

TESTIMONY OF JEROME D. MIERZWA

Docket No. 24-30-WW

October 25, 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 the 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 Department (“RSS”). 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 of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG Supply”) rate department where my responsibilities included utility cost of service and rate design analysis, expense and revenue requirement forecasting, and activities related to federal regulation. I was

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

1 also responsible for preparing NFG Supply's Federal Energy Regulatory
2 Commission ("FERC") Purchase Gas Adjustment ("PGA") filings and
3 developing interstate pipeline and spot market supply gas price projections.
4 These forecasts were utilized for internal planning purposes as well as in
5 NFG Distribution's annual state purchased gas cost review proceedings.

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

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

17 A. Yes. I have provided testimony in more than 450 proceedings before the
18 FERC, utility regulatory commissions in Arkansas, Connecticut, Delaware,
19 Georgia, Illinois, Indiana, Louisiana, Maine, Maryland, Montana, Nevada,
20 New Hampshire, New Jersey, Ohio, Pennsylvania, South Carolina, Texas,
21 Utah, and Virginia, as well as before the Public Utilities Commission of Rhode
22 Island ("Commission")

23 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

24 A. On June 18, 2024, the City of Newport, Water Division (Newport Water), filed
25 an application to implement a multi-year rate plan through a four step

1 increase in rates. In the first step, proposed to take effect July 1, 2024,
2 Newport Water has proposed a rate increase of \$3,849,392. In step two,
3 proposed to take effect on July 1, 2025, Newport Water has proposed an
4 additional revenue increase of \$28,052. In step three, proposed to take effect
5 on July 1, 2026, Newport Water has proposed an additional revenue increase
6 of \$28,629. In step four, proposed to take effect on July 1, 2027, Newport
7 Water has proposed an additional revenue increase of \$15,369. I would note
8 that the increases proposed by Newport Water are preliminary in that they do
9 not include anticipated increased costs associated with Union Contracts
10 covering certain Newport Water employees that currently expire on June 30,
11 2024 and June 30, 2025. Newport Water intends to amend its filing to reflect
12 any increase in costs associated with new Union Contracts. Exeter
13 Associates, Inc. (“Exeter”) was retained by the Division of Public Utilities and
14 Carriers (“Division”) to evaluate and review Newport Water’s application. My
15 testimony addresses the Class Cost of Service Study (“CCOSS”) presented
16 by Newport Water and the proposed distribution of the revenue increases
17 authorized by the Commission in this proceeding to the various customer
18 classes served by Newport Water. My colleague, Mr. Lafayette K. Morgan,
19 addresses the reasonableness of the step increases requested by Newport
20 Water.

21 Q. DID NEWPORT WATER REVISE THE CCOSS INITIALLY FILED IN
22 ITS JUNE 18, 2024 APPLICATION?

23 A. Yes. On August 30, 2024, Newport Water submitted a Supplemental
24 Response to the initial response to DIV. 3-8 to correct several errors in the
25 original CCOSS and provided a revised CCOSS. In my testimony I

1 subsequently refer to the CCOSS submitted by Newport Water on August 30,
2 2024 as the Revised CCOSS.

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

5 A. Yes. I have previously testified before this Commission in the following
6 proceedings:

- 7 • City of Newport, Water Division Docket Nos. 2985, 4355, 4295, and
8 4933;
- 9 • Providence Water Supply Board Docket Nos. 2048, 3163, 3832, 4406,
10 4618 and 4994;
- 11 • Kent County Water Authority Docket Nos. 2555, 3311, and 4611;
- 12 • Pawtucket Water Supply Board Docket Nos. 2674 and 3945;
- 13 • Suez Water Rhode Island, Inc. Docket No. 4800; and
- 14 • Woonsocket Water Division Docket Nos. 4320 and 4879.

15 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING
16 NEWPORT WATER'S REVISED CCOSS AND THE RATES
17 PROPOSED BY NEWPORT WATER IN THIS PROCEEDING.

18 A. Newport Waters' CCOSS is presented by Mr. Harold J. Smith. In this
19 proceeding, Mr. Smith has used the same CCOSS model approved by the
20 Commission in Newport Water Docket Nos. 4128, 4355, 4595, and 4933. The
21 most recent proceeding, Docket No. 4933, was resolved by a settlement that
22 was subsequently approved by the Commission. My evaluation and review
23 generally found the Revised CCOSS presented by Mr. Smith to be
24 reasonable. I also found the rates proposed by Mr. Smith, which are designed
25 directly based on the results of the Revised CCOSS, to be reasonable.

1 Ultimately the Revised CCOSS and rates presented by Mr. Smith should be
2 adjusted to reflect the revenue increases authorized by the Commission in
3 this proceeding. My review of Newport Water's Revised CCOSS did reveal
4 one minor concern with respect to the allocation of base functional costs to
5 Fire Protection services, which I will discuss in greater detail later in my
6 testimony. However, adjusting the Revised CCOSS filed by Newport Water to
7 address this concern would not result in a material change in the results of
8 the Revised CCOSS.

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

10 A. Following this introductory section, my testimony is divided into two additional
11 sections. The first additional section provides an overview of water utility cost
12 of service methodologies. The second additional section addresses Newport
13 Water's Revised CCOSS and proposed rate design.

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15 **II. OVERVIEW OF CLASS COST OF SERVICE METHODOLOGIES**

16 Q. WHAT IS THE OBJECTIVE OF A CLASS COST OF SERVICE
17 STUDY?

18 A. A class cost of service study is conducted to assist a utility or commission in
19 determining the level of costs properly recoverable from each of the various
20 classes to which the utility provides service. Allocation of recoverable costs
21 to each class of service is generally based on usage and cost causation
22 principles.

23 Q. WHAT ARE THE PRIMARY COST OF SERVICE STUDY
24 METHODOLOGIES UTILIZED FOR WATER UTILITIES?

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

6 Q. PLEASE SUMMARIZE EACH OF THESE METHODS.

7 A. Under the base-extra capacity method, investment and costs are first
8 classified into four primary functional cost categories: base or average
9 capacity, extra capacity, customer, and direct fire protection. Customer costs
10 are commonly further divided between meter and service related and account
11 or bill related costs. Extra capacity costs may also be divided between
12 maximum day and maximum hour costs. Once investment and costs are
13 classified into these functional categories, they are then allocated to customer
14 classes. Base costs are allocated according to average water use, and extra
15 capacity costs are allocated on the basis of the excess of peak demands over
16 average demands. Meter and service-related customer costs are allocated
17 on the basis of relative meter and service investment or a proxy thereof.
18 Account related customer costs are allocated in proportion to the number of
19 customers or the number of bills. The Revised CCROSS presented by
20 Newport Water in this proceeding utilizes the base extra-capacity
21 methodology.

22 The commodity-demand method follows the same general procedures.
23 However, usage related costs are classified as commodity and demand
24 related rather than as base and extra capacity related. Commodity related
25 costs are allocated to customer classes on the basis of total water use (which

1 is equivalent to average demand), and demand related costs are allocated on
2 the basis of each class' contribution to peak demand rather than on the basis
3 of class demands in excess of average use.
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5 **III. EVALUATION OF NEWPORT WATER'S CCOSS AND RATE DESIGN**

6 Q. PLEASE IDENTIFY THE CUSTOMER CLASSES INCLUDED IN
7 NEWPORT WATER'S REVISED CCOSS.

8 A. Newport's Revised CCOSS includes two retail classes—Residential and Non-
9 Residential; two wholesale customers—the Navy and the Portsmouth Water
10 and Fire Department (“PWFD”); and Public and Private Fire Protection.

11 Q. DID YOUR EVALUATION AND REVIEW FIND NEWPORT WATER'S
12 REVISED CCOSS AND PROPOSED RATES TO BE REASONABLE?

13 A. The Revised CCOSS model presented by Mr. Smith in this proceeding is the
14 same model approved by the Commission in Docket No. 4128, 4355, 4595,
15 and 4933. My evaluation and review generally found the Revised CCOSS
16 presented by Mr. Smith to be reasonable. I also found the rates proposed by
17 Mr. Smith, which are designed directly based on the results of the Revised
18 CCOSS, to be reasonable. Ultimately, the Revised CCOSS and rates
19 presented by Mr. Smith should be adjusted to reflect the revenue increases
20 authorized by the Commission in this proceeding. As subsequently discussed,
21 my review of Newport Waters' Revised CCOSS did reveal one minor concern;
22 however, addressing this concern would not result in a material change to
23 results of the Revised CCOSS.

24 Q. PLEASE ADDRESS THE MINOR CONCERN YOU FOUND WITH
25 RESPECT TO NEWPORT WATER'S REVISED CCOSS.

1 A. In Newport Waters Revised CCOSS, no base functional costs are assigned to
2 Fire Protection services. That is, the Revised CCOSS assumes that on an
3 average day, no water will be required to provide Fire Protection services.
4 However, the volume of water used to provide Fire Protection services on an
5 average day is relatively small and, therefore, adjusting the Revised CCOSS
6 to include these volumes would not result in a material change in results of
7 the Revised CCOSS.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.