BEFORE THE

PUBLIC UTILITIES COMMISSION

OF RHODE ISLAND

In re: PROVIDENCE WATER SUPPLY BOARD APPLICATION FOR GENERAL RATE SCHEDULE CHANGES – MULTI-YEAR RATE PLAN	))))	**DOCKET NO. 24-51-WW**

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

April 23, 2025

EXETER
ASSOCIATES, INC.
10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

TESTIMONY OF JEROME D. MIERZWA

Docket No. 24-51-WW

April 23, 2025

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.

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

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

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

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

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On November 26, 2024, the Providence Water Supply Board ("Providence Water") filed an application to implement a multi-year rate plan through a two-

step increase in rates. In the first step, proposed to take effect July 1, 2025, Providence Water has proposed a rate increase of $8,205,636 or 9.36%, to support a cost of service of $95,895,478. In step two, proposed to take effect on July 1, 2026, Providence Water has proposed an additional revenue increase of $2,342,548, or 2.43%, to support a cost of service of $98,238,026. Exeter Associates, Inc. ("Exeter") was retained by the Division of Public Utilities and Carriers ("Division") to evaluate and review Providence Water's application. My testimony addresses the Cost of Service Study ("COSS") presented by Providence Water and the proposed distribution of the revenue increases authorized by the Commission in this proceeding to the various customer classes served by Providence Water.

Q. DID PROVIDENCE WATER REVISE THE COSS INITIALLY FILED IN ITS NOVEMBER 26, 2024 APPLICATION?

A. Yes. While preparing responses to the Divison's data request, Providence Water became aware of errors on a schedule it had filed in the COSS initial application. These errors subsequently flowed through to other schedules and documents included in the initial application. To correct these errors, on December 24, 2024, Providence Water filed revised application schedules and documents. In my testimony, I address the COSS as revised by Providence Water on December 24, 2024.

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

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

- Providence Water Supply Board Docket Nos. 2048, 3163, 3832, 4406,

4618, 4994, and 24-51-WW;

- City of Newport, Water Division Docket Nos. 2985, 4355, 4295, and 4933;
- Kent County Water Authority Docket Nos. 2555, 3311, and 4611;
- Pawtucket Water Supply Board Docket Nos. 2674 and 3945;
- Suez Water Rhode Island, Inc. Docket No. 4800; and
- Woonsocket Water Division Docket Nos. 4320 and 4879.

Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING PROVIDENCE WATER'S COSS AND THE RATES PROPOSED BY PROVIDENCE WATER IN THIS PROCEEDING.

A. Providence Water's COSS is presented by Mr. Harold J. Smith. Mr. Smith also presented the COSS filed in Providence Water's last rate filing in Docket No. 4994. My evaluation and review generally found the COSS presented by Mr. Smith in this proceeding to be reasonable. I also found the rates proposed by Mr. Smith, which are designed based on the results of the COSS, to be reasonable. Ultimately the COSS and rates presented by Mr. Smith should be adjusted to reflect the revenue increases authorized by the Commission in this proceeding.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. Following this introductory section, my testimony is divided into two additional sections. The first additional section provides an overview of water utility cost of service methodologies. The second additional section addresses Providence Water's COSS and proposed rate design.

II. OVERVIEW OF CLASS COST OF SERVICE METHODOLOGIES

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

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

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

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

Q. PLEASE SUMMARIZE EACH OF THESE METHODS.

A. Under the base-extra capacity method, investment and costs are first classified into four primary functional cost categories: base or average capacity, extra capacity, customer, and direct fire protection. Customer costs are commonly further divided between meter and service related and account or bill related costs. Extra capacity costs may also be divided between maximum day and maximum hour costs. Once investment and costs are classified into these functional categories, they are then allocated to customer classes. Base costs are allocated according to average water use, and extra capacity costs are allocated on the basis of the excess of peak demands over

average demands. Meter and service-related customer costs are allocated on the basis of relative meter and service investment or a proxy thereof. Account related customer costs are allocated in proportion to the number of customers or the number of bills.

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

III. EVALUATION OF PROVIDENCE WATER'S COSS AND RATE DESIGN

Q. WHICH COST OF SERVICE METHOD DID MR. SMITH USE TO PREPARE PROVIDENCE WATER'S COSS IN THIS PROCEEDING?

A. Mr. Smith used a modified base-extra capacity approach that used hydraulic modeling data to allocate transmission and distribution costs to the various customer classes served by Providence Water. The COSS develops rates for the Residential, Commercial, and Industrial retail customer classes, and for two wholesale customer classes: High Service Wholesale and Low Service Wholesale.

Q. IS THIS THE SAME COST OF SERVICE METHOD USED BY MR. SMITH IN DOCKET NO. 4994?

A. As explained by Mr. Smith on pages 7 and 8 of his direct testimony in this proceeding, in Providence Water's last rate filing in Docket No. 4994, four

COSS were prepared. The final COSS was prepared in response to Commission Data Request 2 ("COMM 2 COSS"). This COSS used hydraulic modeling data to allocate transmission and distribution costs to the retail customer classes and two wholesale customer classes: High Service Wholesale (Greenville, Lincoln and Smithfield) and Low Service Wholesale (Bristol County, East Providence, Kent County and Warwick). The COSS prepared by Mr. Smith in this proceeding uses the same approach as the COMM 2 COSS.

Q. DID YOUR EVALUATION AND REVIEW FIND PROVIDENCE WATER'S COSS AND PROPOSED RATES TO BE REASONABLE?

A. My evaluation and review found the COSS presented by Mr. Smith in this proceeding to be reasonable. I also found the rates proposed by Mr. Smith, which are designed based on the results of the COSS, to be reasonable. Ultimately, the COSS and rates presented by Mr. Smith should be adjusted to reflect the revenue increases authorized by the Commission in this proceeding.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.