

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: KENT COUNT WATER AUTHORITY :
ABBREVIATED APPLICATION TO CHANGE RATES : DOCKET NO. 3660

REPORT AND ORDER

On January 15, 2005, the Kent County Water Authority (“KCWA”) filed an abbreviated rate application with the Rhode Island Public Utilities Commission (“Commission”) seeking a rate increase of \$3,172,794 or 25% without any change in the rate structure.¹ On February 2, 2005, the Commission suspended KCWA’s proposed rate increase. The current rate case filing represents KCWA’s second general or abbreviated rate case filing in the last five years. The following table provides a brief history:

| DOCKET NO. | DATE FILED | INCREASE REQUESTED | INCREASE AUTHORIZED ALLOWED REVENUE |
|------------|------------|--------------------|-------------------------------------|
| 3311 | 3/30/01 | \$3,094,995 | \$1,820,684 \$13,956,116 |
| 3660 | 1/14/05 | \$3,172,794 | |

I. KCWA’S DIRECT TESTIMONY

In support of its filing, KCWA submitted the pre-filed testimonies of Timothy Brown, General Manager of KCWA, and Christopher Woodcock, an outside consultant. In his pre-filed testimony, Mr. Brown stated that KCWA currently funds its Infrastructure Replacement (“IFR”) program at the level of approximately \$3.4 million. He indicated that KCWA is not requesting an increase in IFR funding but indicated that if the Commission reduces any item in its rate filing, there should be an increase in the IFR allowance to bring its level closer to the \$6 million requirement in its approved plan. Mr. Brown stated that KCWA is not seeking to fully fund the \$6 million IFR plan in order to

¹ A prior rate increase filed on December 30, 2004 by KCWA was rejected by Commission Counsel pursuant to Commission Procedure Rule 1.5(f) because KCWA had not filed information regarding the benefits of KCWA’s Board members as required by Order No. 17024.

limit the increase and stay below the 25% cap allowed in an abbreviated filing. Thus, the active infrastructure program will be reduced but not stopped. Mr. Brown discussed KCWA's IFR program, which is primarily water main replacements and has improved KCWA's transmission system. Lastly, Mr. Brown stated that since at least 1973, pursuant to R.I.G.L. Sections 39-16-5, and 39-16-6, KCWA Board members receive free health benefits in addition to their annual stipend of \$3,000. Mr. Brown reported that the annual cost of health benefits for the Board totaled \$53,398.74 as of June 30, 2004.²

In his pre-filed testimony, Mr. Woodcock stated that KCWA's revenues from rates are \$12,687,340, and including miscellaneous revenues, produce total revenue of \$12,854,431. He stated that the test year expenses were \$15,434,482 for fiscal year 2004 and the rate year cost of service for fiscal year 2006 is \$16,115,660. He noted that most of the increase is due to a reduction in revenues, and increases in expenses from the test year of \$611,495 in debt service, \$133,000 in labor costs, and \$57,500 in employee benefit costs. Mr. Woodcock stated that the proposed revenue increase would be implemented through an across-the-board increase to all rates and charges.³

In the area of operating expenses, Mr. Woodcock noted that KCWA had a full complement of employees and was not seeking additional positions, but only the cost of annual 4% salary increases. He maintained that labor costs were 11% of KCWA's total expenses, far less than most comparable utilities. Mr. Woodcock indicated that the purchased water costs should be based on the test year because KCWA's own production of water declined due to the closing of a well field. Also, he noted that the power and chemical costs are based on lower production by KCWA in the test year, but he added a

² KCWA Ex.4 (Brown's direct testimony), pp. 1-6.

³ KCWA Ex. 1 (Woodcock's direct testimony), pp. 1-7.

4% inflation allowance to chemical costs to reflect that this cost has increased along with the cost of the fuel. Mr. Woodcock indicated that the Operations and Maintenance (“O&M”) Reserve and the Renewal and Replacement (“R&R”) Reserve are required by bond covenants. Also, Mr. Woodcock opined that “there is no good mechanism for municipal water utilities to provide for contingencies, unforeseen events or variations in water use” and mentioned the problem of regulatory lag. Accordingly, he requested an operating reserve that is 1.5% of total revenues. He noted that the shortfalls in revenues have caused KCWA to underfund its restricted accounts. In addition, Mr. Woodcock departed from the three-year average approach in deriving rate year sales and instead used the test year sales level adjusted to remove sales for one large customer, On Semiconductor. In summary, Mr. Woodcock stated that the 25% increase will result in a quarterly water bill increase from \$77.88 to \$97.35 for the typical residential customer using 100 HCF per year or approximately 75,000 gallons.⁴

II. KCWA’S SUPPLEMENTAL TESTIMONY

On February 28, 2005, KCWA submitted the pre-filed supplemental testimony of Mr. Woodcock. In response to various data requests, he found various errors in his original testimony and schedules. Specifically, he increased miscellaneous income and lowered expense amounts requested for debt service, purchased water, and chemicals. Also, in light of recent Commission decisions, he revised the request for a 1.5% operating reserve by stating it will not be based on the costs associated with debt service, R&R, and IFR. Mr. Woodcock stated that these changes do not decrease the overall 25% increase

⁴ Id., pp. 8-14.

because KCWA needs additional IFR funds. Mr. Woodcock calculated the new rate increase to be \$3,172,665.⁵

III. DIVISION'S DIRECT TESTIMONY

On April 15, 2005, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimonies of Alberico Mancini, public utilities engineering specialist at the Division, and Andrea Crane, an outside consultant. In his pre-filed testimony, Mr. Mancini stated that KCWA's IFR projects have improved its system but indicated that the \$3.4 million per year is well short of the estimated \$6 million outlined in KCWA's IFR plan. As a result, Mr. Mancini agreed that any adjustment that reduces KCWA's rate request should be added to the IFR allowance.⁶

In her pre-filed testimony, Ms. Crane summarized that, based on Mr. Woodcock's supplemental testimony, KCWA reduced its rate year expenses by \$818,160 but increased the IFR claim by \$680,000 to \$4,080,000 while retaining a surplus of \$161,520. Ms. Crane stated water consumption varies from year-to-year based on temperature and rainfall and thus, consumption should be averaged over a period of time to determine a normalized level of consumption. She stated that the test year had total sales that were lower than three out of the past five years. Thus, Ms. Crane recommended utilizing a three-year average, excluding the sales to On Semiconductor. Also, she explained that even if the sale volumes shown in the 2004 KCWA Annual Report are unadjusted, the volumes reported are the best source of data available to the Commission and it is reasonable to rely upon information contained in KCWA's Annual Reports to the Commission. Furthermore, Ms. Crane recommended adopting a revenue adjustment to

⁵ KCWA Ex. 2 (Woodcock's supplemental testimony), pp. 1-4.

⁶ Div. Ex. 2 (Mancini's direct testimony), pp. 1-4.

reflect additional residential customers since KCWA has had an average annual growth rate of 171 residential customers over the last four years. But, Ms. Crane did not make an adjustment for industrial customers, although these customers have grown by 17 customers per year, because one industrial customer's usage varies significantly from another. Accordingly, Ms. Crane made various corresponding adjustments to power costs, purchased water costs, and chemical costs. For chemical costs, Ms. Crane disallowed KCWA's 4 percent inflation allowance related to increases in energy costs because KCWA did not provide empirical evidence to substantiate this inflation allowance. In the area of unaccounted-for water, Ms. Crane disagreed with KCWA's use of unaccounted-for water percentage of 16.1% and instead used 10% because KCWA's unaccounted-for water percentage has been consistently below 10% since 1998.⁷

In operating expenses, Ms. Crane recommended utilizing a three-year average for maintenance of mains instead of the test year and then adding the increase in labor costs of \$29,000 for a total of \$441,686. This is \$55,338 less than KCWA's request. For office supplies, the Division reduced the expense by \$30,528, to \$105,949, by utilizing a three-year average, arguing that the test year amount of \$136,477 was very high. As for the operating reserve, Ms. Crane indicated that an operating reserve is necessary to mitigate cash flow problems and to provide for unforeseen expenditures or reduced revenue. But, she noted that in Docket No. 2098 the Commission previously rejected an operating reserve for KCWA because it had an O&M Reserve for bond purposes. Accordingly, Ms. Crane rejected an operating reserve for KCWA.

In addition, she noted that the minutes of KCWA Board meeting reflected that KCWA had retained lobbying services at the rate of \$150 per hour. She indicated that

⁷ Div. Ex. 1 (Crane's direct testimony), pp. 1-17.

lobbying expenses should be disallowed because they are not necessary for providing safe and adequate utility service. As for health insurance costs, Ms. Crane noted that KCWA is paying a significant amount for health insurance costs, ranging from \$448.40 per month for a single employee to \$1,188.27 per month for a family plan, which costs are not inclusive of dental coverage. She stated that all employees and Board members receive free medical insurance coverage. She noted that over the past three years KCWA has not undertaken any efforts to investigate alternative medical benefit plans and indicated that KCWA should periodically review the coverage and solicit bids for services from other providers. Thus, Ms. Crane recommended that “the Commission require KCWA to undertake a review of its medical benefits and associated costs, and to report back to the Commission” in KCWA’s next base rate case. In conclusion, Ms. Crane stated that KCWA should receive its full rate increase, but only \$2,190,280 of the \$3,172,665 increase is for increased operating expenses and the remainder should be used for IFR projects.

IV. KCWA’S REBUTTAL

On May 4, 2005, KCWA submitted the pre-filed rebuttal testimony of Mr. Woodcock. Mr. Woodcock disagreed with the Division’s three-year averaging approach for water sales. He noted that water utilities in Rhode Island located at Newport, Pawtucket and Woonsocket have generally experienced a reduction in sales and lower revenues than estimated by the Division. He indicated that sales for fiscal year 2002 were much higher than the other two years in the three-year average and was the highest year in sales since 1996. Furthermore, Mr. Woodcock stated that to avoid frequent rate cases, the Commission should give greater weight to lower sales estimates and calculate

the 1.5% operating reserve on total revenues. For chemical costs, Mr. Woodcock indicated that the chemical manufacturing industry utilizes a large amount of energy so that rising energy costs will increase chemical costs and thus, the Commission should reject the Division's \$1,977 adjustment. As for unaccounted water, Mr. Woodcock disagreed with Ms. Crane's approach by arguing that it compares apples to oranges and has not accounted for KCWA's use of unmetered water. For maintenance of the mains, Mr. Woodcock noted that over the last five years, the first two years and the recent fifth year were higher than the Division's recommendation based on a three-year average. Regarding the operating reserve, Mr. Woodcock indicated that since 1993 the Commission has granted water utilities an operating reserve even if they had an O&M Reserve. Also, he argued that with no operating reserve and a high sales projection, KCWA will not realize sufficient revenues to cover expenses. Furthermore, he explained that the O&M Reserve can only be used for short-term cash flow because at the end of each fiscal year, the O&M Reserve must have an amount on deposit equal to 25% of KCWA's operating budget.⁸

V. DIVISION'S SURREBUTTAL

On May 13, 2005, the Division submitted the pre-filed surrebuttal testimony of Ms. Crane. At the outset, Ms. Crane indicated that she recalculated KCWA's three-year average for sales to reflect adjusted data. She indicated that in the future, the Commission may want to require KCWA to revise its practice of reporting unadjusted sales numbers in its annual report. Ms. Crane noted that at present, the actual adjusted metered sales for fiscal year 2005 have been higher than Mr. Woodcock's test year. She noted that utility rates are set based on normal, prospective operating conditions, not

⁸ KCWA Ex. 3 (Woodcock's rebuttal testimony), pp. 1-12.

necessarily on actual test year results. Regarding the unaccounted-for water percentage, Ms. Crane acknowledged that her adjustment should be revised to take into account KCWA's use and unmetered water usage, but she noted that this adjustment only increases the percentage slightly. She noted that a 10 percent unaccounted-for water usage is still higher than what KCWA has experienced six out of the last seven years. Furthermore, she determined that KCWA incurred \$10,115 during the test year related to lobbying and that these costs should be disallowed. Also, Ms. Crane argued that the O&M Reserve, which will be over \$2 million by the beginning of the rate year, is available to KCWA to meet an unanticipated shortfall. In conclusion, she determined that KCWA has a revenue requirement deficiency of \$2,290,703 and if the Commission approves KCWA's requested rate increase of \$3,172,665, then the surplus of \$881,962 should increase IFR funding to a total of \$4,961,962.⁹

VI. HEARINGS

After duly published notice, on March 22, May 19 and June 8, 2005, the Commission conducted various hearings for public comment within KCWA's service territory. On May 20 and May 23, 2005, the Commission conducted evidentiary hearings at its offices at 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

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|---------------------|--|
| FOR KCWA: | Joseph McGair, Esq. |
| FOR THE DIVISION: | Leo Wold, Esq. Special Assistant Attorney General |
| FOR THE COMMISSION: | Steven Frias, Esq. Executive Counsel |

⁹ Div. Ex. 3 (Crane's surrebuttal testimony), pp. 1-12.

As its first witness, KCWA presented Mr. Timothy Brown. Mr. Brown explained that office supply costs were high because KCWA is sending out a newsletter costing \$24,000. He indicated that the expense for maintenance of mains is higher because KCWA is performing more maintenance in this area. As for lobbying costs, Mr. Brown argued that changes in lobbying laws necessitate KCWA to hire a lobbyist to discuss bills with legislators that affect KCWA.¹⁰

Under cross-examination, Mr. Brown stated that KCWA has not investigated alternative medical plans for probably six or seven years. He stated that KCWA has “34 full-time employees and the five Board members”, and the Board considers themselves employees. Mr. Brown indicated that KCWA employees have time slips to mark down sick and vacation time, but KCWA Board members do not have sick or vacation time. He stated that Board members attend Board meetings, and some go to council meetings or attend Commission hearings. Mr. Brown stated that Board members do not have an office and do not perform clerical work or work on hydrants. Also, Mr. Brown noted that he can direct KCWA’s employees, but he cannot direct Board members. He stated that the Board members do have certain taxes removed from their monthly stipend, but admitted that has only taken place for the last year and a half, and that the issue of the Board receiving health care insurance first arose in 2001. He also acknowledged that the Board and all KCWA employees receive free health insurance. Mr. Brown stated that KCWA does have part-time employees for the summer, but they do not receive medical benefits. Also, he indicated that KCWA has never discussed the possibility of co-sharing for medical benefits. In reference to lobbying costs, Mr. Brown discussed the need to

¹⁰ Tr. 5/20/05, pp. 64-67.

introduce a bill for cross connection control and for tracking various bills. But, he acknowledged that he is capable of tracking bills via the internet.¹¹

The next witness for KCWA was Mr. Woodcock. Under cross-examination, Mr. Woodcock admitted that KCWA's service territory certainty has more development than the service territories of other water utilities in Rhode Island. Also, he acknowledged that if a lower water sales amount was utilized to set rates and then KCWA had high water sales, KCWA could theoretically spend the additional revenues on a variety of things that are not necessary for the system. Mr. Woodcock stated that KCWA employees have received annual raises of approximately 4 percent over the last five years, which is above the consumer price index.¹² Mr. Woodcock indicated that in the recent Pawtucket Water rate case, the utility received a 1.5% operating reserve on non-capital expenses although it had a 25% O&M Reserve. He noted that cash flow is not a big concern to KCWA, but a 1.5% operating reserve would be helpful to address variations in expenses and revenues. Furthermore, Mr. Woodcock did not know if the board members of any water utility in Rhode Island received health insurance solely due to their service on the utility's board.¹³

At the May 23, 2005 hearing, Ms. Crane was presented as the Division's witness. Ms. Crane stated that she does not recall ever seeing lobbying costs in a Rhode Island utility's rate filing. She acknowledged that giving KCWA a 1.5 percent operating reserve even though it has an O&M Reserve, would be consistent with the Division's recommendation in the recent Pawtucket Water case.¹⁴

¹¹ Id., pp. 76-81, 98, 101, 172.

¹² Id., pp. 228-235.

¹³ Id., pp. 236-239.

¹⁴ Tr. 5/23/05, pp. 77, 83-85.

VII. BRIEFS

On July 6, 2005, KCWA and the Division filed their briefs. In its brief, KCWA emphasized that the O&M Reserve can not be used for unexpected variations in expenditures and revenues and therefore, urged that KCWA receive a 1.5% operating reserve like other water utilities. KCWA argued that the Division's projections for the cost of purchased water and water sales are unrealistic. KCWA justified higher chemical expenses based on rising energy costs, and justified higher office supply expenses due to its newsletter. As for maintenance of the mains, KCWA stated that the Division's position would require labor costs to be reduced. Lastly, KCWA justified lobbying expenses on the basis it is a small amount and that due to all the legal requirements, a professional lobbyist is necessary.¹⁵

In its brief, the Division stated that KCWA should receive an increase of \$3,172,665, but that \$841,763 of this increase should be allocated to IFR. In regards to water sales, the Division noted that the three-year averaging method has been adopted repeatedly and that the summer of 2003 was abnormally wet, which caused the decline in water sales for the test year. Also, the Division emphasized that the most recent three years in water sales do not demonstrate a downward trend when compared to KCWA's water sales over twelve years. As for chemical costs, the Division noted that KCWA had not adequately justified the 4% inflation allowance. Regarding purchased water costs and unaccounted-for water percentage, the Division noted its proposed unaccounted for water percentage of 10% percent is based on KCWA's annual reports and the Commission should be able to rely on these reports. For lobbying costs, the Division noted that the Commission had consistently disallowed lobbying expenses and that

¹⁵ KCWA's brief.

Rhode Island statutes allow KCWA to discuss bills affecting it without having to be considered a lobbying activity. As to office supplies, and maintenance of mains, the Division argued that KCWA failed to carry its burden of proof as to why it needed additional funds in these areas. Lastly, the Division noted that the Commission has rejected granting KCWA an operating reserve in the past and distinguished the Pawtucket Water case as being resolved through a settlement.¹⁶

At an open meeting on July 7, 2005, after reviewing the evidence and the arguments, the Commission adopted the Division's recommendation in this docket except that the Commission adopted KCWA's position on the operating reserve and the maintenance of the mains, and disallowed the expense for the health care insurance for KCWA Board members.¹⁷ At an open meeting on July 28, 2005, the Commission adopted KCWA's compliance tariffs filed on July 21, 2005.

COMMISSION FINDINGS

In determining a water utility's revenue requirement, the first task is to determine the appropriate level of water sales. In many water rate cases, this is a significant area of contention. A goal in ratemaking is to reasonably estimate the future revenues and costs of the utility and set a utility's rates accordingly. Since regulators are not divine oracles, this task is inherently flawed, but the Commission has traditionally used the multi-year averaging methodology as the best approach for determining water sales.¹⁸ Under normal circumstances, this method is the best way to estimate water sales and determine revenue projections. Utilizing a single year of water sales can cause water sales to be abnormally low because a test year may be reflective of abnormal weather conditions. A water utility

¹⁶ Division's brief.

¹⁷ The approved cost of service is incorporated as Appendix A to this Report and Order.

¹⁸ See Order No. 18307 and Order No. 17574.

would then receive higher revenues if water sales returned to normal due to more typical weather conditions. With these higher revenues, a water utility could attempt to squander ratepayer funds in a spendthrift or imprudent manner. KCWA's water sales do not show a steady long-term decline. Over the course of the last twelve years, KCWA's water sales have moved upward and downward.¹⁹ Also, KCWA's current year's water sales are certainly higher than the test year's water sales.²⁰ In all likelihood, this is because usage in the test year used by KCWA was abnormally low due to an extremely wet summer in 2003.²¹ Historically, the use of a multi-year averaging method to set rates produces a smaller variation in actual revenues than simply utilizing the test year water sales to set rates.²² If a water utility could demonstrate a clear downward trend in water sales, the Commission might depart from the typical multi-year averaging approach in order to better estimate future water sales. For KCWA, with water sales that fluctuate upward and downward, the Division's three-year averaging method is clearly most appropriate, and thus the net revenue increase at current rates for water sale volumes is \$335,307.

It is difficult to dispute that KCWA's customer base is growing and with it their thirst for more water. Thus, the Division's adjustment to increase water sales to reflect an additional 171 new residential customers per year based on the KCWA's customer growth rate over the past few years appears reasonable. Thus, this increases revenues at current rates by \$71,167.

¹⁹ Div. Ex. 9.

²⁰ Division Ex. 3, pp. 4-5.

²¹ Division's Brief, p. 3.

²² Div. Ex. 9.

A higher sales volume does necessitate changes in various interrelated expenses. For instance, the Division recommended an increase in power expense of \$20,381 to pay for additional power costs associated with additional pumping to meet a higher level of water sales. Also, the Division recommended an increase in chemical costs of \$2,423 for treating higher water sales volumes. However, the Division did not incorporate KCWA's proposed 4 percent inflationary allowance of \$1,977 arising from rising energy costs. Although rising energy costs may lead to higher chemical costs, KCWA did not present clear evidence as to how much the inflation allowance should be. The four percent inflation allowance seems to have been plucked from the air. In any case, if chemical costs do increase by 4 percent, or \$1,977, an operating reserve for KCWA can address this minute problem.

As a result of higher sales volumes, the Division recommended adjustments to the cost of purchased water to reflect higher volumes of sales. However, because the Division recommended a lower percentage of unaccounted-for water than proposed by KCWA, this resulted in a net decrease to the cost of purchased water by \$80,091. KCWA proposed a 16 percent allowance for the percentage of unaccounted-for water, but did not present clear evidence to substantiate this allowance of 16 percent and instead relied on flawed data reported for one year. In contrast, the Division proposed a 10 percent allowance for the percentage of unaccounted-for water based, in part, on KCWA's annual reports filed with the Commission over a period of seven years. KCWA provides a critique that the data in KCWA's own annual reports is flawed because it is unadjusted and therefore, the Division's recommendation should be rejected. Even if

KCWA was correct, KCWA cannot benefit from its lack of due diligence.²³ A regulator must be able to rely on the accuracy of the data in the annual report filed by the utility with the Commission.²⁴ In any case, the Division's 10 percent allowance is based on a multi-year approach which is higher than six of the last seven years, even if an adjustment is made, as reflected in KCWA's annual report to the Commission. Accordingly, the Commission will adopt the Division's approach and reduce the cost of purchased costs by \$80,091. If KCWA truly believes that the allowance for unaccounted-for water is too low, then it should make the effort to properly calculate and record in its annual reports the correct allowance for unaccounted-for water.

Now that the Commission has calculated the revenue portion of the ratemaking formula, the Commission must look at KCWA's expenses, specifically operating expenses. As a general matter, for operating expenses, the multi-year averaging method is appropriate in order to exclude unusual variations in expenses. To simply utilize the most recent year of a particular expense would in some instances allow the utility to receive too much or too little in funds. Even if there is a clear trend upward in a particular utility's expense, the Commission will use the multi-year averaging approach especially if the costs are within the utility's control or cannot be justified by the utility.

KCWA's office supplies expense has clearly been on the rise. For instance, the office supply expense apparently included in rates was \$75,285 for the 2002 rate year.²⁵ KCWA's current request in rates, based on the test year, is \$136,477. Office supplies and expenses are to a large extent within the control of a utility to manage. KCWA provided

²³ Order No. 16398.

²⁴ In Re: Appeal of the Office of Consumer Advocate, 597 A.2d. 528 (N.H. 1991) (cited in the Division's Brief, p. 10).

²⁵ Docket No. 3311, Woodcock's pre-filed testimony, Sch. 1, p. 1.

no explanation for this near doubling of this expense except for a \$24,000 newsletter as indicated by Mr. Brown on the stand. A \$24,000 newsletter does not adequately account for this increase in office supply expense. Furthermore, this \$24,000 newsletter is a questionable expense. Although the newsletter does promote conservation or is educational in nature, the newsletter also congratulates KCWA for its customer satisfaction, gives a podium for glorious speeches from KCWA Board members, and chastises DEM.²⁶ Therefore, a portion of the expense for this newsletter could be disallowed in rates because it merely promotes the public image of KCWA and its opinions.²⁷ Regardless, by utilizing the three-year average proposed by the Division, KCWA will receive \$105,949 which is well above the amount for office supplies included in its current rates and should be sufficient to pay for a simple bill insert promoting conservation.

As to the expense for maintenance of water mains, the Division utilized a three-year average while KCWA utilized the test year amount. In this case, the use of a three-year average does not encompass fiscal years 2000 and 2001 when the expense in this line item was higher than the most recent three-year average and more comparable to the test year amount.²⁸ In other words, the three-year average for this line item is not reflective of KCWA's normal expenditure in this aspect over the course of many years and does not encourage KCWA to continue its current efforts in this area. Furthermore, although the Commission is aware that by increasing the expense allowed for a particular line item, it can not guarantee that additional funds will be used for that particular line item, it is safe to assume that by not providing funds for this particular expense it is

²⁶ KCWA's PUC Record Response 1-3.

²⁷ Order No. 17971 and R.I.G.L. 39-2-1.2

²⁸ KCWA's Div. Data Resp. 1-1.

nearly certain that less money will be expended in this particular area than was expended in the test year. For many line item expenses, this is a matter of indifference to the Commission, but for expenses that directly help improve the infrastructure of a utility and possibly reduce water loss, the Commission takes a keen interest. Thus, to encourage KCWA to continue improving its infrastructure, the Commission will adopt KCWA's proposal of \$497,024 for maintenance of the mains, which is based on a higher expense amount for the test year.

As discussed, there is always a danger in providing too much revenue to a water utility because it may expend its funds in ways that are not beneficial to ratepayers. A clear example of this is lobbying expenses, and KCWA incurred \$10,115 in lobbying expenses during the test year. It is an established ratemaking principle that lobbying expenses are not legitimate ratepayer expenses.²⁹ Thus, the amount of lobbying expenses incurred by KCWA may be small, but the principle involved is significant. The first question is whether this ratemaking principle should also be applied to non-investor owned utilities or whether there is a clear difference between investor and non-investor owned utilities to justify ratepayers paying for professional lobbyists. Investor-owned utilities clearly represent private interests and the investment of private parties, i.e. shareholders. Therefore, to protect or promote private interests in the legislature may necessitate lobbyists. However, non-investor owned utilities represent public interests and the investment of municipalities, the state or other quasi-public entities. Therefore, to protect or promote public interests of a non-investor owned utility in the legislature merely requires cooperation with other public officials. Since elected officials and public water utilities protect and represent the same constituents whether they are called

²⁹ Order No. 17971 (citing Order Nos. 9411, 9069 and 9062).

ratepayers or taxpayers, there is an inherent potential for a commonality of interests between water utilities and elected officials. Thus, there is a significant difference between investor owned utilities and non-investor owned utilities as to the need for lobbying: non-investor owned utilities have much less need for lobbyists than investor owned utilities.

Of course, theory does not always work in reality. KCWA may have instances where it must monitor and lobby the legislature because elected officials can be short-sighted by focusing on the next election while some utility officials are concerned with the long-term health of the utility system. The next question is whether a non-investor owned utility can adequately monitor and lobby the legislature if it has no shareholder funds to pay a professional lobbyist. As an initial matter, Mr. Brown has already admitted that he tracks legislative bills and therefore, monitoring legislation can be performed by KCWA's current employees. As for the act of lobbying, unfortunately KCWA employees would not be considered governmental employees pursuant to R.I.G.L. 22-10-4.1 and thus, merely registering the name of a KCWA employee is not sufficient. However, the requirements of R.I.G.L. 22-10-1 et seq. as well as the Secretary of State's lobbying regulations are not unduly burdensome. A KCWA employee would need to: register his name; list the bills or subjects of interest to the lobbyist; wear an identification badge; and file reports while the legislature is in session if any lobbying expenses are made.³⁰ This is not an onerous burden.

If KCWA employees find dealing with the legislature a nerve-racking or stomach churning experience, a KCWA Board member could certainly register as a lobbyist. Since KCWA Boards members are appointed by city and town councils, undoubtedly

³⁰ R.I.G.L. 22-10-6 through 22-10-9.

they are well versed in the art of lobbying elected officials. Furthermore, KCWA Board members as appointed public officials are subject to public scrutiny by being required to file annual financial disclosure reports with the Ethics Commission. Certainly, any upstanding public official can accept a few additional public disclosure requirements in order to lobby on behalf of the ratepayers of his or her water utility.

To summarize, KCWA and other non-investor owned utilities differ from investor owned utilities in that they have less of a need for lobbyists. Furthermore, KCWA has failed to demonstrate that the legal requirements for lobbying are so burdensome or that lobbying itself is so specialized that they could not be performed by KCWA employees or KCWA's Board members. Thus, KCWA's lobbying costs of \$10,115 must be disallowed.

While on the topic of KCWA Board members, during KCWA's last rate case in 2001, Docket No. 3311, Ms. Crane stated that KCWA Board members receive health insurance and that this was not a common practice in the utility industry, and "in the future" Ms. Crane recommended "that the Commission deny the payment of benefit costs." As a result, the Commission stated that it concurred with Ms. Crane's recommendation and directed KCWA that in future rate filings it provide detailed information on the annual costs of benefits for KCWA Board members. Specifically, the Commission "put KCWA on notice that the level of benefits paid to Board members in the future will be reviewed to ensure that they are in line with the level of such costs incurred by similar Boards."³¹ Although KCWA's original filing failed to address this issue, the Commission required KCWA to refile its rate case and justify these health care benefits for KCWA Board members. Thus, the issue of health care benefits for KCWA

³¹ Order No. 17024.

Board members is clearly ripe for judgment, and this Commission will not attempt to evade this issue because it is an abbreviated rate case.

The first step is to determine if the law requires KCWA Board members to receive free health care insurance paid by KCWA ratepayers. Under R.I.G.L. 39-16-6, it states “each member of the board shall receive an annual salary not to exceed three thousand dollars (\$3,000) per year, and shall be entitled to reimbursement of his or her actual and necessary expenses incurred in the performance of his or her official duties.” Thus, KCWA Board members are entitled to \$3,000 a year and necessary expenses to attend KCWA Board meetings, but there is no mention of health insurance for KCWA Board members. The provision of health insurance is referred to in R.I.G.L. 39-16-5, which states that “the board may provide...for a retirement program,...for health and accident insurance...for any one or more or all of its employees.” Thus, the KCWA Board may provide health insurance to its employees. Of course, subsequent legislation has been enacted requiring employers to provide employees with health insurance if they work a certain number of hours per week.³²

Thus, the Commission must determine if KCWA Board members should be considered employees of KCWA. KCWA Board members have considered themselves to be employees. Also, for the last one and one-half years, one could speculate in anticipation of this issue coming before the Commission, KCWA Board members (and the utility) have paid payroll taxes. However, there is more to being an employee than declaring yourself to be one and making small payroll deductions. Generally, the issue of whether an individual is an employee arises out of a dispute as to whether the individual is an employee or an independent contractor. Under R.I.G.L. 28-42-7, this dispute can be

³² See R.I.G.L. 42-62-1 et seq.

determined by “those factors used by the Internal Revenue Service in its codes and regulations.” Under the IRS code and regulations, an individual is an employee if he or she would be considered an employee under the rules of common law. This requires the company to extend behavioral and financial control over the employee and the nature of the relationship between the individual and company must appear to be that of employee and employer.³³ This is consistent with Rhode Island common law as well.³⁴ For instance, an employee would likely receive work assignments, perform work on the company’s premises, have a daily routine, and receive paid vacation, sick pay, and pensions.³⁵

According to Mr. Brown, he can direct KCWA employees but can not direct KCWA Board members to perform any tasks. Board members do not have their own offices at KCWA’s building to perform clerical work nor do they perform work on hydrants outside the office. Unlike other KCWA employees, Board members do not have sick or vacation time or a requirement to submit time slips. KCWA Board members do not have any set hours and they attend various meetings.³⁶ Furthermore, KCWA Board members themselves, in KCWA’s newsletter to their ratepayers, do not state that their occupation is KCWA or water utility employment. Instead in the newsletter, the Board members listed their occupations as “independent engineering consultant”, “real estate construction consultant”, “professional land surveyor”, “Registrar, Warwick Board of Canvassers”, or “community volunteer.”³⁷ Words such as “independent”,

³³ IRS Publication 15-A (January 2005), p. 6, and Form SS-8.

³⁴ See e.g. DiOrio v. R. L. Platter, 100 R.I. 117, 119 (1965), Markham v. State, 99 R.I. 650, 655-56 (1965), and Pasetti v. Brusa, 81 R.I. 88, 91 (1953).

³⁵ See IRS Publication 15-A (January 2005), p. 6, and Form SS-8, pp. 2-3.

³⁶ PUC Ex. 2 (KCWA’s PUC Data Resp. 2-3 and 2-4) and Tr. 5/20/05, pp. 76-81.

³⁷ KCWA’s PUC Rec. Resp. 1-3.

“consultant”, “professional” and “volunteer” are not terms describing employees but are terms used to describe independent contractors or other similar type relationships. Overall, it appears quite clear that KCWA Board members are not KCWA employees and therefore they are not entitled to health insurance benefits under law.

The second step is to determine if the costs of health care benefits for KCWA Board members is an appropriate expense to be included in rates and paid by ratepayers. Utilities must prudently manage their operating expenses, which entail “efficient and economical management” of the utility.³⁸ Operating expenses can be disallowed if a utility’s management abuses its discretion, which results from “inefficiency” or “extravagant or unnecessary costs.”³⁹ For instance, state utility commissions have disallowed or reduced the compensation for the board of directors at a utility because the board members were not employees or the compensation was excessive in comparison to other utilities.⁴⁰ In order, “to justify an expenditure, a company must show that the expense was necessary for the proper conduct of its business or was of direct benefit to the utility’s ratepayers, and that the amount of the expenditure was reasonable.”⁴¹ The Rhode Island Supreme Court upheld this approach in ratemaking by stating that the Commission’s role in regulating a utility “exceeds mere regulation” because “Section 39-1-1 vests the Commission with the power to regulate and *supervise* the conduct of the

³⁸ See e.g. Chicago & Grand T. Ry v. Wellman, 143, U.S. 339, 345-346 (1892), Missouri ex. Rel. Southwestern Bell Tel. Co. v. Missouri Pub. Serv. Commission, 262 U.S. 276, 289 (1923), and Bluefield Water Works v. Pub. Serv. Commission, 262 U.S. 679, 693 (1923).

³⁹ See e.g. Missouri ex. Rel. Southwestern Bell Tel. Co. v. Missouri Pub. Serv. Commission, 262 U.S. 276, 289 (1923), West Ohio Gas Co. v. PUC, 294 U.S. 63, 72 (1935), and Acker v. United States, 298 U.S. 426, 430-431 (1936).

⁴⁰ See e.g. Indiantown Gas Co., 234 PUR 4th 497, 520-521 (Fla. PSC 2004), Atlanta Power Company, Inc., 100 PUR 4th 174, 178-182 (Idaho PUC 1988), Cascade Natural Gas Corp., 8 PUR 4th 19, 27 (Oreg. PUC 1974).

⁴¹ Charles Philips, Jr., The Regulation of Public Utilities, (1993), p. 258 (citing various state utility commission decisions).

utility for purposes of controlling its efficiency and protecting the public against improper and unreasonable rates.”⁴²

One method of determining the appropriateness of a utility’s expense is whether similarly situated utilities incur a similar expense. If an expense is not necessary to conduct business for similarly situated utilities, then the utility under review should not need to incur the expense as well. KCWA has not obtained any information demonstrating that the board members of any other water utility receive health care benefits solely due to their service on the utility board. KCWA’s witness, Mr. Woodcock, who has been a consultant for Pawtucket Water, had no knowledge that the board members of this utility received health care benefits solely due to their service on the utility board.⁴³ The burden of proof is on the utility to demonstrate the reasonableness of its rates.⁴⁴ KCWA’s failure to provide any information demonstrating that other similarly situated utilities incur this expense indicates that in all likelihood most other Rhode Island water utilities do not find it necessary for the conduct of their utility operations to pay for health care insurance of board members.

Even if another water utility did provide health care to its board members, KCWA has not indicated that its board members perform any tasks which are exceptional or that there is a compelling reason which benefits the ratepayers to attract board members with such a generous compensation package. Also, the sole justification given by Mr. Brown, other than citing statutes, for providing health care benefits to KCWA Board members is that it has been provided to KCWA Board members for over three decades. Three decades of an expense does not make that expense necessary to run a utility; it merely

⁴² Prov. Water Supply Bd. v. Malachowski, 624 A.2d 305, 309 (R.I. 1993).

⁴³ PUC Ex. 2 (KCWA’s PUC Data Response 2-8) and Tr. 5/20/05, p. 239.

⁴⁴ R.I.G.L. 39-3-12.

shows that an expense has gone unnoticed or unquestioned for far too long. An operating expense cannot be justified simply by citing past practices. There must be a valid business rationale demonstrating the necessity of the expense for the continuing operations of the utility, which would benefit ratepayers. Three decades of an unjustified benefits for KCWA Board members paid by ratepayers is enough.

The third step is whether the Commission is prohibited by law from disallowing this expense in rates and not allowing ratepayer funds to be used to pay for this amount. Under Title 39 of Rhode Island General Laws, the Commission has broad authority and discretion in establishing just and reasonable rates. There is not a specific prohibition in Title 39 preventing the Commission from disallowing this type of expense. Thus, the Commission must turn to the state and federal constitutions to determine whether a state regulatory agency would be prohibited from disallowing ratepayer-funded health care benefits for a utility's board members. In regards to some sort of constitutional property right as to health care benefits, the Fifth Amendment of the U.S. Constitution and Section 16 of Article 1 of the Rhode Island Constitution protects essentially tangible property rights.⁴⁵ Health care benefits are not tangible property although the costs to ratepayers are certainly real. As for some sort of constitutional prohibition against denying employee-related benefits because it infringes on contractual obligations, Section 10 of Article 1 of the U.S. Constitution and Section 12 of Article 1 of the Rhode Island Constitution do not prohibit the state from affecting contract rights through regulation in the public interest or if the state action affects a benefit such as pensions.⁴⁶ Thus, the

⁴⁵ See United States v. General Motors, 323 U.S. 373 (1945) and E & J Inc. v. Redevelopment Agency, 122 R.I. 288 (1979).

⁴⁶ Parella v. Retirement Bd., 173 F.3d 46 (1st Cir. 1999), NEA v. Retirement Bd., 172 F.3d 32 (1st Cir. 1999), Brennan v. Kirby, 569 A.2d 633 (R.I. 1987), and Narragansett Electric v. Sabre, 50 R.I. 288 (1929).

health care benefits of KCWA Board members do not rise to the level of deserving substantive constitutional protection.

Not only is there no substantive constitutional protection for the health care benefits for KCWA Board members, there is an emerging public policy developing within the state against providing health care benefits for those who are not full-time employees. For instance, by statute only, employees who work at least 20 hours a week can receive health care benefits from state government. Otherwise, they must purchase the benefits.⁴⁷ The only exception, as one could expect, are those elected to the General Assembly.⁴⁸ Since KCWA Board members are not elected officials at the state or local level, the developing public policy in Rhode Island would suggest that KCWA Board members should not receive health care paid for by the public either through taxes or rates.

KCWA has argued, in the past, that it has a “unique status” unlike other utilities for which it would be exempt from a regulatory assessment pursuant to R.I.G.L. 39-1-23.⁴⁹ The Commission did not find KCWA had a unique status among utilities regarding regulatory assessment and it will not allow its board to enjoy a unique status of enjoying ratepayer-funded health care benefits. Accordingly, the Commission disallows the \$53,399 in health care benefits for the board. If KCWA board members still want health care insurance from KCWA they can purchase it for the full premium amount from KCWA. If KCWA attempts to continue to pay in any way for the health care of its board, it would be clear that KCWA would be placing the health benefits of the board before the health of KCWA’s infrastructure system because through this report and order

⁴⁷ R.I.G.L. 36-12-1(2)(i) and 36-12-2(d).

⁴⁸ R.I. Constitution Article 6, Section 3.

⁴⁹ Order No. 16239.

these funds are otherwise allocated to KCWA's underfunded IFR account. Under those circumstances, there would be serious consequences for KCWA.

While on the topic of health care benefits, KCWA's rate increase includes an increase of \$57,668 in employee benefits. Disallowing \$53,399 in health care benefits for KCWA Board members offsets most of this increase. However, this alone will not fully address KCWA's growing health care costs in the future. KCWA has health insurance costs of \$448.40 per month for a single employee to \$1,188.27 per month for a family plan, which does not include dental coverage. Not only do these premiums appear high, but KCWA employees receive annual salary increases of approximately 4 percent which is above the consumer price index.⁵⁰ KCWA has not been pro-active in controlling personnel costs. Over the past few years KCWA has not even bothered to undertake any efforts to investigate alternative medical plans or solicit bids. Accordingly, KCWA is required to undertake a review of its medical benefits and costs and report back to the Commission in its next rate case, whether it is abbreviated or general rate filing. This issue is too important to allow KCWA to evade addressing this problem by filing numerous abbreviated rate cases. Furthermore, the Commission points out that reducing health care costs is becoming more prevalent throughout the public sector. Since KCWA employees are not unionized, KCWA has a great deal of flexibility in this area. KCWA should take heed of a recent Commission order relating to another non-investor owned utility in which the Commission expressed its expectation that the utility "would require its employees to share in the expense of their health care premiums

⁵⁰ KCWA Div. Data Response 1-3.

or implement other approaches that will clearly reduce the health care premiums paid” by the utility.⁵¹

The last matter to be discussed which relates to KCWA’s operating expenses is whether to grant an operating reserve to KCWA. The Commission could follow a past decision for KCWA which denied KCWA an operating reserve because KCWA had an O&M Reserve to manage its cash flow.⁵² However, more recently the Commission has allowed Pawtucket Water to have an operating reserve even though it had an O&M Reserve.⁵³ At this time, the Commission will follow its more recent decision. Although KCWA’s O&M Reserve does provide KCWA with adequate cash flow, it does not adequately allow KCWA to address unanticipated fluctuations in expenses and revenues. This is because KCWA’s O&M Reserve must be fully funded at the end of the fiscal year. An operating reserve is important for a utility to manage unanticipated decreases in revenues or unexpected increases in expenses, which are truly beyond the control of the utility such as energy or chemical costs.⁵⁴ Personnel costs, in contrast, can be controlled by an employer through co-sharing of premiums, salary freezes or lay-offs. In addition, since the Commission has established rates based on a three year average for water sales and has not provided for a 4% allowance in chemical costs, an operating reserve based on 1.5 percent of KCWA’s cost of service except for debt service, IFR and capital requirements is reasonable. Accordingly, the Commission grants an operating reserve of 1.5 percent of operating expenses.

⁵¹ Order No. 18124.

⁵² Order No. 14364.

⁵³ Order No. 17574.

⁵⁴ Order No. 17558.

As to its operating expenses, KCWA should receive an increase of approximately \$1,831,891. However, KCWA filed for an increase of \$3,172,665. Normally, the Commission would reduce the requested rate increase, but in this case, KCWA's IFR is only funded to a \$3.4 million level, when its fully funded IFR amount should be at \$6 million. In 1993, the General Assembly mandated that water utilities develop and implement an IFR program.⁵⁵ The costs of these IFR programs must be approved by the Commission as long as the IFR is just and reasonable.⁵⁶ If the Commission did not approve higher rates to pay for these additional IFR costs, it would only unnecessarily delay infrastructure improvements since these costs will eventually have to be passed on in rates. Therefore, the Commission will approve the full \$3,172,665 but requires that the additional funds be put toward IFR and thus, raise funding of the IFR account to approximately \$4,805,374. Furthermore, the Commission will continue to require that the IFR account as well as the Debt Service Account of \$3,895,931, the Reserves and Coverage Allowance of \$51,013, and the Renewal & Replacement Account of \$100,000 be restricted so that ratepayer funds are used to improve the system instead of merely increasing operating expenses. KCWA is directed to fund the restricted accounts in the total annual amount of \$8,852,318 in an interest bearing account(s), and both the principal and interest shall be reserved and carried over to subsequent years for their designated purposes.

Also, since KCWA has had a difficult time fully funding its IFR programs and is not spending money for various capital programs, the Commission will need to monitor

⁵⁵ R.I.G.L. 46-15.6-1 et seq.

⁵⁶ R.I.G.L. 46-15.6-6(5)

this situation. Thus, the Commission requires KCWA to file compliance reports for its CIP, IFR and restricted accounts every four months.

To sum up, of the \$3,172,665 increase proposed by KCWA, approximately \$1,831,891 is for operating expenses while the remainder of \$1,340,774 is for IFR, which will raise the level of IFR funding from \$3.4 million to approximately \$4.8 million. Of the \$3,172,665 increase, \$1,405,374 is for IFR and \$461,000 is for debt service. Thus, only \$1,306,000 of the increase is not for IFR or debt service.

While on the topic of improving KCWA's utility system, public comment was given discussing the inadequacy of KCWA's water supply and water service. This docket is not the ideal venue to address such issues. However, the Commission is quite concerned about the adequacy of KCWA's water supply and water service. It is an obligation of a public utility to serve all customers who are willing to pay for the utility service and this service must be adequate and non-discriminatory.⁵⁷ As a result, the Commission will require KCWA to file its water supply management plan, required by R.I.G.L. 46-15.3-5.1, with the Commission for its review. After reviewing this plan, the Commission can investigate, and if necessary, order a utility, pursuant to R.I.G.L. 39-4-2, to make "repairs, improvements, changes, additions, alterations or extensions to the plant or equipment...within a reasonable time and in the manner specified."⁵⁸ The solution to KCWA's lack of water supply could be solved cost effectively by expanding well fields if DEM is more cooperative. Regrettably, it could be solved through a third wholesale connection to the Scituate Reservoir of Providence Water which could cost \$30 to \$40

⁵⁷ Charles Philips, Jr., The Regulation of Public Utilities, (1993) pp. 118-19 and see R.I.G.L. 39-1-1 and 39-2-1.

⁵⁸ See Order No. 17515.

million.⁵⁹ Furthermore, the Commission questions the capacity of the Scituate Reservoir to serve a more significant portion of the State's population than it already does. As the saying goes, you should not put all your eggs in one basket. With increasing demand and the constraints on KCWA for its water supply, the current situation will not be acceptable in the long-term for the ratepayers.

Accordingly, it is

(18316) ORDERED:

1. Kent County Water Authority's Abbreviated Rate Filing of January 14, 2005, is hereby denied and dismissed.
2. Kent Count Water Authority will receive a total cost of service of \$16,545,493, which equates to a revenue increase of \$3,172,665, effective for usage on and after July 7, 2005.
3. Kent County Water Authority shall restrict the following accounts: (a) Infrastructure Replacement - \$4,805,374; (b) Debt Service - \$3,895,931; (c) Reserves & Coverage Allowance - \$51,013; and (d) Renewal & Replacement - \$100,000.
4. Kent County Water Authority shall not use ratepayer funds for the purpose of paying professional lobbyists.
5. Kent County Water Authority shall not use ratepayer funds for the purpose of paying for the health care benefits of its board members.
6. Kent County Water Authority shall file in its next rate case its review of the medical benefits and associated costs for its employees.

⁵⁹ KCWA PUC's Data Responses 3-8.

7. Kent County Water Authority shall fund its IFR account in the annual amount of \$4,805,374 of which \$1,405,374 is derived from the revenue increase of \$3,172,665.
8. Kent County Water Authority's compliance tariffs filed on July 21, 2005, are hereby approved.
9. Kent County Water Authority shall comply with all findings and instructions contained in this Report and Order.

EFFECTIVE IN WARWICK, RHODE ISLAND, PURSUANT TO OPEN MEETING DECISIONS ON JULY 7, AND JULY 28, 2005. WRITTEN ORDER ISSUED AUGUST 4, 2005.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Robert B. Holbrook, Commissioner

NOTICE OF RIGHT OF APPEAL PURSUANT TO R.I.G.L. SECTION 39-5-1, ANY PERSON AGGRIEVED BY A DECISION OR ORDER OF THE COMMISSION MAY, WITHIN SEVEN DAYS (7) DAYS FROM THE DATE OF THE ORDER, PETITION THE SUPREME COURT FOR A WRIT OF CERTIORARI TO REVIEW THE LEGALITY AND REASONABLENESS OF THE DECISION OR ORDER.

Appendix A

Kent County Water Authority
Docket 3660
Cost of Service Schedule

| | KCWA Rebuttal Position | Commission Adjustments | Proforma |
|----------------------------|---------------------------|---------------------------|----------------------|
| REVENUES | | | |
| Service Charges | \$ 748,498 | \$ 6,758 | \$ 755,256 |
| Metered Rates | 10,925,234 | 399,716 | 11,324,950 |
| Fire Protection | 1,013,608 | | 1,013,608 |
| Miscellaneous | <u>279,014</u> | | <u>279,014</u> |
| Total Revenues | <u>\$ 12,966,355</u> | <u>\$ 406,474</u> | <u>\$ 13,372,828</u> |
| EXPENSES | | | |
| Operations & Maintenance | | | |
| Supply | \$ 3,628,937 | \$ (80,091) | \$ 3,548,846 |
| Pumping | 567,939 | 20,381 | 588,320 |
| Treatment | 181,885 | 446 | 182,331 |
| Transmission & Dist. | 843,883 | | 843,883 |
| Customer Account | 285,878 | | 285,878 |
| Administration & Gen'l | <u>2,065,082</u> | <u>(94,042)</u> | <u>1,971,040</u> |
| Total O & M | \$ 7,573,605 | \$ (153,306) | \$ 7,420,298 |
| Fixed Charges | | | |
| Debt Service | \$ 3,895,931 | | \$ 3,895,931 |
| Reserves & Coverage | 51,013 | | 51,013 |
| Renewal & Replacement | 100,000 | | 100,000 |
| Infrastructure Replacem't | 4,241,520 | 563,854 | 4,805,374 |
| Payroll Taxes | 135,255 | | 135,255 |
| Payment in lieu of Taxes | <u>23,172</u> | | <u>23,172</u> |
| Total Fixed Charges | \$ 8,446,891 | \$ 563,854 | \$ 9,010,745 |
| Net Operating Reserve | <u>\$ 118,524</u> | <u>(4,074)</u> | <u>\$ 114,450</u> |
| COST OF SERVICE | <u>\$ 16,139,020</u> | <u>\$ 406,475</u> | <u>\$ 16,545,493</u> |
| Requested Revenue Increase | <u>\$ 3,172,665</u> | <u>\$ - 0 -</u> | <u>\$ 3,172,665</u> |