STATE OF RHODE ISLAND

BEFORE THE

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION	)	Docket No. 3626
OF WOONSOCKET WATER DIVISION	)	
FOR AN INCREASE IN RATES FOR	)	
WATER SERVICE	)	

DIRECT TESTIMONY OF

ANDREA C. CRANE

REGARDING REVENUE REQUIREMENTS

ON BEHALF OF

THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

October 29, 2004

TABLE OF CONTENTS

I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is P.O. Box 810, 1 North Main Street, Georgetown, Connecticut 06829.

Q. By whom are you employed and in what capacity?

A. I am Vice President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various financial studies regarding utility rates and regulatory policy.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 175 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode

Island, South Carolina, Vermont, West Virginia and the District of Columbia. These proceedings involved water, wastewater, gas, electric, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony is included in Appendix A. I have also been engaged to provide testimony as an expert witness in several civil proceedings.

Q. What is your educational background?

A. I received a Masters degree in Business Administration, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

Q. Do you have any additional relevant experience?

A. Yes, from January 1991 until January 1998, I served as Vice Chairman of the Water Pollution Control Commission in Redding, Connecticut. This Commission was charged with designing, constructing, and operating a sewage collection and treatment facility for the Town of Redding.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The Columbia Group, Inc. was engaged by The Division of Public Utilities and Carriers ("Division") to review the recent base rate filing by Woonsocket Water Division ("WWD" or

"Company") and to provide revenue requirement recommendations to the Public Utilities Commission ("PUC" or "Commission"). In developing my revenue requirement recommendations, I reviewed the WWD's testimony and exhibits and the responses to data requests propounded upon the WWD by the Division.

III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the WWD's revenue requirement?

A. Based on my review, my conclusions and recommendations are as follows:

1. Based on the rate year ending December 31, 2005, the WWD has pro forma operating revenue (excluding miscellaneous income) at present rates of $5,322,435 (see Schedule ACC-1).
2. The WWD has pro forma costs, including pro forma debt service costs, of $7,066,909.
3. When total pro forma costs are reduced by the Company's miscellaneous income of $215,581, I calculate that the Company's net revenue requirement is $6,851,328.
4. Based on these determinations, a rate increase of $1,528,892 is appropriate. This represents an increase of 28.7% over pro forma operating revenue at present rates. My recommendation is approximately 25% less than the rate increase of $2,060,388 requested by WWD.

IV. DISCUSSION OF THE ISSUES

A. Introduction

Q. Please summarize the WWD's request for rate relief in this case.

A. The WWD is requesting a rate increase of $2,060,388 or 39.6% over its claimed level of pro forma operating revenue at present rates. The WWD's request is based on a test year ending December 31, 2003, and on a rate year ending December 31, 2005. The requested increase of $2,060,388 is composed of the following items:

IFR	$ 775,000
Debt Service	706,400
Personnel	226,300
Insurance	100,000
Outside Services	100,000
Property Taxes	77,000
Light and Power	55,000
Other	20,700
Total	$2,060,400

As demonstrated above, this case is being driven primarily by the Company's increased debt service costs and by its request for an increase to its Infrastructure Rehabilitation Plan ("IFR") funding.

B. Pro Forma Operating Revenue

Q. How did the WWD develop its pro forma revenue claim?

A. In order to develop its pro forma revenue claim, the WWD used the actual number of customers at April 1, 2004. Consumption was based on actual test year sales, adjusted to eliminate usage from several customers that were closed or moved as a result of the 2003 mill fire.

Q. How should pro forma revenues for a water utility be determined?

A. In order to determine pro forma revenue, it is necessary to first examine metered consumption, i.e. sales per customer. Consumption fluctuates from year-to-year due to a variety of factors. The most significant factors that influence the variations in annual water consumption from year-to-year are temperature and rainfall. Given that metered consumption fluctuates, it is common to use an average consumption over a period of time to determine a "normalized" level of consumption for ratemaking purposes.

I examined the Company's residential consumption figures during the past five years, as shown below:

Residential Consumption	Total Sales (CCFs)	Customers	Average Consumption
FY 2003	1,176,408	8,285	142
FY 2002	1,111,957	8,284	134
FY 2001	1,134,008	8,256	137
FY 2000	1,327,908	8,229	161
FY 1999	1,135,702	8,221	138
Three Yr. Average			138
Five Year Average			142

I next examined commercial consumption over the same period, as shown below:

Commercial Consumption	Total Sales (CCFs)	Customers	Average Consumption
FY 2003	683,559	1,061	644
FY 2002	748,354	1,226	610
FY 2001	796,481	1,225	650
FY 2000	764,074	1,222	625
FY 1999	862,632	1,220	707
Three Yr. Average			635
Five Yr. Average			647

I also examined total WWD sales. Total sales increased from 1999 to 2000, declined in 2001 and 2002, and were relatively stable in 2003 relative to year earlier levels,

Test Year ("TY")	1,779,360 CCFs
FY 2003	1,859,967
FY 2002	1,860,311
FY 2001	1,930,489
FY 2000	2,091,982
FY 1999	1,874,344
Three-Year Average (Includ. TY)	1,833,213
Five-Year Average (Includ. TY)	1,904,422

The Test Year in this case had the lowest level of sales in any of the past ten years. Therefore, I do not believe that it is reasonable to assume that the test year sales accurately represent prospective sales.

Q. What do you recommend?

A. Based on all of the information available to me at this time, I am recommending an adjustment to the WWD's pro forma revenue to reflect an average of total sales over three years, including the test year. Total pro forma sales averaged 1,833,213 CCFs over the past three years. I then made a further adjustment to eliminate 24,140 CCFs in sales from the customers impacted by the mill fire, resulting in a total pro forma sales level of 1,809,073. This is still lower than sales in any of the past ten years, but I believe that it is more representative of prospective sales than the use of the actual test year level, as proposed by WWD. My adjustment to the WWD's pro forma revenue claim is shown in Schedule ACC-2.

Q. In quantifying your adjustment, did you consider incremental variable costs associated with increased sales?

A. Yes, I did. As shown in Schedule ACC-2, I first calculated the total additional pro forma revenue that would be generated by my recommended sales adjustment. I then reduced this revenue to reflect the fact that the Company will incur additional costs for power and chemicals as a result of increased sales. In order to quantify these incremental expenses, I calculated the ratio of total power and chemical costs, to total sales. This resulted in incremental costs of 24.76 cents per CCF. I then multiplied my recommended sales adjustment, in CCFs, by the 24.76 cents per CCF to determine the total incremental expenses associated with these incremental sales. My pro forma operating revenue adjustment was then reduced by these incremental expenses.

C. Salaries and Wages

Q. Please summarize the WWD's salary and wage claim.

A. The Company has included projected salaries and wages of $1,138,840, which represents an increase of $118,813 or 11.65% over the test year. In addition, it has included upgrade costs of $51,298 to reflect increases designed to bring WWD's wage levels more in line with salary and wage rates at other water utilities. WWD also included contractual longevity payments of $41,196. The Company's claim is based on 33 employees. The Company has 36 employee positions authorized at this time. During the test year, the actual average number of employees was 32.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am. The Company states that its claim is based on "labor agreement from 7-1-2002 through 6-30-05 and estimated increase for second half of rate year."[1] The estimated annual increase assumed by the Company for the second half of 2005 was 4.0%. However, these labor agreements contain base rate increases of only 3% annually, suggesting that the Company's claim is overstated. The Company's claim also appears excessive considering the actual salaries and wages incurred during fiscal year 2004 were $1,048,301, which the Company provided in response to DIV-1-1.

Q. What do you recommend?

1 Testimony of Mr. Woodcock, Schedule 1.1, page 1.

A. I recommend that the Commission utilize the actual fiscal year 2004 salaries and wages, adjusted to reflect a 3% annual increase for fiscal year 2005, and further adjusted to reflect one-half of an annual increase of 3% for the second half of 2005. This would result in a total increase of 4.55% over the fiscal year 2004 costs. My adjustment is shown in Schedule ACC-3.

Q. Are you recommending any adjustments to the Company's claims for study upgrade costs or for longevity payments?

A. Conceptually, I am not opposed to the Company's request to include an additional adjustment in an effort to bring the salaries and wages of the WWD employees up to market levels. However, I would note that it may be difficult for WWD to implement such an increase in the manner noted in its testimony. All but one WWD position are union positions and therefore any increases will be governed by union contract. Since the contracts do not expire until June 30, 2005, any "study upgrade" increases would most likely be built into the rates implemented pursuant to the next contract. Accordingly, it is unlikely that these study upgrade increases would be implemented prior to July 1, 2005. Nevertheless, I have included study upgrade costs in my recommendation, but I have adjusted the Company's claim consistent with my recommended salary and wage adjustment.

Q. How did you calculate your adjustment?

A. I first calculated the overall average percentage of study upgrade costs to rate year, base salaries and wages claimed by WWD. As shown in Schedule 1.1 to Mr. Woodcock's testimony, the Company included study upgrade costs that equate to 4.5% of its overall base payroll claim. Accordingly, I have reduced the Company's study upgrade cost claim by 4.5% of my recommended salary and wage adjustment. My adjustment is shown in Schedule ACC-4.

Q. Did you make a similar adjustment with regard to longevity payments?

A. Yes, I did. Longevity payments are specified in the union contract and vary depending on the employee's length of service. Therefore, I first calculated an overall average of longevity payments to base salaries and wages claimed by WWD of 3.62%, based on the longevity payments shown in Schedule 1.1, page 1, of Mr. Woodcock's testimony. I then reduced the Company's claim for longevity payments by 3.62% of my recommended salary and wage adjustment, as shown in Schedule ACC-5.

Q. Are you recommending any adjustment to the WWD's claim for payroll taxes?

A. Yes, consistent with my recommendations to reduce the WWD's salary and wage expense, upgrade study costs, and longevity payments, I am making a corresponding adjustment to reduce its payroll tax expense claim. The WWD included payroll taxes of 7.65% of payroll in its claim. Since I am recommending reductions to the WWD's salary and wage expense, upgrade study costs, and longevity payments, it is necessary to reduce the WWD's payroll tax claim as well. At Schedule ACC-6, I have made an adjustment to eliminate the payroll taxes associated with my other payroll-related adjustments.

D. Maintenance - Roads and Walks

Q. Please describe the Company's claim for maintenance - roads and walks.

A. WWD has included $180,621 in its filing for maintenance-roads and walks. This represents an increase of $10,368 over the actual test year cost. The Company states that "WWD has recently been required to perform full width paving on some roads."[2]

Although the Company is requesting only a modest increase in this expense item relative to test year actual costs, the test year costs appear abnormally high relative to prior year levels, as shown below:

FY 2000	$40,000
FY 2001	$82,550
FY 2002	$77,679
FY 2003	$64,064
Test Year	$170,000
FY 2004	$208,666

2 Testimony of Mr. Marvel, page 7.

While I understand that the full width paving is being required on "some" roads, WWD has not demonstrated that the significant increase in costs is likely to continue. We do not know the circumstances under which full width paving is required, nor do we know if the utility is being required to perform work that may be more appropriately performed by, and funded by, other city departments. I am concerned about the possibility that certain costs are being allocated to the utility that may be more appropriately charged to other city departments, and which may have been charged to other departments in the past.

Q. What do you recommend?

A. I recommend that an average of the last three fiscal years be used to establish the pro forma level of maintenance costs in this proceeding. This would result in total pro forma costs of $116,797, as shown in Schedule ACC-7.

E. <u>Light and Power Expenses</u>

Q. Are you recommending any adjustments to the Company's claim for light and power expenses?

A. Yes, I am recommending three adjustments. First, I am recommending a reduction to the Company's claim for power costs under its new contract with Constellation Energy. Second, I am recommending a reduction to the Company's claim for incremental power costs associated with usage of the Harris Road supply. Finally, I am recommending an adjustment to reflect the reduction in Narragansett Electric Company's ("NEC") distribution rates, as recently ordered by the Commission.

Q. Please describe the recent procurement activities undertaken by City of Woonsocket for electric supply.

A. The City of Woonsocket ("City") had a contract for the supply of electric power with Select Energy. This contract expired on December 31, 2003. The City solicited bids for competitive electric supply in November 2003. As shown in the Request for Proposal provided in response to DIV-1-11, the City's wastewater treatment facility is responsible for approximately 70% of the City's electric supply requirements. Other City agencies, including the WWD, are responsible for the remaining 30%. The Request for Proposal that solicited competitive bids also requested a separate consolidated bid in the event that the school board joined in this contract.

The City received two bids, one from Constellation NewEnergy, Inc. and one from TransCanada Power Marketing, Ltd. Copies of the bids were provided in response to DIV-2-3. The bid from Constellation NewEnergy quoted a rate of 5.56 cents per kwh for the wastewater facility, 5.62 cents per kwh for the other city accounts, and 5.64 cents per kwh for the schools. These bids applied to both three-year and five-year terms. TransCanada provided a bid of 5.45 cents per kwh for a three-year contract and 5.50 cents per kwh for a four-year contract. TransCanada did not provide a bid for a five-year term. The rate that the

City had been paying under its contract with Select Energy was 4.415 cents per kwh.[3]

The City chose to sign a contract with Constellation Energy, even though the contract rates offered by Constellation Energy were higher than the rates offered by TransCanada. Documentation provided by the City in response to DIV-1-13, suggests that the fact that Constellation Energy was willing to offer a five-year term may have been responsible for the decision to choose the more expensive bid from Constellation Energy.

Q What are the final rates that are in the agreement with Constellation Energy?

A. The rates that are actually stated in the contract are 5.40 cents per kwh for the wastewater plant and 5.72 cents per kwh for the other city facilities. Thus, the contractual rates that are actually being charged show a much greater differential between the rates charged to the City's wastewater treatment plant and the rate charged to other agencies, including the WWD. This suggests that between the receipt of the proposals and the signing of the final contract, certain negotiations were held that resulted in this rate differential, resulting in a higher rate being charged to the WWD.

Q. What do you recommend?

A. I recommend that the Commission use the City's average electric supply rate to set rates in this proceeding. If the City is permitted to pass along the higher rate to the WWD, and in turn incur lower rates at the wastewater treatment facility, the net result will be that regulated

3 Testimony of Mr. Woodcock, Schedule 1.1, page 3.

water customers will be subsidizing wastewater customers. In order to eliminate any incentive for the City to subsidize one department's costs with another, I recommend that the average weighted rate of Constellation NewEnergy be used to determine the pro forma level of costs to include in WWD's revenue requirement. I have shown this calculation in Schedule ACC-8. As shown in that schedule, I have developed an overall average weighted rate under the Constellation Energy contract of 5.50 cents per kwh. I have used this average weighted rate to price out the kwhs used by the WWD in the test year.

Q. Why didn't you make an adjustment to reflect the lower rates as proposed by TransCanada?

A. There are two reasons why I did not make any further adjustments. First, as previously stated, it appears that a five-year contract was important to the City. TransCanada was not willing to offer a five-year term. Second, the actual weighted rate of 5.50 cents per kwh developed on Schedule ACC-8 for Constellation Energy is the same as the four-year rate offered by TransCanada, and is not significantly higher than the 5.45 cents per kwh rate proposed by TransCanada for a three-year contract. Therefore, based on this data, it does not appear that an additional adjustment is warranted.

It should be noted, however, that the final Constellation NewEnergy rate is lower than the rates initially bid in Constellation Energy's proposal. Therefore, it is possible that the City could have successfully negotiated even a lower rate with TransCanada. However, since the outcome of any such negotiation is uncertain, I do not believe that it is reasonable to make a further adjustment at this time. During the hearings in this case, the Commission may acquire additional information about the procurement process that resulted in this new electric supply contract. Such information may result in additional adjustments.

Q. Please discuss the Company's light and power adjustment associated with Harris Pond.

A. In addition to including the impact of its new electric supply agreement, WWD also included an adjustment to increase its power costs by $25,000 to reflect "estimated usage of Harris Pond for the rate year."[4] According to the response to DIV-1-16, Harris Pond is used as a source of supply during periods of below average rainfall conditions. WWD stated that its usage of Harris Pond during the test year was negligible, and therefore there were virtually no light and power costs associated with Harris Pond included in its test year.

Q. Did WWD adequately support is claim?

A. No, it did not. In DIV-1-16, the Company was asked to "describe fully how the $25,000 adjustment for Harris Pond was determined." The Company provided costs of using Harris Pond for fiscal years 2001, 2002, and 2003. However, these costs included both chemical and power costs. Moreover, the level of power and chemical costs incurred in fiscal years 2001-2003 were significantly below the power cost adjustment of $25,000 included in the Company's filing, ranging from $2,983 in fiscal year 2001 to $15,520 in fiscal year 2003. Accordingly, WWD has not provided adequate support for its claim, nor has it even explained how the claim of $25,000 was developed.

Q. What do you recommend?

A. I recommend that the Commission include an incremental power adjustment for Harris Pond that is based on power costs incurred during the last three fiscal years, adjusted to reflect the new power supply contract. Since WWD did not segregate the Harris Pond costs between power and chemical costs, I have used the historic ratio of total light and power costs to chemical costs to determine the percentage of average Harris Pond costs that relate to power expense.

As shown on Schedule ACC-9, total power and chemical costs for Harris Pond usage averaged $9,054 during the last three fiscal years. Historically, light and power costs have accounted for 42.9% of total light, power, and chemical costs, so I multiplied my three year average of $9,054 by 42.90% to develop average light and power costs of $3,884. I then increased these costs by the rate year increase in light and power costs that I am recommending in this case. This resulted in pro forma light and power costs for Harris Pond of $4,835. Finally, I subtracted the actual test year costs incurred for Harris Pond to develop my recommended adjustment.

Q. What is the third adjustment that you are recommending to WWD's claim for light and power costs?

4 Testimony of Mr. Marvel, page 8.

A. I understand that the Commission has recently approved a rate reduction for NEC, which provides distribution electric service to the Company. WWD did not reflect any change in distribution rates in its filing. I recommend that the Commission make an adjustment to WWD's revenue requirement claim to reflect the recent reduction in NEC's distribution rates.

Q. Have you quantified the impact of NEC's rate reduction on the Company's light and power costs?

A. Mr. David Stearns, of the Division, is submitting testimony quantifying the impact of this rate reduction on WWD's light and power costs. I have reflected Mr. Stearns' recommended expense adjustment in Schedule ACC-10.

F. <u>Property and Fire Tax Expense</u>

Q. Please describe the Company's claim for property and fire taxes.

A. As discussed in the testimony of Mr. Marvel, "[t]he Town of North Smithfield increased the value of WWD property as part of its reevaluation process." The Company applied its existing tax rate to this new reevaluation to determine its pro forma property and fire tax expense claim. This methodology resulted in an increase of $76,949, or 58%, in its property and fire tax expense.

Mr. Marvel acknowledged in his testimony that the methodology used by the Company may overstate the rate year expense. This is because the tax rate is expected to be reduced as a result of the reevaluation.

Q. Did the Company provide additional information in response to discovery?

A. Yes, in response to DIV-1-17, the Company provided documentation showing that its total property and fire taxes paid to the Town of North Smithfield have been very stable over the past three years, as shown below:

Year	Property and Fire Taxes North Smithfield
2002	$104,145
2003	$105,818
2004	$104,117

Thus, it isn't certain that the Company will experience any increase in its property and fire taxes from the Town of North Smithfield. To the extent that some increase does occur, then it is certainly reasonable to assume that it will be significantly less than the 58% increase projected by WWD.

Q. What do you recommend?

A. I recommend that the Commission reject the Company's adjustment relating to an increase in the property and fire taxes charged by the Town of North Smithfield. If the Company updates its filing to reflect the actual 2005 tax rate and tax valuation, then I will revise my recommendation, if necessary. However, at the present time there is insufficient data to support the large increase included by WWD in its revenue requirement claim. My adjustment is shown in Schedule ACC-11.

G. Regionalization and Privatization Study Costs

Q. Please discuss the Company's claim for regionalization and privatization study costs.

A. WWD has included rate year adjustments of $50,000 in legal costs and of $50,000 in engineering costs associated with "regionalization and privatization of WWD."[5] In DIV-1-19, the Company was asked to provide a complete description of these activities. In response, WWD stated that,

> "Regionalization and privatization" activities have been limited to date. Regionalization refers to the possibility of opening up the Woonsocket Water Division to possible further customers in North Smithfield or other surrounding Cities or Towns. Woonsocket is mindful that at the hearings in Docket No. 3512, the Commission expressed interest in the regionalization concept and will be exploring the issue further. Privatization refers to the possibility of having a third-party entity exercise control of certain Woonsocket Water Division assets, with the possible benefit of cost savings. There has been no substantive activity on this issue to date.

Q. Does the Company have contracts for the legal and engineering services associated with these activities?

A. No, they have no contracts that specifically identify the services to be provided with regard to regionalization and privatization activities. In response to DIV-1-20, the Company stated that

> There are no contracts for legal services. Service is provided on a per hour basis. The Eisenhardt Group has a blanket enterprise contract for per hour services to the City. This contract will be forwarded under separate cover.

To date, we have not yet received a copy of the City's contract with the Eisenhardt Group.

Q. Are you recommending any adjustment to the Company's claim for these costs?

A. Yes, I am recommending that both the legal costs and the engineering costs be denied. The Company has not provided any support for these adjustments. Nor has it provided any comprehensive plan for addressing issues relating to regionalization and/or privatization. WWD does not have workplans from either its attorney or its engineers. It does not have specific contracts addressing these activities. WWD admits that "regionalization and privatization activities have been limited to date" and that there "has been no substantive activity on this issue to date." More importantly, WWD has provided no evidence to suggest that such activities will be undertaken in the rate year. Finally, even if WWD undertakes such studies, it is not clear that ratepayers should bear these costs.

Q. Please explain why it may be inappropriate for ratepayers to bear these costs in any case.

A. Privatization activity costs are similar to costs incurred when a utility is sold to another

5 Testimony of Mr. Marvel, page 9.

entity. In that case, there is usually an in-depth review of the associated transaction costs, including costs incurred by the utility to prepare itself for sale. In many cases, some or all of these costs are borne by the shareholders (owners) rather than being passed along to the utility's ratepayers. Therefore, if the City decides to privatize the water utility, it may be reasonable for the City to fund these costs through some revenue stream that is independent of its water utility rates.

Q. What is your recommendation?

A. Given the tremendous uncertainty regarding the extent to which any regionalization or privatization study activities will be undertaken, uncertainty regarding the level of costs that may be incurred, and issues regarding the appropriate recovery of any such costs, I recommend that the total legal and engineering cost adjustments of $100,000 included by the Company in its revenue requirement claim be denied. My adjustment to the Company's legal services claim is shown in Schedule ACC-12, and my adjustment to its engineering services claim is shown in Schedule ACC-13.

H. <u>Rate Case Costs</u>

Q. How did the Company determine its rate case expense claim in this case?

A. WWD has a restricted rate case account that has been funded at $20,000 annually. The Company is requesting an increase in this funding level to $40,000. Mr. Woodcock estimates costs of the current case to be approximately $120,000, which he proposes be amortized over a three-year period. [6]

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am recommending an annual rate case funding level of $30,000, which reflects an increase from the current level of funding but a reduction from the amount being requested by WWD. Assuming that the current case does cost the Company $120,000, and assuming a three-year recovery period, the Company would need to recover $40,000 annually to recover the costs of the current case. However, the Company's rate case reserve had a balance of $57,105 at the end of the 2004 fiscal year. This balance should be used to fund the current case. That is the purpose of the reserve. Assuming that $57,105 is available and that costs for the current case total $120,000, the Company would need to recover only an additional $20,965 each year over the next three years. I recognize that there could be some additional regulatory costs incurred during this period that are not currently anticipated, and therefore I am recommending an annual funding level of $30,000. My adjustment is shown in Schedule ACC-14.

Q. Does the Company acknowledge that there are funds currently available in the reserve account?

A. Yes, Mr. Woodcock acknowledges that there are funds available in the restricted account and

6 Testimony of Mr. Woodcock, page 10.

notes that "we expect much of that to be used in this case."[7] While Mr. Woodcock goes on to state that the balance will be further reduced if the Company files more frequently than every three years, he does not state that it is the Company's intention to file more frequently. than every three years. Moreover, he reflects a three-year amortization period in this rate case expense adjustment. Therefore, it is reasonable to assume a three-year recovery period for the current case.

Q. Do you have any other recommendations regarding the Company's rate case cost claim?

A. Yes, I believe that the Company's estimate of $120,000 for the current case may be overstated. The Company included $50,000 in its estimate for the "Rate Filing" and another $50,000 for "Testimony, Data Requests, Hearings." Given the relatively limited number of issues in this case, and the fact that the Company is only sponsoring two witnesses, the actual rate case costs could be lower than the $120,000 assumed in the Company's revenue requirement. Therefore, I recommend that the WWD provide an update of its actual rate case costs later in this proceeding so that we can determine the overall reasonableness of its estimate.

I. Debt Service Costs

7 Id. Note that Mr. Woodcock refers to the "restricted debt service account" on line 16 of page 10, but he is obviously referring to the rate case account.

Q. Please describe the Company's claim for debt service costs.

A. WWD has included debt service costs for three debt issues: a 1994 issuance of $6.4 million in general obligation bonds, a 1997 issuance of $2.7 million in general obligation bonds, and a 2003 loan from the Clean Water Finance Agency ("CWFA") in the amount of $10.2 million. The debt service on the general obligation issues will remain fairly stable over the next few years. However, the debt service on the CWFA issuance generally increases from 2003 through 2006. The Company is requesting debt service in this case that reflects an average of the 2006 and 2007 fiscal year payments.

Q. Are you recommending any adjustment to the Company's claim?

A. Yes, I am recommending that the Commission set rates to recover an average of the calendar year 2005, 2006, and 2007 debt service requirements for the CWFA debt. This recommendation is reasonable in light of the lower debt service requirements that will be incurred during 2005, the rate year in this case, as shown below:

Calendar Year	CWFA Debt Service Requirements
2004	$232,824
2005	$687,348
2006	$782,795
2007	$778,285

Q. Why aren't you recommending that the Commission include only the rate year debt

service costs in rates?

A. The debt service requirements will increase from 2004 to 2006, and then decline slightly in subsequent years. If the Commission includes only the rate year 2005 debt service costs in rates, then WWD will not recover its debt service costs in 2006 and it may be required to file another base rate case in a relatively short period of time. In this case, the Company has assumed a three-year period between rate filings. Therefore, it is reasonable to include a debt service cost that is based on WWD's average costs over this three-year period. Moreover, given the fact that the debt service costs increase significantly between 2005 and 2006, and then decline slightly in 2007, my recommendation to use the three-year average will provide the Company with sufficient funding, each year, to meet its debt service requirements. My recommendation is shown in Schedule ACC-15.

J. <u>Operating Reserve Allowance</u>

Q. What is an operating reserve allowance?

A. WWD is not an investor-owned utility. Accordingly, it is regulated on a cash flow basis. The WWD's revenue requirement does not include any return on rate base**,** which is traditionally included in the revenue requirement of an investor-owned utility. However, the Commission has traditionally allowed municipal water utilities to collect an operating reserve allowance of 1.5% of total expenses in order to mitigate cash flow problems, and to provide for unforeseen expenditures or reduced revenue. WWD has included an operating reserve of 1.5% of total costs in its revenue requirement claim.

Q. What are you recommending in this case?

A. I recommend that the Commission continue to permit WWD to recover a 1.5% operating reserve allowance, but I recommend that this percentage be applied only to WWD's operating and maintenance expenses. These costs are subject to greater variation and uncertainty than the capital costs included in WWD's filing. Accordingly, at Schedule ACC-16, I have made an adjustment to apply the 1.5% operating revenue allowance to the pro forma level of operating and maintenance expenses that I have found to be reasonable. In developing my adjustment, I have applied the 1.5% to all costs except for the renewal and replacement fund, the IFR, and the debt service requirement. It should be noted that I have included both the rate case reserve and the chemical reserve in the amounts to which the 1.5% is applied. Although the annual funding amounts associated with these reserves do not vary from year-to-year, the actual underlying costs can vary as can disbursements from the reserves, and are, to some degree, outside of the Company's control. Therefore, I believe that it is reasonable to include the rate case reserve and the chemical reserve funds in the costs that are subject to the operating reserve allowance. Disbursements from the remaining reserve accounts do not fluctuate significantly and/or are within WWD's control and therefore funding for the renewal and replacement reserve, IFR, and debt service reserve should not be included in the costs subject to the operating reserve allowance.

V. SUMMARY

Q. What is the result of the adjustments that you are recommending in this case?

A. My adjustments reduce the WWD's net revenue requirement from the $7,269,065 included in Mr. Woodcock's testimony to $6,851,328. Based on my pro forma operating revenue at present rates of $5,322,435, I recommend a rate increase of $1,528,892 or 28.7%.

To summarize, I am recommending the following adjustments to the WWD's claim:

Operating Revenue	$113,758
Personnel Costs and Payroll Taxes	49,926
Maintenance-Roads and Walks	63,824
Light and Power	31,580
Property and Fire Taxes	76,949
Legal and Engineering Services	100,000
Rate Case Costs	10,000
Debt Service Costs	31,064
Operating Reserve Allowance	54,395
Total Adjustments	$531,496

Q. Does this complete your testimony?

A. Yes, it does.

Schedule ACC-1

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

REVENUE REQUIREMENT SUMMARY

		WWD Claim (A)	Recommended Adjustments		Recommended Position
1.	Personnel Costs	$1,405,222	($46,377)	(B)	$1,358,845
2.	Maintenance and Servicing	1,107,576	(272,352)	(C)	835,224
3.	Operating Supplies	131,419			131,419
4.	General Charges	4,729,818	(44,612)	(D)	4,685,206
5.	Plus Operating Reserve	110,611	(54,395)	(E)	56,216
6.	Less Miscellaneous Income	(215,581)			(215,581)
7.	Total Net Revenue Requirements	$7,269,065	($417,737)		$6,851,328
8.	Operating Revenues @ Present Rates	5,208,677	113,758	(F)	5,322,435
9.	Revenue Deficiency	**$2,060,388**	**($531,496)**		**$1,528,892**
10.	Increase over Present Rates	**39.56%**			**28.73%**

Sources:
(A) Testimony of Mr. Woodcock, Schedule 1.
(B) Schedule ACC-3, ACC-4, and ACC-5.
(C) Schedule ACC-7, ACC-8, ACC-9, ACC-10, ACC-11, ACC-12, and ACC-13.
(D) Schedule ACC-6, ACC-14, and ACC-15.
(E) Schedule ACC-16.
(F) Schedule ACC-2.

Schedule ACC-2

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

OPERATING REVENUE

1.	FY 2000 CCFs	2,091,982	(A)
2.	FY 2001 CCFs	1,930,489	(A)
3.	FY 2002 CCFs	1,860,311	(A)
4.	FY 2003 CCFs	1,859,967	(A)
5.	CY 2003 CCFs	1,779,360	(B)
6.	Five Year Average	1,904,422	
7.	Three Year Average	1,833,213	
8.	Adjustment for 2003 Mill Fire	(24,140)	(B)
9.	Pro Forma Recommendation	1,809,073	
10.	Company Claim	1,755,220	(B)
11.	Recommended Adjustment CCFs	53,853	
12.	Current Retail Rate / CCF	$2.36	(C)
13.	Gross Revenue Adjustment	$127,092	
14.	Incremental Power and Chemical Costs	(13,334)	(D)
15.	Net Revenue Adjustment	**$113,758**	

Sources:
(A) Derived from Annual Reports to the Commission.
(B) Testimony of Mr. Woodcock, Schedule 2, page 3.
(C) Testimony of Mr. Woodcock, Schedule 6.1.
(D) CCFs per Line 11 X $0.2506 / CCF, as shown below:

$252,289	Power per Woodcock, Sch. 1, page 1.
213,884	Chemicals per Woodcock, Sch. 1, page 2.
(5,238)	Adjustment per Schedule ACC-8.
(21,262)	Adjustment per Schedule ACC-9.
($5,080)	Adjustment per Schedule ACC-10
$434,594	Total
1,755,220	Sales per Woodcock, Sch. 2, page 3.
$0.2476	Incremental Costs per CCF.

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

PERMANENT SERVICES

1.	Fiscal Year 2004 Actual	$1,048,301	(A)
2.	Annual Increase of 3% to 12/31/05	4.55%	(B)
3.	Pro Forma Salary and Wage Increase	$47,645	
4.	Pro Forma Salary and Wages	$1,095,946	(C)
5.	Company Claim	1,138,840	(D)
6.	Recommended Adjustment	**($42,894)**	

Sources:
(A) Response to DIV-1-1.
(B) Reflects 3% annual increase for 18 months.
(C) Line 1 + Line 3.
(D) Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-4

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

STUDY UPGRADE COSTS

1.	Average Upgrade Adjustment (%)	4.50%	(A)
2.	Recommended Salary and Wage Adjustment	($42,894)	(B)
3.	Recommended Upgrade Adjustment	**($1,932)**	

Sources:
(A) Derived from Testimony of Mr. Woodcock, Schedule 1.1, page 1.
(B) Schedule ACC-3.

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

LONGEVITY COSTS

1.	Average Longevity Adjustment (%)	3.62%	(A)
2.	Recommended Salary and Wage Adjustment	($42,894)	(B)
3.	Recommended Upgrade Adjustment	**($1,552)**	

Sources:
(A) Derived from Testimony of Mr. Woodcock, Schedule 1.1, page 1.
(B) Schedule ACC-3.

Schedule ACC-6

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

PAYROLL TAXES

1.	Recommended Payroll Adjustments	($46,377)	(A)
2.	Payroll Tax Rate	7.65%	(B)
3.	Recommended Adjustment	**($3,548)**	

Sources:
(A) Schedules ACC-3, ACC-4, and ACC-5.
(B) Testimony of Mr. Woodcock, Schedule 1.1, page 1.

Schedule ACC-7

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

MAINTENANCE - ROADS AND WALKS

		(A)	
1.	FY 2000	$40,000	
2.	FY 2001	82,550	
3.	FY 2002	77,679	
4.	FY 2003	64,046	
5.	FY 2004	208,666	
6.	Three Year Average	$116,797	
7.	Five Year Average	$94,588	
8.	Pro Forma Recommendation	$116,797	(B)
9.	Company Claim	180,621	(C)
10.	Recommended Adjustment	**($63,824)**	

Sources:
(A) Response to DIV-1-1.
(B) Reflects three year average.
(C) Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-8

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

LIGHT AND POWER - NEW CONTRACT

	Kwhs Per RFP	Percent	Rate	Weighted Rate	
	(A)		(B)		
1. City Usage Including WWD	391,919	30.13%	$0.0572	$0.0172	
2. Wastewater Plant	909,000	69.87%	0.0540	0.0377	
3. Total	1,300,919			$0.0550	
4. Test Year Kwhs-WWD				2,342,429	(C)
5. Pro Forma Energy Cost				$128,749	
6. Company Claim				133,987	(C)
7. Recommended Adjustment				**(5,238)**	

Sources:

(A) Response to DIV-1-11.

(B) Contract with Constellation NewEnergy, provided as Schedule N to Mr. Marvel's testimony.

(C) Testimony of Mr. Woodcock, Schedule 1.1, page 3.

Schedule ACC-9

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

LIGHT AND POWER - HARRIS POND

1.	Three Year Average Harris Pond Costs	$9,054	(A)
2.	Ratio of Test Year Power to Chemical Costs	42.90%	(B)
3.	Average Power Costs - Harris Pond	$3,884	
4.	Pro Forma Rate Year Increase	24.49%	(C)
5.	Pro Forma Harris Pond Cost	$4,835	
6.	Test Year Actual Cost	1,097	(A)
7.	Pro Forma Rate Year Adjustment	$3,738	
8.	Company Claimed Adjustment	25,000	(D)
9.	Pro Forma Adjustment	**($21,262)**	

Sources:

(A) Response to DIV 1-16.

(B) Based on ratio of Test Year costs, per Testimony of Mr. Woodcock, Schedule 1.2.

(C) Increase from $103,418, per Testimony of Mr. Woodcock, Schedule 1.1, page 3, to $128,749 per Schedule ACC-8.

(D) Testimony of Mr. Woodcock, Schedule 1.1, page 3.

Schedule ACC-10

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

LIGHT AND POWER COSTS - NEC

1.	Recommended Division Adjustment	**($5,080)**	(A)

Sources:
(A) Testimony of Mr. Stearns.

Schedule ACC-11

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

PROPERTY AND FIRE TAXES

1.	Company Claimed Adjustment	$76,949	(A)
2.	Pro Forma Adjustment	**($76,949)**	

Sources:
(A) Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-12

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

LEGAL SERVICES

1.	Company Claimed Adjustment	$50,000	(A)
2.	Pro Forma Adjustment	**($50,000)**	

Sources:
(A) Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-13

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

ENGINEERING SERVICES

1.	Company Claimed Adjustment	$50,000	(A)
2.	Pro Forma Adjustment	**($50,000)**	

Sources:
(A) Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-14

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

RATE CASE COSTS

1.	Recommended Annual Funding	$30,000	(A)
2.	Company Claim	40,000	(B)
3.	Recommended Adjustment	**($10,000)**	

Sources:
(A) Testimony of Ms. Crane, page 25.
(B) Testimony of Mr. Woodcock, Schedule 1, page 2.

Schedule ACC-15

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

DEBT SERVICE COSTS-CWFA LOAN

	Calendar Year	Interest	Principal	Fees	Total	
		(A)	(A)	(A)		
1.	2005	$273,032	$375,250	$39,066	$687,348	
2.	2006	348,845	385,000	48,950	782,795	
3.	2007	341,260	390,000	47,025	778,285	
4.	2008	332,329	400,000	45,075	777,404	
5.	2009	322,049	410,000	43,075	775,124	
6.	Three Year Average (2005-2007)				$749,476	
7.	Company Claim				780,540	(B)
8.	Recommended Adjustment				**($31,064)**	

Sources:

(A) Testimony of Mr. Marvel, Schedule B, page 3.

(B) Testimony of Mr. Woodcock, Schedule 1.1, page 4.

Schedule ACC-16

WOONSOCKET WATER DEPARTMENT

RATE YEAR ENDING DECEMBER 31, 2005

OPERATING RESERVE

1.	Company Claimed Expenses	$7,374,035	(A)
	Less:		
2.	Renewal and Replacement Fund	$150,000	(A)
3.	IFR	1,600,000	(A)
4.	Debt Service	1,544,057	(A)
5.	Net Operating Expenses	$4,079,978	
6.	Recommended Adjustments	(332,278)	(B)
7.	Pro Forma Operating Expenses	$3,747,700	
8	Operating Reserve Ratio	1.50%	(C)
9.	Operating Reserve Allowance	$56,216	
10.	Company Claim	110,611	(A)
11.	Recommended Adjustment	**($54,395)**	

Sources:
(A) Testimony of Mr. Woodcock, Schedule 1, page 2.
(B) Schedules ACC-3 through ACC-14.
(C) Testimony of Mr. Woodcock, page 10.