review proceedings.

9 In April 1990, I accepted a position as a Utility Analyst with Exeter. In
10 December 1992, I was promoted to Senior Regulatory Analyst. Effective April 1, 1996,
11 I became a Principal of Exeter. Since joining Exeter, my assignments have included
12 water and gas utility class cost of service and rate design analysis, evaluating the gas
13 purchasing practices and policies of natural gas utilities, sales and rate forecasting,
14 performance-based incentive regulation, revenue requirement analysis, the unbundling
15 of utility services, and the evaluation of customer choice natural gas transportation
16 programs.

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

19 A. Yes. I have provided testimony on more than 450 occasions in proceedings before the
20 FERC, utility regulatory commissions in Arkansas, Connecticut, Delaware, Georgia,
21 Illinois, Indiana, Louisiana, Maine, Maryland, Massachusetts, Montana, Nevada, New
22 Hampshire, New Jersey, Ohio, Pennsylvania, South Carolina, Texas, Utah, and
23 Virginia, as well as before this Commission.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
2 PROCEEDING?

3 A. On September 14, 2023, the Pawtucket Water Supply Board (“PWSB”) filed an
4 application to implement a multi-year rate plan through a four step increase. Those four
5 step increases and the proposed effective dates are as follows:

Step	Revenue Increase	Percent	Effective Date
1	\$1,423,220	7.0	October 14, 2023
2	80,464	0.4	July 1, 2024
3	74,116	0.3	July 1, 2025
4	80,435	0.4	July 1, 2026

6 I have been asked by the Division of Public Utilities and Carriers (“Division”) to
7 address PWSB’s class cost of service study (“COSS”) and rate design proposals. My
8 colleague, Mr. Lafayette K. Morgan, addresses the reasonableness of PWSB’s
9 requested increases.

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

12 A. Yes. I have previously testified on behalf of the Division on water utility cost
13 allocation and rate design issues in PWSB, Docket Nos. 2674, 3945 and 4550. I have
14 also previously testified on behalf of the Division on water cost allocation and rate
15 design issues in Providence Water Supply Board, Docket Nos. 2048, 3163, 3832,
16 4406, 4618 and 4994; Kent County Water Authority, Docket Nos. 2555, 3311 and
17 4611; City of Newport - Water Division, Docket Nos. 2985, 4355, 4595 and 4933;
18 City of Woonsocket - Water Division, Docket No. 4879; and SUEZ Water Rhode
19 Island Docket No. 4800.

20 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

1 A. Following this introductory section, my testimony is divided into three additional
2 sections. The first additional section provides an overview of water utility cost of
3 service methodologies. In the next section, I discuss the COSS study filed by PWSB
4 in its application. In the final section I address PWSB's rate design proposals.

5 **II. OVERVIEW OF COST OF SERVICE METHODOLOGIES**

6 Q. WHAT IS THE OBJECTIVE OF A CCOS STUDY?

7 A. COSS study is conducted to assist a utility or public utility commission in determining
8 the level of costs properly recoverable from each of the various classes to which the
9 utility provides service. Allocation of recoverable costs to each class of service is
10 generally based on cost causation principles.

11 Q. WHAT ARE THE PRIMARY COST OF SERVICE STUDY METHODS
12 UTILIZED FOR WATER UTILITIES?

13 A. The two most commonly used and widely recognized methods of allocating costs
14 to customer classes for water utilities are the base-extra-capacity method and the
15 commodity-demand method. Both methods are set forth in the American Water Works
16 Association's ("AWWA") *Principles of Water Rates, Fees and Charges* ("AWWA M1
17 Manual").

18 Q. PLEASE SUMMARIZE EACH OF THESE METHODS.

19 A. Under the base-extra-capacity method, investment and costs are first classified into
20 four primary functional cost categories: base or average capacity, extra-capacity,
21 customer, and direct fire protection. Customer costs are commonly further divided
22 between meter and service-related and account or bill-related costs. Extra-capacity
23 costs may also be divided between maximum day and maximum hour costs. Once
24 investment and costs are classified to these functional categories, they are then

1 allocated to customer classes. Base costs are allocated according to average water
2 use, and extra-capacity costs are allocated on the basis of the excess of peak demands
3 over average demands (extra-capacity factors). Meter and service-related customer
4 costs are allocated on the basis of relative meter and service investment or a proxy
5 thereof. Account-related customer costs are allocated in proportion to the number of
6 customers or the number of bills.

7 The commodity-demand method follows the same general procedures.
8 However, usage-related costs are classified as commodity and demand-related rather
9 than as base and extra-capacity related. Commodity-related costs are allocated to
10 customer classes on the basis of total water use (which is equivalent to average
11 demand), and demand-related costs are allocated on the basis of each class's
12 contribution to peak demand rather than on the basis of class demands in excess
13 of average use.

14 Q. WHAT COST OF SERVICE METHODOLOGY HAS PWSB UTILIZED IN
15 ITS FILING?

16 A. The CCOS study presented by PWSB in this proceeding utilizes the base extra-capacity
17 methodology. This method has been used by PWSB in prior base rate proceedings,
18 including its most recent proceeding at Docket No. 4550 which was filed in February
19 2015.

20 **III. EVALUATION OF PWSB'S CCOS STUDY**

21 Q. PLEASE IDENTIFY THE CUSTOMER CLASSES REFLECTED IN
22 PWSB'S CCOS STUDY.

23 A. PWSB CCOS study includes the following customer classes:
24 • Small Meter (5/8 - 1")

- 1 • Large Meter (>1”)
- 2 • Wholesale
- 3 • Public Fire Protection
- 4 • Private Fire Protection

5 Q. DID PWSB PREPARE A SEPARATE CCOS FOR EACH OF THE FOUR
6 PROPOSED STEP RATE INCREASES?

7 No. PWSB prepared a CCOS for the first of the four proposed step rate increases.
8 PWSB is proposing across the board percentage rate increases in Steps 2 – 4 to the rates
9 approved for the Step 1 increase.

10 Q. WAS THE CCOS STUDY FILED BY PWSB IN THIS PROCEEDING
11 PREPARED USING THE SAME COST OF SERVICE MODEL
12 APPROVED IN DOCKET NO. 4550, WHICH WAS PWSB’S MOST
13 RECENT PRIOR RATE PROCEEDING?

14 A. Yes. The CCOS study filed by PWSB in this proceeding was prepared using the same
15 cost of service model used in Docket No. 4550 which was filed in 2015. PWSB’s CCOS
16 study is presented by Mr. David M. Fox of Raftelis Financial Consultants, Inc.

17 Q. DOES THE CCOS STUDY FILED BY PWSB GENERALLY PROVIDE A
18 REASONABLE INDICATION OF THE COSTS ASSOCIATED WITH
19 SERVING PWSB’S VARIOUS CUSTOMER CLASSES?

20 A. Yes, it does.

21 Q. IN DOCKET NO. 4550, DID YOU HAVE ANY RECOMMENDATIONS
22 CONCERNING FUTURE CCOS STUDIES PREPARED BY PWSB?

23 A. Yes. In Docket No. 4550 I noted that many of the allocation factors used by PWSB in
24 the CCOS study presented in that proceeding were the same factors that had been used
25 in prior proceedings. I recommended that PWSB evaluate updating several of those

1 factors in future proceedings. This included the maximum-day and maximum-hour
2 demand extra capacity factors used in PWSB’s CCOS study and the factor used to
3 allocate transmission and distribution (“T&D”) operations and maintenance (“O&M”)
4 expenses (Factor O).

5 Q. DID THE PWSB UPDATE THE MAXIMUM-DAY AND MAXIMUM-
6 HOUR DEMAND EXTRA CAPACITY FACTORS AND FACTOR O IN
7 THE CCOS FILED IN THIS PROCEEDING?

8 A. Yes, it did.

9 **IV. REVENUE ALLOCATION AND RATE DESIGN**

10 Q. HOW IS PWSB PROPOSING TO ALLOCATE THE REVENUE
11 INCREASES IT IS REQUESTING IN THIS PROCEEDING TO THE
12 VARIOUS CUSTOMER CLASSES IT SERVES?

13 A. PWSB is proposing to allocate the revenue increase in Step 1 and develop rates based
14 on the results of its CCOS study. PWSB’s present and proposed rates are summarized
15 in DF Schedule 8.0, page 1. For the remaining three steps, equal percentage increases
16 in all rates are proposed.

17 Q. DO YOU AGREE WITH THE STEP 1 RATES PROPOSED BY PWSB?

18 A. With two exceptions, I generally agree with the Step 1 rates proposed by PWSB. The
19 first exception relates to the rates for Private Fire Protection. As shown on DF Schedule
20 8.0, page 1, PWSB has proposed a 32.5% decrease for 2-inch Private Fire Protection
21 customers. I don’t believe it’s reasonable to decrease rates when overall, rates are
22 increasing. Therefore, I recommend that the current 2-inch Private Fire Protection rate
23 be maintained. The second exception relates to the recovery of Public Fire Protection
24 service costs from City of Pawtucket retail customers.

1 Q. PLEASE EXPLAIN HOW PWSB RECOVERS THE COSTS ASSOCIATED
2 WITH PUBLIC FIRE PROTECTION SERVICE FROM RETAIL
3 CUSTOMER LOCATED IN THE CITY OF PAWTUCKET.

4 A. R.I.G.L. §39-3-11.1 allows municipalities in Rhode Island that own public water
5 systems to pass ordinances that provide for the recovery of the costs associated with
6 providing Public Fire Protection service from the water ratepayers within that
7 municipality rather than the municipality through a Public Fire Protection charge. An
8 ordinance to this effect went into place in the City of Pawtucket on November 14, 2011.
9 All City of Pawtucket retail customers regardless of meter size are currently assessed a
10 monthly Public Fire Protection charge of \$5.06, and in Step 1, PWSB is proposing to
11 increase that charge to \$7.29. These charges are identified on DF Schedule 8.0, page 1.

12 Q. WHAT IS YOUR CONCERN WITH PWSB'S PROPOSED PUBLIC FIRE
13 PROTECTION CHARGE?

14 A. The value a customer receives from the availability of Public Fire Protection service is
15 dependent on the value of a customer's property which is largely a function of the size
16 of a customer's property. In addition, there is typically a direct relationship between
17 the size and value of a customer's property and the size of a customer's meter. That is,
18 larger properties generally require larger sized meters than smaller properties. PWSB's
19 proposed Public Fire Protection charges are the same for each City of Pawtucket retail
20 customer regardless of the customer's property value or meter size and are not
21 reflective of the benefit a customer receives from Public Fire Protection Service. I
22 recommend that PWSB adopt Public Fire Protection charges that are reflective of the
23 benefit a customer receives from Public Fire Protection service.

1 Q. DO OTHER RHODE ISLAND MUNICIPALITIES ASSESS PUBLIC FIRE
2 PROTECTION CHARGES WHICH ARE REFLECTIVE OF THE BENEFIT
3 A CUSTOMER RECEIVES FROM PUBLIC FIRE PROTECTION
4 SERVICE?

5 A. Yes. The Providence Water Supply Board (“Providence”) assesses Public Fire
6 Protection charges which vary by meter size to City of Providence retail customers.

7 Q. HAVE YOU DEVELOPED PUBLIC FIRE PROTECTION CHARGES FOR
8 PWSB WHICH VARY BY METER SIZE?

9 A. Yes. Table 1 presents Public Fire Protection charges for PWSB which vary by meter
10 size based on PWSB’s claimed Step 1 revenue requirement. The Division’s proposed
11 charges are based on the meter investment ratios presented on page 76 of the AWWA
12 M1 Manual.

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Table 1.
Public Fire Protection
Charges

Meter Size (Inch)	Division Proposed
5/8	\$6.77
3/4	7.45
1	9.48
1 1/2	12.19
2	19.64
3	74.49
4	94.81
6	142.21
8	196.39

2 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

3 A. Yes, it does.