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December 23, 2024

Via regular mail and email: stephanie.delarosa@puc.ri.gov

Stephanie De La Rosa, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

Re: *City of Newport, Utilities Department, Water Division*
PUC Docket No. 24-30-WW

Dear Ms. De La Rosa:

Please find enclosed for filing in the above-referenced case, (1) original and (9) copies the following:

1. Surrebuttal Testimony of David F. Russel filed on behalf of the Town of Middletown.

Should you have any questions, or need further information, please do not hesitate to contact this office. Thank you for your attention to this matter.

SAYER REGAN & THAYER, LLP


Leanna Kehm
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lk:
Service List via Email
Enclosures

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STATE OF
RHODE ISLAND AND PROVIDENCE PLANTATIONS
RHODE ISLAND PUBLIC UTILITIES COMMISSION

SURREBUTTAL TESTIMONY
of
DAVID F. RUSSELL, PE

FILED ON BEHALF OF THE TOWN OF MIDDLETOWN, RHODE ISLAND

IN THE MATTER OF
NEWPORT WATER DIVISION RATE CASE

RIPUC DOCKET NO. 24-30-WW
DECEMBER 23, 2024

1 **INTRODUCTION**
2

3 **Q. Please state your name and business address.**

4 A. My name is David F. Russell, P. E. and my business address is 15 Titcomb Street,
5 Condo Unit 1, Newburyport, Massachusetts 01950 and 23599 Awabuki Drive,
6 Venice, Florida 34293.
7

8 **Q. Are you the same David F. Russell, P. E. who submitted pre-filed direct
9 testimony in this docket?**

10 A. Yes, I am.
11

12 **Q. On whose behalf are you testifying in this case?**

13 A. I am testifying on behalf of the Town of Middletown, Rhode Island (the “Town”)
14 who is an Intervener in this case (RIPUC Docket NO. 24-30-WW - Petition of
15 Newport Water (NW) for a multi-year increase in its base rates).
16

17 **Q. What is the purpose of your surrebuttal testimony?**

18 A. My surrebuttal testimony addresses those portions of rebuttal testimonies submitted
19 by Mr. Smith, and Mr. Schultz, Jr. on behalf of Newport Water that address or
20 disagree with my direct testimony.
21

22 **Q. At the outset, please provide a summary of your surrebuttal testimony?**

23 A. While I don’t disagree with some of the issues or points of disagreement raised in the
24 rebuttal testimonies of each of Newport’s two witnesses, I am not persuaded that I
25 should make any significant changes to the recommendations I made in my pre-filed
26 direct testimony, except for a few provided herein.
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30

31 **Q. How have you arranged your surrebuttal testimony?**

1 A. To begin with, I provide a general assessment of the rebuttal testimonies submitted
2 by NW. Following that, for ease of reference I have arranged my surrebuttal
3 testimony by addressing the rebuttal testimonies of each of Newport’s witnesses in
4 the same order as listed in the previous response, and within the sections addressing
5 each of Newport’s witnesses I have followed (for the most part) the same order of the
6 issues/disagreements used by those witnesses in their rebuttal testimonies. Lastly, I
7 provide a summary of my recommendations and the associated impacts of each on
8 NW’s proposed Revenue Requirement increase.

9
10 General assessment of the rebuttal testimonies submitted by NW

11
12 **Q. What is your general assessment of the rebuttal testimonies submitted by NW.**

13 A. Before addressing specific issues raised by NW’s two witnesses in their rebuttal
14 testimonies (Mr. Smith and Mr. Schultz), I must point out that both witnesses missed
15 the central focus and purpose of my direct testimony. While I did identify some
16 areas where NW could and should reduce the level of its proposed increase in total
17 revenue requirements, the central focus and purpose of my testimony was to
18 emphasize the need in this case to reduce or minimize the customer impacts that
19 many, if not most, residential customers would be burdened with, if most or a sizable
20 portion of the proposed increase was approved. For example, on page 6, lines 12 to
21 20 of my direct testimony, I state:

22
23 “ The initial proposed Increase (effective on July 1, 2024), particularly given
24 the already high rates currently in effect, will lead to very high customer
25 impacts, which many would consider the impact to result in rate shock to
26 many customers of the Newport Water Division (NWD or NW). While it is
27 possible that a sizable percentage of the proposed increase may not be
28 justified, I have focused my attention at this time primarily on ways to
29 minimize or mitigate the impacts to customers, assuming a fairly high
30 proportion of the level of increase proposed will be approved (either through
31 full litigation or as part of a settlement Agreement).”

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Additionally, on page 7, lines 19 to 22 of my direct testimony, I state:

“With the addition of a relatively high increase on top of already high rates, the resulting charges will likely lead to high customer impacts and in many cases rate shock and unaffordability. This may require serious consideration of various rate mitigation measures and/or rate gradualism.”

Furthermore, both witnesses seem to believe that the comparisons of NW’s charges to residential customers in other systems in Rhode Island and Connecticut were intended to make an apples-to-apples comparisons between systems with the same treatment requirements and investments in system assets. This was definitely not my intention in making these comparisons. My intention was simply to demonstrate how much greater the impacts are for NW’s residential customers as compared to all other water systems in Rhode Island and most water systems in a neighboring state. I refer to page 7, lines 19 to 22 of my direct testimony, I state:

“And, while average statewide bills may increase somewhat before these proposed increases are effective, if the level of increase proposed by the Company [NWD] is allowed, residential customers in NWD’s service area will be paying as much as 2.2 times (119% more) more than what average residential customers across the state would be paying.”

Also, I refer to Data Request 2.a. (NW’s First Set of Data Requests to the Town of Middletown, 2.a.) and my response in which I state the following:

- 2. Regarding Mr. Russell’s testimony on pages 7-11 in which he compares Newport Water’s rates to that of other utilities:
 - a. Please fully describe the process Mr. Russell undertook to examine all similarities and differences between Newport and each of the utilities he used for comparison to ensure that the comparison between rates was a fair comparison.

1 Response – “This was a random sample of water charges paid by
2 residential customer in the neighboring State of Connecticut. It was not
3 intended to only show systems that were exactly the same as Newport
4 Water. It was intended to simply show that like its counterparts in Rhode
5 Island, many, if not most of the communities in both states pay a lot more
6 for water service than what residential customers of Newport Water pay
7 for the same level of potable water, and therefore the financial burden on
8 Newport’s residential customers, particularly low-income customers, is
9 much higher for them than nearly all surrounding communities. Thus, the
10 affordability issue for customers of Newport Water is likely to be a much
11 bigger problem for their customers than almost all other communities in
12 the region.”
13

14 Lastly, I would note that to the extent Middletown and the other two interveners (The
15 Division and the Portsmouth Water and Fire District - PWFD) are successful in their
16 arguments to reduce the proposed increase significantly (by about half or more), the
17 need for some of the mitigation measures proposed may become somewhat of lesser
18 importance.
19

20 **Q. Please proceed with your surrebuttal testimony that addresses Mr. Smith’s**
21 **rebuttal testimony.**

22 A. Mr. Smith only addresses four issues through four Q and A. responses that apply to
23 my direct testimony. Except for the fourth, I would characterize the first three as
24 being just definitional in nature. And, as I will indicate, I agree with the last one
25 because Information that I did not have at the time my direct testimony was due, has
26 since become available. Before directly addressing these four issues he provides a
27 very brief and perfunctory summary of most of the issues I addressed in my Direct
28 Testimony, but only addresses one (estimated sales) in detail during the remainder of
29 his critique of my testimony. I would label the four issues he addresses as follows;
30 vague estimates of impacts of Mr. Russell’s proposals, rate shock and affordability,
31 Comparisons of NW’s high charges to residential customers, and estimated sales.
32

33 **Q. Please proceed with the four issues addressed by Mr. Smith in his rebuttal**
34 **testimony.**

1 A. My surrebuttal of these four issues is provided below in the same order as Mr. Smith
2 presented them in his rebuttal testimony.

3

4 Vague estimates of impacts of Mr. Russell’s proposals

5

6 I disagree with his characterization of my testimony in this paragraph (page 10 of 13,
7 lines 2 through 5) . First, some of those estimates were not vague – specific
8 dollar estimates were provided for some adjustments to revenue requirements. For
9 some others adjustment specific dollar amounts could not be provided because
10 several responses to data requests had not been received and for others it was not
11 determined if some of the proposed adjustments should or shouldn’t be fully pursued.

12 Lastly, the Town responded to at least a few related Data Requests as it did in
13 response

14 to Data Request 8.a. (NW’s First Set of Data Requests to the Town of Middletown).

15 To wit, I refer to this Data Request and response by the Town of Middletown:

16

17 8. Regarding Mr. Russell’s testimony on Pg. 22, and in particular his table
18 of recommended adjustments, please provide the following in the same
19 format as HJS Schedule A-2A that shows the results of Mr. Russell’s
20 recommendations:

21

22 a. The rates that result from Mr. Russell’s proposal using Newport’s rate
23 year revenue requirement as set forth in Newport’s revised rate model.

24

25 Response – “Middletown has not yet prepared an alternative revenue
26 requirement reflecting its position, due to the fact that it is continuing to
27 evaluate the magnitude of some of its proposed adjustments and expects to
28 receive further information through testimonies of other parties and from
29 Newport Water. If this matter proceeds to a fully litigated case,
30 Middletown will consider providing this analysis at an appropriate time.”

31

32 Rate shock and affordability

33

34 In this paragraph (Page 10 of 13, lines 7 through 12) Mr. Smith makes two
35 observations about the magnitude of the proposed increase. I am perplexed as to how
36 each diminishes my position on this issue. First, whether or not Mr. Smith agrees

1 with the statement of mine that "... the resulting charges will likely lead to Rate
2 Shock and unaffordability." – is irrelevant. Indeed, whether or not I agree with it is
3 irrelevant. What is relevant is if low-income customers and many moderate-income
4 customers consider the proposed increase to result in Rate Shock or something close
5 to it, and whether or not these low to moderate income customers consider the
6 increase to make their even higher water bills to be unaffordable. Given the number
7 of residents (about 10%) in NW service area that are below the Federal Poverty
8 Level, or even within 1.5 times the FPL (about 20%), I suspect most, if not all, of
9 these low to moderate residents/customers do consider the proposed increase to result
10 in Rate Shock, and in many cases these customers will consider the higher rates will
11 make their water service unaffordable.

12
13 Second, he states, "His comparison of typical Newport bills with
14 typical bills for other Rhode Island utilities simply shows that Newport's rates are
15 indeed higher than the rates charged by several other utilities in Rhode Island."
16 Again, that is a true statement, but it only supports the focus and main purpose of my
17 testimony.

18 Comparisons of NW's high charges to residential customers

19
20 In this paragraph (Page 10 of 13, lines 16 through 12) Mr. Smith makes two
21 additional observations about the magnitude of the proposed increase. Again, I am
22 perplexed as to how each diminishes my position on this issue. First, Mr. Smith
23 states. "High water rates are concerning, and Newport would prefer that its rates
24 were lower than other utilities in the state" So, if high water rates are concerning,
25 then I would assume that increases on already high rates would be very concerning.
26 Then, why hasn't NW proposed any measures that would reduce or mitigate the high
27 customer impacts resulting from this high increase on already high rates? I've
28 proposed several measures to reduce or mitigate these customer impacts, and there
29 are likely others that could be considered. Why hasn't NW supported any of such
30 measures that I've proposed or others they may prefer? As concerning as high rates
31 may be to me or Mr. Smith, is "concerning" the right or appropriate word to use in

1 describing how big increases on already high rates would be described by low-
2 income and moderate-income customers? I suspect Rate Shock or unaffordable
3 would be used much more often.

4
5 Second, in the remainder of this paragraph, Mr. Smith explains why NW's rates are
6 much higher than most other Water utilities in the region. He concludes by stating,
7 "In short, it simply costs more to treat and deliver safe drinking water in Newport
8 than in other Rhode Island communities that
9 either rely on groundwater or have access to higher quality surface water."

10 While these factors should lead to relatively higher costs for NW, it begs the question
11 – do these two cost factors (greater treatment and greater capital investments) alone
12 cause costs for NW to be two times (100%) greater than average costs for other
13 regional water utilities? Or, are there other reasons causing this disparity? I have
14 suggested other cost cutting measures as have the other interveners in this case. I
15 will discuss and support many of the other modifications proposed by the other
16 interveners later in this testimony. Suffice it here to say, collectively the interveners
17 believe a very sizable portion of those cost/price differences can be attributed to
18 reasons in addition to the two elaborated on by Mr. Smith and the other NW witness
19 – Mr. Schultz. (covered later in this testimony).

20
21 Estimated sales

22
23 The following is in response to his rebuttal testimony at paragraph (Page 11 of 13,
24 lines 6 through 10). Without the benefit of having sales data for FY2024 and the first
25 few months of FY2025, I was concerned that NW may have under estimated its
26 expected sales for FY2025 as it appeared to do in the prior case (Docket NO. 4933).
27 In that case my higher estimate for sales in the rate year (FY2020), indicating
28 significant future growth, was only off by one year. For FY2020 I recommended the
29 Commission approve the level of sales be set at 1,649,000 thousand gallons, and just
30 one year later (FY2021) actual sales had increased to 1,676,507 thousand gallons
31 (nearly 2% higher than the level I recommended for just one year earlier). Thus,

1 sales were much higher for the first step increase than even my estimate by about
2 27,000 thousand gallons, which all else being equal, would have resulted in a
3 windfall of about \$280,000 during the rate year (FY2021) for the first step increase.
4 However, having realized a small decrease in sales for FY2024, and having that data
5 as reported by NW in its response to Middletown's 1ST set of Data Requests
6 (Middleton Data Request Set 1, 1-24), it became clear that under estimated sales
7 would not be an issue in this case. Therefore, I withdraw my position relative to this
8 issue.

9
10 NW, having now realized that its sales in FY2024 were a little less than they
11 estimated at the time of their original filing, now requested that the Commission
12 allow them to lower their sales estimate for FY2025 (by 14,700 thousand gallons,
13 which in turn would increase their requested revenue increase by a significant
14 amount (about \$172,000) as part of this case. Due to the high variability in sales, the
15 relatively small increase this change would result in, and the late date of this
16 associated increase, I strongly recommend that the Commission reject this increase
17 and require NW to not decrease its sales estimate for FY2025 as a result of this new
18 data for FY2024. In my professional opinion, it is just as likely that sales in FY2025
19 could increase by the same amount (14,700 thousand gallons) that NW is now
20 proposing that it should be decreased by. By proposing to decrease its sales in
21 FY2025 NW would, if approved, increase its Total Revenue Requirement by about
22 \$172,000.

23
24 **Q. Is there any other issue you would like to address with respect to Mr. Smith's**
25 **rebuttal testimony?**

26 A. Yes. Neither Mr. Smith or NW's other witness addressed one issue that I would
27 have thought Mr. Smith would address. I brought up this issue in my direct
28 testimony on page 13 under the heading, "RATE INCREASE DIFFERENCE
29 BETWEEN TWO CUSTOMER CLASSES." In Essance, it is my professional
30 opinion that while the rate model produces reasonable results in allocating costs to
31 each customer class with one exception. That one exception is the allocation of costs

1 between the two classes of Fire Protection customers; namely, Public Fire Protection
2 (FP) customers and Private FP customers. As I point out on page 13 of my direct
3 testimony,

4 It is very interesting (and important) to note that the COSS used in this case, with one
5 exception, results in increases to all customer classes and types of charges that are
6 very close to each other on a percentage basis. The one exception is clear – while
7 charges to Private FP customers are projected to only increase by 8%, the increase to
8 Public FP customers is two times greater (100% higher) at 16% (percentage
9 difference of 8%). This disparity between these two classes was lowered somewhat
10 due to changes in the COS model that resulted from changes made by NW as revised
11 in its supplemental filing. while charges to Private PP customers are now proposed
12 to increase by 5.1% (on average), the increase to Public FP customers is now
13 proposed to increase by 12% (percentage difference of 6.9%). Based on this and the
14 nature (very subjective and relying on many assumptions) of Cost-of-Service Studies
15 and the fact that the services provided to these customer classes are nearly identical,
16 all of this strongly indicates that there is a need to, and it is appropriate to phase-in
17 (by rate gradualism) the impacts to these two customer classes at this time.
18 Therefore, I recommend that the increase to both classes be equalized at 10% as part
19 of this case. The effect of this change is to decrease the proposed increase to Public
20 FP customers by \$26,000, with a corresponding increase to Private Fire FP
21 customers of \$26,000. Using the disparity from the original proposal, the total shift
22 would have been close to \$55,000 This shift in class revenues does not affect NW's
23 total revenue requirements, and this one phase-in should eliminate the need for
24 similar adjustments in future cases.

25
26 **Q. Please proceed with your surrebuttal testimony that addresses Mr. Schultz's**
27 **rebuttal testimony.**

28 A. Before directly addressing specific issues, like Mr. Smith, Mr. Schultz provides a
29 very brief and cursory summary/listing of most of the issues I addressed in my Direct
30 Testimony. With very few exceptions I disagree with his very brief critique (a few
31 words or one sentence at most) of each. Again, as fully explained in my general

1 assessment above (page 4, under the heading - General assessment of the rebuttal
2 testimonies submitted by NW), it is clear early on in his rebuttal testimony that he,
3 like M. Smith missed the central focus and purpose of my direct testimony.
4 Following that summary, Mr. Shultz then proceeds to address in some detail each of
5 the issues he listed.

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8
9 **Q. Please proceed with the issues addressed by Mr. Schultz in his rebuttal**
10 **testimony.**

11 A. My surrebuttal of these issues is provided below in the same order as Mr. Schultz
12 presented them in his rebuttal testimony (each designated with an underlined
13 heading.

14
15 NW's Uniqueness

16
17 Starting on page 30, Mr. Schultz goes on for four pages to describe what he believes
18 is essentially two reasons that makes NW's particular circumstances costs, and hence
19 the rates it charges, so much higher than nearly all water system in the area. No one
20 disputes that NW's treatment costs are considerably higher than most other systems
21 or that it has invested more in assets than many other systems. This was made
22 abundantly clear in the prior case (Docket NO. 4933), NW's initial and supplemental
23 filings in this case, and now in Mr. Smith's and Mr. Schultz's rebuttal testimonies.
24 However, the question remains – do those two factors (greater treatment costs and
25 amount of plant investment) explain the whole disparity between NW's costs and
26 rates as compared to water systems serving the rest of the State or the greater region
27 (I didn't include a sample of systems nearby in Massachusetts as I did in the previous
28 case, but at that time the results showed the same level of disparity in comparing
29 charges in that state with NW's). Do those two factors explain most of the disparity,
30 about half of it, or less, or more than that? Could other factors like poor
31 management, inefficiencies, over building or not taking advantage of more effective

1 processes or facilities explain part of the disparity? At some point, if the relative
2 costs continue to widen and approach 2.5 times (150% more) that of most other
3 systems or 3.0 times (200% more) (currently at about 2 times or 100% more), other
4 options could become cost effective. For example, private wells, mergers with other
5 systems, wholesale supply from other larger/less costly systems (like Providence
6 Water Supply Board, or the Massachusetts Water Resources Authority). It is for this
7 reason and the high impact to many residential customers (as described above) that I
8 have presented the comparisons with other area systems. As I have stated, which Mr.
9 Schultz also pointed out in his rebuttal testimony, it was never my intention to
10 indicate, or imply in any way, that the comparison systems had the same or even
11 similar treatment costs or level of infrastructure debt funded assets. Also, please see
12 my rebuttal testimony above (page 4, line 15 through page 5, line 23).

13
14 Comparison of NW's Rates to other Utilities

15
16 My surrebuttal to Mr. Schultz's and Mr. Smith's rebuttals of my position on this
17 issue are fully covered in parts of my surrebuttal to the prior issue (NW's
18 Uniqueness) and my surrebuttal of Mr. Smith's testimony above (page 4, line 15
19 through page 5, line 23).

20
21 Estimated Sales

22
23 My response to Mr. Smith's rebuttal testimony above (under the same heading)
24 explains my reasons for questioning the level of sales proposed by NW initially in
25 this case and as now proposed (lower sales than initially proposed). Because of those
26 reasons, I withdrew my position relative to the originally proposed level of sales.
27 However, I also stated my reasons for strongly being opposed to the Commission
28 approving any level other than the level of sales that NW proposed in its original
29 filing (this surrebuttal testimony, page 9, line 3 to page10, line 11).

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31 Proposed new positions/Labor Expenses

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After having the benefit of being able to review and assess the testimonies sponsored by the other two interveners as well as the testimonies of NW’s rebuttal witnesses, I have decided to withdraw my position relative to the new Positions. However, with respect to this same issue, I have decided to adopt and fully support the more wholistic approach recommended by the Division’s witness (Mr. Morgan). I find Mr. Morgan’s testimony on this issue very persuasive for all of the reasons he provides therein. Specifically, starting on page 9 of his testimony and continuing through page 20, he explains in detail his reasons for adjusting downward most salary and benefit related expenses proposed by NW. He also includes several schedules showing the calculations used to make each adjustment. The following provides a summary of the amounts that he recommends that the Commission reduce NW’s proposed revenue increase by (related to Labor Expenses):

Schedule KLM-3	\$391,930
Schedule KLM-4	\$161,097
Schedule KLM-5	<u>\$58,506</u>
TOTAL	<u>\$611,533</u>

Having now adopted and fully supported his recommendations on this issue, I also agree that his recommendation to lower NW’s proposed revenue requirement increase because of these labor related adjustments by \$611,533, which is fully justified and should be approved by the Commission.

Newport’s CIP Funding Plan/Debt Service Account

After having the benefit of being able to review and assess the testimonies sponsored by the other two interveners as well as the testimonies of NW’s rebuttal witnesses, and having a better understanding of NW’s planning and funding of its capital

1 improvement planning process, I have decided to withdraw my position relative to
2 debt funding (instead of cash funding) of one or more capital projects.

3
4 However, with respect to this same issue (funding of capital projects), I have decided
5 to adopt and fully support the more wholistic approach recommended by Portsmouth
6 Water and Fire District's (FWFD) witness (Mr. Mumm). I find his testimony on this
7 issue very persuasive for all of the reasons he has enumerated, starting on page 8 of
8 17. line10 through page 10 of 17, line 5 of his Direct Testimony on behalf of the
9 PWFD. In the last sentence of that cited section of his Direct testimony, he states his
10 recommendation on this issue as follows:

11
12 "PWFD recommends reducing the amount of allowed funding for the debt service
13 restricted account by \$200,000 per year. PWFD estimates that this will result in
14 funding that maintains a balance unlikely to fall below \$400,000 in the account over
15 the course of the four-year rate plan, after accounting for expected interest on the
16 debt services restricted account balances."

17
18 Having now adopted and fully supported his recommendations on this issue, I also
19 agree that his recommendation to lower NW's proposed total revenue requirement
20 increase because of his recommendation on this issue by \$200,000 is fully justified
21 and should be approved by the Commission.

22
23 Delay Capital Projects/Funding the Capital Spending Account

24
25 After having the benefit of being able to review and assess the testimonies sponsored
26 by the other two interveners as well as the testimonies of NW's rebuttal witnesses,
27 and a better understanding of NW's planning and funding of its capital improvement
28 planning process, I have decided to withdraw my position relative to recommending
29 that NW delay construction and funding of one or more capital projects.

30

1 However, with respect to this same issue (delaying capital projects to mitigate
2 customer impacts of capital projects), I have decided to take a more general approach
3 by recommending that the Commission approve the phasing in of the proposed
4 increase in funding of the restricted capital spending account for rate funded projects.
5 Specifically I recommend that the proposed funding level be reduced by about 25%
6 (\$200,000) in both FY2025 and FY2026, and delay consideration of approving the
7 full proposed increase (\$800,000) until review of the second step increase in
8 FY2007. By taking this approach (rather than designating a particular project
9 delays), this allows NW to decide which infrastructure projects, if any, can be
10 delayed a year or two or reduced in scope; which planning or accounting plans can
11 be delayed a year or two or reduced in scope; which, if any, infrastructure projects
12 can be funded with debt instead of current revenues (allowing a year or two to be
13 funded with Bond Anticipation Bonds (BANS); and which, if any, equipment
14 replacements can be delayed, or leased instead of cash purchased. Thus, this would
15 only require NW to only identify some combination of these measures, or other belt
16 tightening measures that together result in lowering their capital improvement cash
17 costs by \$200,000 for 2 years to realize the equivalent increase in the funding level of
18 this restricted capital spending account (\$600,000 approved increase plus \$200,000
19 in adjusted cash reductions equals \$800,000). While it may take a little rearranging
20 of projects and priorities, it should be relatively easy for management to accomplish
21 this. For, example, by funding any one of the cash funded infrastructure projects
22 with debt would by itself realize short term savings close to the required lower cash
23 requirement, as would delaying some of the planned equipment purchases and/or
24 leasing some of them rather than cash purchasing. Additionally, according to their
25 own capital funding plans it may not be necessary to implement any of these
26 suggested cash reducing measures. MW in response to both Div. 2-29 and PWFD 2-
27 2 list their plan for capital improvements in FY 2025 as summing to \$1,876,500
28 (same amounts for each project). Thus, at even the reduced funding level of
29 \$3,100,000, which all else being equal, leaves a balance in that account in FY2025 of
30 \$1,223,500. NW has indicated that its actual rate funded capital improvement
31 projects in that year will exceed the planned level. We will soon be through the first

1 half of FY2025. NW should at this point have a very good estimate of the total
2 amount it will draw down this account by in FY2025. If that total is less than
3 \$3,101,000, NW would not have to implement any of the measures outlined above to
4 avoid exceeding the reduced contribution amount (\$3,000,000).

5
6 In going from the same estimates for FY2025 to their plans for FY2026, MW in their
7 response to Div. 2-29 indicated that their total rate funded capital costs would total
8 \$2,400,000, and just a matter of weeks later in response to PWFD 2-2 increased their
9 estimated costs for capital improvements in FY 2026 by \$1,500,000 to \$3,900,000.

10 One project (lead service line replacement) was increased by \$700,000. Yet, each of
11 the three succeeding years stayed at much lower levels between \$200,000 to 300,000.

12 If even half of those increases are realized in just over 18 months from now, the total
13 rate funded projects in FY2026 would sum to \$3,150,000, which is just \$50,000
14 above the recommended funding level for FY 2026.

15
16 If that total is less than \$3,101,000, NW would not have to implement any of the
17 measures outlined above to avoid exceeding the reduced contribution amount
18 (\$3,100,000). If that total was equal to 3,150,000 or even \$3,300,00, NW could keep
19 the total at or below \$3,100,000 by implementing one or more of the measures
20 outline above. Thus, the net effect of this revised recommendation is a reduction of
21 \$200,000 from NW's proposed total revenue increase through FY2026.
22 Consideration of increases to the recommended reduced level (of \$3,100,000) would
23 be postponed to the second step increase for FY2027.

24
25 The net effect or this recommendation on this issue is to lower NW's proposed
26 revenue requirement increase by \$200,000, and it is fully justified and it should be
27 approved by the Commission.

28
29 Cost of Service Based Rates
30

1 In this section, Mr. Schultz seems to make the assertion that because the current
2 version of the COS model was developed through a series of iterations and approved
3 by the Commission in a case before this one, its validity or correctness can no longer
4 be questioned going forward. Does that mean that no one can question any of the
5 allocation factors used in the model for all time, or that the version accepted in a
6 prior case is 100% perfect, and therefore, should never be modified in any way going
7 forward. I find either position contrary to accepted industry practice and lacking a
8 basic understanding of the nature of Cost-of- Service Studies. Such studies are
9 largely subjective in nature and their results depend on many assumptions which tend
10 to vary over time with changing system conditions and technologies. Additionally,
11 as I pointed in my response to NW First set of Data Requests to Middletown No. 7.a.
12 there are many other factors that lead to rates that do not (and should not) exactly
13 follow rates that are derived from a COSS that theoretically results in rates that
14 exactly match the true cost of providing service to each customer class. This Data
15 Request and response is repeated here to provide more context to my surrebuttal of
16 Mr. Schultz’s rebuttal of my position on this issue:

17
18 7. Mr. Russell’s testimony on pg.18 that “...I also recognize that there are
19 other criteria or principles of ratemaking that may under certain
20 circumstances lead to rates that are not based solely on following the exact
21 rates produced by a cost-of- service study. Also, there may be other social,
22 economic or environmental considerations that may warrant considerable
23 deviation from rates that are based solely or exactly on cost of providing
24 water service to a particular customer or class of customers.”

25
26 a. Please identify all other criteria or principles of ratemaking that may apply
27 to proposed cost-of-service study (COSS) in this case that lead to rates that
28 are not based solely on rates produced by the cost-of-service study used in
29 this docket.
30

1 Response – First I prefaced that statement with, “in general, I tend to follow
2 the cost causation principle of ratemaking.” Second, within the industry it is
3 generally accepted that performing a cost-of-service study (COSS) is not an
4 exact science. It is in large part also an art. Many assumptions must be made
5 and many ratios (cost splits) must be estimated making much of the analysis
6 subjective in nature. Which, often leads to very different results depending
7 on who is performing the COSS. Some examples of other criteria
8 (considerations) or principles that may apply in certain circumstances include
9 rate continuity, rate simplicity, ease of administration, revenue stability,
10 customer impact mitigation measures, gradualism or phasing-in, conservation
11 of resources, customer affordability, customer assistance programs, business
12 incentives, general fund contributions, intentional subsidies, marginal
13 pricing, seasonal pricing, time of use pricing, and budget pricing to list
14 several.

15
16 Having said all that, I am not suggesting any changes to the model itself. Initially,
17 as it may have been evident from my many Data Requests related to parts of the COS
18 model used to derive Fire Protection charges, I had considered recommending
19 internal modifications to the COS model and a few of the assumptions made by Mr.
20 Smith. However, based on his responses and additional analysis, I decided not to
21 pursue them. Instead, I simply recommended a relatively minor adjustment to the
22 relative increases in total charges to Public Fire Protection customers and Private Fire
23 Protection customers. Mr. Schultz’s testimony in this section does not appear to
24 rebut this specific recommendation. My basis and reasons for that recommendation
25 are summarized above (page 10, line 15 to page 11, line 15), and I stand by it.

26
27 Increasing Block Rate Structure

28
29 With respect to my recommendation that NW should consider, or that the
30 Commission should require NW to consider an increasing 3 block rate structure, Mr.
31 Schultz has only a brief one sentence comment; namely, “Mr. Russell has not

1 demonstrated the need for this structure or how it would specifically be
2 implemented.” I disagree with both parts of this comment. First, in my testimony I
3 have clearly stated the need for and many benefits of such a rate structure, and have
4 suggested a plan for its consideration and adoption. The need for this structure is
5 paramount at this time because of the current high rates and NW’s plan to make them
6 even higher (it would significantly help to mitigate customer impacts, particularly for
7 low-income customers, and it would aid both customers and NW in their efforts to
8 discourage waste of this valuable resource (water) and to encourage its conservation.
9 As to my plan for its implementation, I don’t know how I could have made it clearer
10 than I did in responding to NW Data Request 1 to Middletown (No. 11.a.). The
11 pertinent part of that response is repeated here for ease of reference:

12
13 “Also, in response to this subpart and the other six subparts of this data request, it is
14 my opinion that if NWD decides to, or is required to institute such a rate structure or
15 a customer assistance measure/program, NWD should be allowed to propose what it
16 believes would be the best or preferred rate structure or measure (detailed parameters
17 such as block break points, block intervals, unit rates and discount levels) for its
18 system and all of their residential customers. This would then be accepted, rejected
19 or modified by the interested parties, and ultimately would need approval by the
20 RIPUC.”

21 And as I have stated this would probably be best handled in the context of the
22 planned FY2026 step rate increase case.

23
24 To provide more context to my reasons for this proposed rate structure and because
25 of its importance with respect to mitigating customer impacts of high rates in the
26 long run, I repeat my testimony on this issue below:

27
28 “The current uniform consumption rates by class do not provide additional
29 incentives (other than the price itself) to customers in each class to use less or
30 be more efficient with usage. This is particularly true for the residential
31 class. A two-block or three-block increasing rate structure for residential

1 customers provides two additional benefits. First, it can be designed to
2 provide most customers with a lower rate for water that is used for health and
3 sanitation purposes. Second, it provides low-income customers and many
4 senior citizens with an opportunity to pay lower average rates for most, if not
5 all of, their water consumption. Therefore, it is recommended that NWD
6 consider adopting a two-block increasing rate structure for its residential
7 customers, and that the Commission should require NWD to adopt such a
8 structure with a breakpoint between rate blocks somewhere in the range of
9 18,000 gallons to 36,000 gallons per year (1,500 gallons to 3,000 gallons per
10 month), or close thereto; at a first block rate that is significantly below cost,
11 with the difference made up in the second block rate. If a third is preferred, it
12 could be designed with a fairly high break point above which most usage
13 would be for outside use (primarily irrigation and pool filling). Thus, the
14 third block should start at about 6,600 to 8,300 gallons per month (80,000 to
15 100,000 gallons per year), and the third block rate should be set at a level
16 significantly above its cost-based level. Again, the second block rate would
17 be set at a rate that would ensure that the total consumption revenue
18 requirement would be satisfied. The final parameters should be determined
19 by NWD as part of this case, or as part of the first step review and approval
20 process.”

21
22 Customer Assistance Program)

23
24 With respect to my recommendation that NW should consider or that the
25 Commission should require NW to implement a Customer Assistance Program
26 (CAP), Mr. Schultz made the same accusations that he did with respect to the
27 preceding issue (increasing block rate); namely, I did not demonstrate the need for a
28 CAP, or how it would specifically be implemented.” I disagree with both parts of
29 this criticism. First, in my testimony I have clearly stated the need for such a rate
30 structure, and have outlined a plan for its consideration and adoption. The need for
31 any CAP is paramount at this time because of the current high rates and NW’s plan

1 to make them even higher. It would significantly help to mitigate customer impacts,
2 particularly for low-income customers where such relief is most needed. And, the
3 plan to consider and implement such a program is identical to the one recommended
4 for implementing an increasing block rate. Namely,
5 if NWD decides to, or is required to institute a lifeline rate or discount percentage,
6 NWD should be allowed to propose what it believes would be the best or preferred
7 CAP (the criteria for eligibility, the level of assistance provided and the method of
8 recovering the level of subsidy provided) for its system and all of their residential
9 customers. This would then be accepted, rejected or modified by the interested
10 parties, and ultimately would need the approval of the RIPUC. In my testimony and
11 responses to MW data Requests to Middletown I suggested what in my opinion are
12 some reasonable parameters for such a program. Also, because of the burden this
13 would place on NW and the advanced point to which this case has progressed, I now
14 recommend that the Commission as part of its decision in this case, require that NW
15 propose such an assistance program as part of the first step rate increase case. This
16 would also satisfy Mr. Schultz's point that such a program could only be
17 implemented if the Division (of the RIPUC) approves of it. As an intervener in this
18 case and presumably the first step increase case, the proposed program could only be
19 approved, if its details are approved by the Division in that case.

20
21 Middletown Supplemental Testimony

22
23 In this section, Mr. Schultz addresses my suggestion in my direct testimony that I
24 may need to file supplemental testimony. As I have decided not to file such
25 testimony, this should no longer be a concern to Mr. Schultz. Secondly, he states
26 that he (Newport) reserves the right to object to any (presumably my) surrebuttal
27 testimony that raises issues for the first time when those issues could have been
28 raised in Middletown's direct testimony. I assure him (Newport) that any issues I
29 expound on in this surrebuttal testimony are either discussed in my direct testimony
30 or were brought up as part of his or Mr. Smith's rebuttal testimonies. Lastly, I would
31 like to respond to Mr. Schultz's reference to Middletown's response to (NWD 1-8),

1 by reminding him that NW (Mr. Smith and Mr. Schultz) responded to Middletown’s
2 Data Request Midd. 1-27. In part by stating the following:

3
4 “Middletown is in possession of the working Excel version of the model and
5 can perform the analysis sought and analysis based on their assumptions, and
6 the burden of doing so is no greater on the town of Middletown than it would
7 be on Newport water.”

8
9 Rather than the quoted response repeated by Mr. Schultz in this section of his
10 rebuttal testimony, would he have preferred it, if Middletown had responded to NWD
11 -1-8 in a manner similar to his response to Midd. 1-27 as follows:

12
13 “Newport is in possession of the working Excel version of the model and can
14 perform the analysis sought and analysis based on their assumptions, and the burden
15 of doing so is no greater on Newport Water than it would be on the Town of
16 Middletown.”

17
18 **Q. Are there any other issues you would like to address not covered by NW’s**
19 **rebuttal witnesses?**

20 **A.** Yes. One expense adjustment raised by Mr. Morgan in his testimony for the Division
21 that I had considered addressing (sewer charges) in my direct testimony, but needed
22 more information before it was submitted. My position on this expense adjustment is
23 provided in the next section.

24
25 Sewer Expenses

26
27 After having the benefit of being able to review and assess the testimonies sponsored
28 by the other two interveners as well as the testimonies of NW’s rebuttal witnesses, I
29 have decided to adopt and fully support the analysis and recommendations of
30 Division’s witness (Mr. Morgan) relative to this expense (sewer charges)
31 adjustment. I find Mr. Morgan’s testimony on these charges to be very persuasive

1 for all of the reasons he provides therein. Specifically, his position relative to sewer
 2 charges is provided on page 25, line 11 through page 26, line 7 of his direct
 3 testimony. This adjustment results in a decrease of \$228,920 to this expense, and the
 4 details of this adjustment are contained in Schedule LKM-15.

5
 6 Having now adopted and fully supported his recommended adjustment to sewer
 7 charges, I also agree that this adjustment will lower NW’s proposed revenue
 8 requirement increase by \$28,920, and that it is fully justified and should be approved
 9 by the Commission.

10
 11 **SUMMARY OF RECOMMENDATIONS**

12
 13 **Q. Please summarize your recommendations and the associated impacts of each on**
 14 **NW’s proposed Revenue Requirement increases.**

15 **A.** The following Table summarizes my recommendations reductions to NW’s proposed
 16 revenue increase that would result from each of the recommendations provided
 17 above. If this case proceeds through the full litigation and hearing process, the Town
 18 will provide its proposed alternative rate schedules in advance of the public hearings.

19
 20 Table summarizing the impacts of my recommendations on the proposed Revenue
 21 Requirements

<u>Reason for Recommended Adjustment</u>	<u>Reductions in Proposed Rate Year Revenue Increase</u>
Estimated Rate Year Sales (original Filing)	Withdrawn
Estimated Rate Year Sales (supplemental Filing)	\$172,000
Revenue shift between two Classes (Public and Private Fire Protection Customers (\$27,000))	-\$26K for Public FP Custs., +26K to Private FP Custs. (No change in Total Revenue Requirement)
Labor Expenses	\$611,533

Funding of Debt Service Account	\$200,000
Funding of Capital Spending Account	\$200,000
Increasing Block Rate Structure	No Reduction in Revenue Require NW Proposal next case
Customer Assistance Program	No Reduction in Revenue Require NW Proposal next case
Sewer Expenses	\$228,920
<u>TOTAL (Rate Year) Reduction</u>	<u>\$1,412,453</u>

1