

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: PAWTUCKET WATER SUPPLY :  
BOARD GENERAL RATE FILING : DOCKET NO. 3674

**REPORT AND ORDER**

**I. Background**

On April 11, 2005, Pawtucket Water Supply Board (“PWSB”), a non-investor owned utility, filed with the Public Utilities Commission (“Commission”) an application for a general rate increase for effect May 11, 2005, pursuant to R.I.G.L. § 39-3-11. PWSB requested a total rate revenue increase of 22%, to collect an additional \$3,540,101 for operating revenues, for a total revenue requirement of \$19,972,083. The Commission suspended the effective date of PWSB’s requested rate increase in order to conduct a full investigation and to hold public hearings.

The instant general rate case filing represents PWSB’s fifth rate filing in the last five years. The following table provides a brief history:

Docket No.	Filing Date	Amount Requested	Amount Allowed	Revenue Increase (%)
3164	6/30/00	\$2,289,601	\$1,820,799 (79.52%)	22.1%
3378	8/20/01	\$3,828,966	\$2,732,584 (71.37%)	29.9%
3497	2/28/03	\$3,157,389	\$2,382,459 (75.46%)	21.13%
3593 <sup>1</sup>	2/23/04	\$3,414,969	\$3,414,969 (100.00%)	25%
3674	4/11/05	\$3,540,101	\$1,259,117 (35.57%)	7.7%

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<sup>1</sup> The amount requested was entirely for debt service and not to cover any operating expenses. The effective date was April 1, 2005, at the request of the Company. Otherwise, by statute, the effective date could have been no later than September 23, 2004. Because of the delay, the effect of Docket Nos. 3593 and 3674 impacted fire service customers, billed annually, in February 2006 rather than being spread between the February 2005 and February 2006 billings.

## **II. Travel of the Case**

Following timely filed Motions for Intervention to which no objections were made, the Town of Cumberland (“Cumberland”) and City of Central Falls were admitted as full parties. The City of Central Falls (“Central Falls”) did not participate in the case, filing no testimony and sending no witnesses to the hearing. Cumberland’s primary issue in this case concerned a proposal by PWSB to charge a different rate to Cumberland retail customers to cover disputed property taxes Cumberland has billed to PWSB. However, PWSB was allowed to withdraw its proposal without prejudice at the hearing. Thus, the issue is not currently before the Commission.

PWSB, the Division of Public Utilities and Carriers (“Division”), and the Town of Cumberland (“Cumberland”) each submitted Pre-filed Testimony addressing all, or portions of, PWSB’s revenue requirement for the Rate Year commencing January 1, 2006 using a Test Year of FYE June 30, 2004.<sup>2</sup> Several issues that were initially contested in Pre-Filed Direct Testimony were settled during the Rebuttal and Surrebuttal phases, including the pro forma costs for property insurance, fees and permits and the level of Operation and Maintenance (“O&M”) Reserve. PWSB and the Division also filed testimony addressing the appropriate rate design in this matter. The Commission will not be addressing testimony relative to the proposed rate differential between Cumberland retail customers and all other PWSB retail customers. With regard to the methodology used to derive the appropriate rate design absent the proposed rate differential, PWSB

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<sup>2</sup> PWSB was granted a waiver from the Commission’s requirement that the Test Year be a twelve month period ending no more than nine months prior to the filing date. PWSB only missed the requirement by eleven days.

and the Division were in agreement.<sup>3</sup> The pro forma level of wholesale sales was settled at the hearing with the parties conceding to Cumberland's projections.<sup>4</sup> Several issues that were contested during the hearing were settled at the briefing stage, including PWSB's proposed inflation adjustment, regulatory commission expense, and security costs.<sup>5</sup>

Issues still outstanding following the Pre-Filed Testimony, Hearing and Briefing stages of this matter included the appropriate pro forma operating rate revenue, Miscellaneous Revenue, Employee-related costs, Funding of the Water Treatment Plant ("WTP") Reserve, and the level of Operating Revenue Allowance. Additionally, at the hearing, the Commission raised issues regarding pro forma electricity costs, funding related to the Central Falls System purchase, and restricted accounts.<sup>6</sup>

### **III. PWSB's Explanation of Need**

On April 11, 2005, PWSB submitted the Pre-Filed Direct Testimony of its Chief Engineer, Pamela Marchand in support of the need for a rate increase. Ms. Marchand discussed four major components of which the rate case is comprised: (1) increases in taxes, medical insurance, state pension contribution, compensation insurance, property insurance and labor contract increases; (2) operation costs of the new water treatment plant; (3) increase in O&M expenses and an increase in the allowed Operating Revenue Allowance to 5% of revenues; and (4) increase in revenues in order to assume operation and maintenance of the Central Falls System.<sup>7</sup> Ms. Marchand provided updates to the

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<sup>3</sup> PWSB Exhibit 8 (Rebuttal Testimony of Christopher P.N. Woodcock), p. 1; Division Exhibit 2 (Pre-filed Testimony of Thomas Catlin), pp. 4-5.

<sup>4</sup> Tr. 9/14/05, pp. 23-24.

<sup>5</sup> Division's Brief, p. 1.

<sup>6</sup> See *infra* n. 81-89 and accompanying text.

<sup>7</sup> PWSB Exhibit 1 (Pre-filed Testimony of Pamela M. Marchand), pp. 3-4. PWSB proposed continuing to fund the restricted Central Falls Franchise fee account in order to cover a portion of the purchase price.

Commission regarding the status of the new Water Treatment Plant (“WTP”) (anticipated completion in April 2006), the Cleaning and Lining program (on schedule) and the main replacement projects (anticipated completion in 2014).<sup>8</sup>

Ms. Marchand indicated that the timing of the increase allowed in Docket No. 3497 did not allow the collection of sufficient funds to cover all expenses and restricted account funding. She noted that the Rate Year was FY04 while the case was not completed until October 2003,<sup>9</sup> although the decision was made within the statutory timeframe required by state law.

#### **IV. Issues and Positions**

##### **A. Rate Year Consumption**

Ms. Marchand indicated that PWSB was unable to collect the total amount of revenues allowed by the Commission in Docket No. 3497 because of what she termed as overstated projected consumption.<sup>10</sup> Therefore, she noted that PWSB was seeking to utilize only FY04 consumption as the only measure of consumption for the pro forma Rate Year of CY06.<sup>11</sup>

In his direct testimony, Christopher P. N. Woodcock, a consultant hired by PWSB, also expressed an opinion regarding consumption figures utilized in prior dockets. Specifically he stated “...the use of historic averages has overstated water sales in the past.”<sup>12</sup> Mr. Woodcock opined that an analysis of past sales and their downward trend should lead to the conclusion that future sales can be expected to be less than sales made in the Test Year. While Mr. Woodcock argued he believed Rate Year sales would

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<sup>8</sup> Id. at 5.

<sup>9</sup> Id. at 6-7.

<sup>10</sup> Id. at 6.

<sup>11</sup> Id.

<sup>12</sup> PWSB Exhibit 4 (Pre-filed Testimony of Christopher P. N. Woodcock), p. 14.

be less than Test Year sales, he stated the Commission should set Rate Year consumption equal to Test Year consumption (4,538,921 HCF Retail and 548,162 HCF Wholesale).<sup>13</sup> In addressing the question of what would be the result if his projections were incorrect and sales were to actually increase in the Rate Year, Mr. Woodcock explained that scenario should not be a concern. In the event it did occur, the added revenues would allow PWSB to delay its next rate filing, thereby reducing regulatory expense of the utility.

In her direct testimony, Andrea Crane a Division consultant, explained that given the information that was available to her, she thought the best method to determine pro forma revenues was to use an average of the consumption for fiscal years 2000 through 2004. She argued that "...the use of a multi-year average is a better determinant of pro forma sales than is the use of historic sales from any one particular fiscal year."<sup>14</sup>

Testifying on behalf of the Town of Cumberland, Finance Director Thomas M. Bruce, III stated that rather than showing a decreasing trend, Cumberland's wholesale purchases from PWSB have been steadily increasing in recent history (FY 2003 – 572,942 HCF, FY 2004 – 607,116 HCF and FY 2005 – 694,417 HCF). Mr. Bruce argued that PWSB's Rate Year projection of 548,162 HCF was too low and would result in excessive charges to Cumberland.<sup>15</sup>

In Rebuttal, Mr. David G. Bebyn, a CPA working on behalf of PWSB, took issue with Ms. Crane's position. Mr. Bebyn pointed out that between 2000 and 2005, total consumption dropped significantly and that Ms. Crane ignored a continued decline in industrial and large commercial consumption. Also, at the time Mr. Bebyn filed his

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<sup>13</sup> Id., CPNW Sch. 2.0, Pg 2 of 2

<sup>14</sup> Division Exhibit 1 (Pre-filed Testimony of Andrea C. Crane), p. 12.

<sup>15</sup> Cumberland Exhibit 1 (Pre-filed Testimony of Thomas M. Bruce, III), p. 15.

Rebuttal, he had access to sales figures for FY 2005, and he pointed out that FY 2005 consumption was less than Test Year consumption by 172,000 HCF.<sup>16</sup>

In Rebuttal, Mr. Woodcock pointed out that in the four most recent dockets, actual collections were substantially less than allowed revenues. Mr. Woodcock also made reference to other Rhode Island water utilities and asserted that they too have observed reductions in sales. He argued that he does not oppose the use of a multi-year average if the circumstances make a multi-year average appropriate. However, he asserted that in the current docket, a multi-year average does not capture the downward sales trend; it masks it.<sup>17</sup> Factors that he pointed to as evidence that further drops in sales are likely include a down turn in the economy, increasing water and sewer rates, loss of major manufacturers and increased focus on water conservation.<sup>18</sup>

In her Surrebuttal, Ms. Crane pointed out that while she based her consumption recommendation on a five year average, she would not be opposed to a consumption figure based on a three year average. In addressing Mr. Woodcock's argument that the Commission should deviate from prior practice and abandon a multi-year average she stated, "...regulatory commissions generally do not deviate from past precedent unless there is a compelling reason for doing so. No such compelling reason exists in this case."<sup>19</sup>

In response to an argument by Mr. Woodcock that she ignored such factors as conservation and weather in her calculation of Rate Year consumption, Ms. Crane argued a three or five year average consumption calculation does in fact take into account these

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<sup>16</sup> PWSB Exhibit 9 (Rebuttal Testimony of David G. Bebyn), pp. 1-2.

<sup>17</sup> PWSB Exhibit 8 (Rebuttal Testimony of Christopher P. N. Woodcock), p. 6.

<sup>18</sup> Id. at 12.

<sup>19</sup> Division Exhibit 3 (Surrebuttal Testimony of Andrea C. Crane), p. 3.

factors as well as other factors such as technology changes in plumbing fixtures, changes in demographics and changes in economic factors.<sup>20</sup>

**B. Employee Funding**

Ms. Marchand testified that the increased salary costs in FY 2005 are related to the contract with AFSCME #1012. Other increases related to expiring contracts are estimated based on past years. As part of this filing she was requesting full-year funding of additional positions, including a T&D Crew Leader, the Transmission and Distribution Water Utility Supervisor, a new CFO, and five positions to operate the Central Falls distribution system once it is acquired.<sup>21</sup> Ms. Marchand indicated that staffing challenges arise as the result of allowed vacation and sick leave.<sup>22</sup> She also noted that PWSB had a net reduction of 14 employees as a result of Earth Tech's assumption of water treatment plant responsibilities.<sup>23</sup>

Mr. Benson indicated that salaries and wages were calculated based on current labor contracts and estimated future contracts for the period covering the Rate Year. The health insurance premium estimates were increased as a result of discussions with the City of Pawtucket Finance Director and the pension contribution was increased as a result of the increase required by the State of Rhode Island to the Municipal Retirement System.<sup>24</sup>

In her testimony, Ms. Crane, on behalf of the Division, pointed out that in Docket No. 3497, the Commission's ordering language suggested that the Commission expected the Design/Build/Operate ("DBO") contract would reduce staffing at PWSB. In this

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<sup>20</sup> Id. p. 5.

<sup>21</sup> PWSB Exhibit 1 (Pre-filed Testimony of Pamela M. Marchand), p. 9.

<sup>22</sup> Id. at 13.

<sup>23</sup> Id. at 14.

<sup>24</sup> PWSB Exhibit 3 (Pre-filed Testimony of Robert Benson), pp. 3-4.

docket, Ms. Crane noted that PWSB's request for 55 funded positions plus another five for the Central Falls operation would bring PWSB to a total of 60 funded positions, only five less than that previously approved by the Commission, and 12 more than the Commission arguably intended to be funded through rates following the transfer of PWSB employees to EarthTech. Therefore, in order to avoid mitigating the benefits of the DBO structure, Ms. Crane proposed only allowing funding of three fewer funded positions than requested plus the five for the Central Falls operation.<sup>25</sup> Ms. Crane also recommended reducing the request for increased funding of temporary employees and instead proposed levelized funding equal to the Test Year expense.<sup>26</sup>

In rebuttal to Ms. Crane's proposals, Ms. Marchand argued that she needed funding for an adequate level of staffing to provide safe and reliable water. She maintained that Ms. Crane focused too much on the number of employees rather than the need for quality service. She also stated that PWSB was not requesting as many additional employees as suggested by Ms. Crane. Rather, she stated, she was attempting to receive funding for previously approved positions which were not filled as a result of collections and changing priorities, such as the creation of a new CFO rather than filling the Leak Detection position.<sup>27</sup>

In her Surrebuttal testimony, Ms. Crane did not alter her original proposal. She continued to recommend funding for 52 employee positions plus the five additional positions related to the operation of the Central Falls distribution system. She maintained

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<sup>25</sup> Division Exhibit 1 (Pre-filed Testimony of Andrea C. Crane), pp. 19-21.

<sup>26</sup> *Id.* at 21-22.

<sup>27</sup> PWSB Exhibit 7 (Rebuttal Testimony of Pamela M. Marchand), pp. 2-12.



that the Commission's intentions in Docket No. 3497 were clear and should be taken into consideration when setting the level of funding for employee positions.<sup>28</sup>

### **C. Water Treatment Reserve Account**

Ms. Marchand requested continued funding of the WTP Reserve Account at half of the previously approved rate (\$389,000 versus \$778,000), indicating that the new treatment plant should be in full operation by April 2006, and half of the previously approved funding should be sufficient to cover any required repairs and provide a contribution toward the demolition of the water treatment plant and the Spring Street pump station.<sup>29</sup> Mr. Woodcock added that while the old treatment plant is expected to be in operation for ¼ of the Rate Year, the WTP Reserve would be used for decommissioning of the old plant.<sup>30</sup> He indicated that the funds being collected following the decommissioning would be used to pay an annual fee to EarthTech, the vendor who will be operating the plant.<sup>31</sup>

In her testimony, Ms. Crane proposed the elimination of the WTP Reserve expense during the Rate Year, noting that the Commission had allowed full funding of the Reserve over a one year period for expenses expected in FY 2005 and that PWSB records showed minimal expenditures from the Fund since its inception. Additionally, citing data responses, she noted that the level of future expenditures was uncertain.<sup>32</sup>

In her Rebuttal testimony, Ms. Marchand stated that there were insufficient funds in the WTP Reserve to demolish the Spring Street pump station, for which she discussed a preliminary estimate of \$400,000. She also indicated that she had received a

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<sup>28</sup> Division Exhibit 3 (Surrebuttal Testimony of Andrea C. Crane), pp. 7-9.

<sup>29</sup> *Id.* at 4.

<sup>30</sup> PWSB Exhibit 4 (Pre-filed Testimony of Christopher P.N. Woodcock), p. 4.

<sup>31</sup> *Id.* at 8.

<sup>32</sup> Division Exhibit 1 (Pre-filed Testimony of Andrea C. Crane), pp. 29-30.

preliminary estimate from I.P. Iannuccillo & Sons to demolish the old treatment plant for \$800,000. Therefore, she maintained that the balance in the WTP would be insufficient to demolish both structures.<sup>33</sup>

In her Surrebuttal, Ms. Crane recognized the presentation of the preliminary cost estimates by Ms. Marchand, but asserted that there should be sufficient funds in the WTP Reserve to allow PWSB to pay for the demolition of the old treatment plant and the Spring Street pump station even absent continued funding of the WTP Reserve Account during the Rate Year.<sup>34</sup>

#### **D. Miscellaneous Revenue**

In a schedule attached to his Direct Testimony, Mr. Woodcock provided data to indicate that Test Year Miscellaneous Revenues were \$430,721. His Rate Year projection for Miscellaneous Revenues was \$303,226.<sup>35</sup> The main reason for the reduction of \$127,496 was a projected decrease of \$135,318 in Service Installations and a projected increase of \$7,822 in Miscellaneous Non-Operating Revenue. For both line items he used actual FY 2004 data for the Test Year while basing the Rate Year on a six-year average (1999 through 2004). During the six-year period, service installations provided far greater revenues in 2003 & 2004 as compared to 1999 through 2002. Thus, incorporating the earlier year, tended to drive down the average.

In her Direct Testimony, Ms. Crane took issue with PWSB using a six-year average to calculate Rate Year Service Installations and Miscellaneous Non-Operating Revenue. To be consistent with her recommendations regarding consumption, she

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<sup>33</sup> PWSB Exhibit 7 (Rebuttal Testimony of Pamela M. Marchand), pp. 13-14.

<sup>34</sup> Division Exhibit 3 (Surrebuttal Testimony of Andrea C. Crane), pp. 11-12.

<sup>35</sup> PWSB Exhibit 4 (Pre-filed Testimony of Christopher P.N. Woodcock), CPNW Sch 1.2, p. 1 of 2.

recommended using a five-year average. Her recommendation resulted in an increase of \$7,715 in pro forma revenues.<sup>36</sup>

In Rebuttal Testimony, Mr. Bebyn explained that Pawtucket had experienced a recent growth in housing construction due to low interest rates and high housing costs. He also went on to explain that land available for new construction was becoming scarce and that PWSB was beginning to experience a reduction in service installations. He stated that FY 2005 service installation revenue was \$163,950 (as compared to \$241,670 for FY 2004). Finally, he projected that service installation revenue would eventually decrease to a level between \$50,000 and \$80,000 per year, which would make it more reflective of levels which existed prior to the recent housing boom.<sup>37</sup>

In response to the Rebuttal testimony of PWSB, Ms. Crane continued to advocate for a five-year average of Service Installation Revenues, pointing out that her recommendation of \$116,378 was well below the Test Year figure of \$241,670 and also that her recommendation was less than the FY 2005 amount of \$ 163,950.<sup>38</sup>

#### **E. Operating Revenue Allowance**

Ms. Marchand requested the approval of a 5% Operating Revenue Allowance on total revenues rather than continuation of the previously approved 1.5% on Operating Revenues. She noted that the bond indentures require the O&M budget, Debt Service Fund and O&M Reserve Account to be fully funded prior to funding the remaining restricted accounts. Ms. Marchand argued that the Commission has not allowed sufficient funding through rates due to lower than estimated consumption and that PWSB

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<sup>36</sup> Division Exhibit 1 (Pre-filed Testimony of Andrea C. Crane), Schedule ACC-5.

<sup>37</sup> PWSB Exhibit 9 (Rebuttal Testimony of David G. Bebyn), p. 4.

<sup>38</sup> Division Exhibit 3 (Surrebuttal Testimony of Andrea C. Crane), p. 7.

would need the nearly \$1,000,000 revenue allowance in order to fully fund its restricted accounts.<sup>39</sup>

In his Direct Testimony, Mr. Woodcock indicated that PWSB was seeking approval of an Operating Revenue Allowance equal to 5% of total revenues or about \$950,000. He noted that in recent dockets the Commission had allowed a 1.5% Operating Revenue Allowance on operating expenses. Mr. Woodcock opined that the Commission's recent positions seemed to indicate that the allowance should be based on only operating costs because capital and debt service costs typically do not fluctuate and therefore require no reserve allowance.<sup>40</sup>

He then pointed out that he reviewed historic records but was unable to find a basis for a 1.5% allowance. Mr. Woodcock then went on to argue that the greatest unknown for PWSB is not expenses; the greatest unknown is sales. Referring to a schedule attached to his testimony, he stated that if one were to look at the last five years, PWSB's sales typically varied from the five year average by at least 6%. He claimed that by setting the Operating Revenue Allowance at 1.5% of operating expenses PWSB has only 0.8% of total revenues to act as a cushion to rely on when consumption is less than projected. He claimed that the situation is made worse when the Division calculates consumption using a historic average that does not recognize lost customers, conservation efforts and a general downward trend in water consumption.

In response to Mr. Woodcock's request for a 5% allowance, Ms. Crane argued in favor of a 1.5% allowance on operating expenses. She claimed that PWSB has the ability to tap into its O&M Reserve in the event funds are not available to meet operating

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<sup>39</sup> Id. at 18-19.

<sup>40</sup> PWSB Exhibit 4 (Pre-filed Testimony of Christopher P. N. Woodcock) p. 12.

expenses. Ms. Crane stated “in the event of revenue shortfalls or unanticipated expense increases, the [O&M] Reserve Fund can be used.”<sup>41</sup> She did concede, however, that any amounts borrowed from that fund must be repaid. Her recommendation would allow PWSB an Operating Revenue Allowance closer to \$140,000 as opposed to the \$950,000 requested by the Company.

In Rebuttal, Mr. Woodcock argued that a municipal utility makes no profit and therefore cannot reduce dividends in a year with low sales. He argued that the only relief for PWSB is the Operating Revenue Allowance. He went on to say that the allowance has been cut nearly in half in recent years due to the Commission’s prior decision to limit the Operating Revenue Allowance to operating expenses. He also stated that the utility must face a further hardship in the form of regulatory lag. He explained that if a decision on the case were made such that rates were effective November 1, 2005, the new rates would not be fully incorporated into rates until February 2006.<sup>42</sup>

With regard to O&M Reserve, he stated that it cannot be used as a substitute for the Operating Revenue Allowance. According to Mr. Woodcock, the O&M Reserve can only be used for principal and interest payments if there are insufficient funds in the Company’s debt service account or to make payments for operation and maintenance if there are insufficient funds in the operation and maintenance fund. He claimed the Operating & Maintenance Reserve cannot be used for IFR nor can it be used to fund other reserve accounts.<sup>43</sup> He stated that money can be withdrawn from the fund in an emergency but stressed that any withdrawals must be repaid to the fund by the end of the fiscal year.

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<sup>41</sup> Division Exhibit 1 (Pre-filed Testimony of Andrea C. Crane), p. 32.

<sup>42</sup> PWSB Exhibit 8 (Rebuttal Testimony of Christopher P. N. Woodcock) p. 3.

<sup>43</sup> Id. at 16.

In her Rebuttal, Ms. Marchand explained that an Operating Revenue Allowance equal to 1.5% of operating expenses provides 5.5 days of operating income. She claimed that in the event of increased operating expenses, the allowance could be depleted quickly. She pointed to several Rate Year expenses that were estimated and those actual costs could ultimately be higher than the estimate. Some expenses she identified are health insurance costs, workers' compensation costs, State Municipal Employees Retirement System contributions, overtime, police payroll, rate case expense, equipment and maintenance contracts, fuel and Central Falls expenses.<sup>44</sup>

Ms. Crane continued to voice her opposition to a 5% Operating Revenue Allowance in her Surrebuttal Testimony. She again pointed out that PWSB was seeking more than \$950,000 for "unspecified costs".<sup>45</sup> In response to Mr. Woodcock's argument that PWSB faces a financial hardship in the form of regulatory lag, she stated that regulatory lag impacts all utilities and that it would be inappropriate to allow PWSB to use it as an excuse to inflate rates. She again voiced her belief that the O&M Reserve can be used to cover occasional revenue shortfalls. She also pointed out that if PWSB were to experience a revenue shortfall or increased costs, they have the ability to file a rate case at their discretion. She stated that rather than build a 5% "cushion" into rate, it is more reasonable to determine the most appropriate rates based on good ratemaking practice and sound principle.<sup>46</sup> Her final comments on this matter in Surrebuttal were that to set a 5% Operating Revenue Allowance would set a dangerous precedent for all utilities, not just municipal water utilities.

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<sup>44</sup> PWSB Exhibit 7 (Rebuttal Testimony of Pamela M. Marchand) p. 16.

<sup>45</sup> Division Exhibit 3 (Surrebuttal Testimony of Andrea C. Crane), p. 12.

<sup>46</sup> Id. at 5.

## **F. Central Falls**

Ms. Marchand explained that given the manner in which the PWSB and Central Falls' water systems were constructed, it would be advantageous to both groups of customers for PWSB to acquire the Central Falls system. She noted that progress had been made toward this end. Both the City of Pawtucket and the City of Central Falls had agreed to two purchase scenarios. Further negotiations would be necessary to effectuate the sale, but she hoped such a sale and transfer of operations would be completed by July 1, 2006. The funds for the sale would be made up of EPA grants and accumulated franchise fees collected after the expiration of the required franchise payments from PWSB to Central Falls.<sup>47</sup> Ms. Marchand noted that the increased O&M costs, including employees and equipment, would roughly equal the franchise fee being collected through rates.<sup>48</sup> Mr. Benson indicated that the costs would relate to an additional crew, a new service truck, and tools and other supplies for the new crew, and additional Transmission and Distribution expenses.<sup>49</sup>

## **G. Electricity**

Mr. Woodcock noted that in setting the pro forma electricity costs, he utilized an inflation rate of 7% compounded for the difference between the Test Year and Rate Year due to the increasing cost of energy during the recent period.<sup>50</sup>

## **H. Restricted Accounts**

Mr. Benson stated that the Debt Service and O&M Accounts had been fully funded, but the remainder of the restricted accounts were funded at a ratable share of

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<sup>47</sup> Id. at 20-21.

<sup>48</sup> Id. at 22.

<sup>49</sup> PWSB Exhibit 3 (Pre-filed Testimony of Robert Benson), pp. 7-8.

<sup>50</sup> PWSB Exhibit 8 (Pre-filed Testimony of Christopher P.N. Woodcock), p. 9.

collected revenues in accordance with the sequencing requirements of the Trust Indentures from the Rhode Island Clean Water Finance Agency Revenue Bonds.<sup>51</sup> As a result of timing and consumption, the restricted accounts had not been fully funded.<sup>52</sup>

## **V. Hearing**

Duly noticed public evidentiary hearings were held at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island on September 13, 2005, September 14, 2005 and September 16, 2005 for the purpose of considering the evidence regarding PWSB's rate design and revenue requirements.

The following appearances were entered:

FOR PWSB:	Joseph Keough, Jr., Esq.
FOR CUMBERLAND:	Michael McElroy, Esq.
FOR DIVISION:	Leo Wold, Esq. Special Assistant Attorney General
FOR COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

PWSB presented Ms. Marchand, Mr. Woodcock, Mr. Bebyn, Ms. Gurghigian, and Mr. Benson for cross-examination. The Division presented Ms. Crane for cross examination.

### **A. Rate Year Consumption**

With regard to wholesale consumption, Mr. Bebyn conceded on cross examination that Cumberland's Rate Year projections were reasonable.<sup>53</sup>

Mr. Woodcock did agree that, to a certain extent, weather does impact the amount of water that is sold. However, he had not conducted studies to determine to what extent

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<sup>51</sup> PWSB Ex. 3 (Pre-Filed Testimony of Robert Benson), pp. 5-6.

<sup>52</sup> *Id.* at 6.

<sup>53</sup> Tr. 9/14/05, p. 23-24.



that is true. He agreed that other factors such as demographics, efficiency and economic activity could affect the amount of water sold.<sup>54</sup>

Ms. Crane conceded that there is not only one way to normalize a Rate Year, but stated that PWSB had done no normalizing adjustments, but simply used the Test Year consumption as its normal year. She agreed that the Commission had recently stated in a Kent County Water Authority Order that if a utility could demonstrate a clear downward trend in sales, then the Commission may depart from the typical multi-year averaging approach, but she did not concede that PWSB had made such a showing.<sup>55</sup> She did agree that there have been times in the past when the multi-year averaging approach did not represent future operating conditions.<sup>56</sup> That is why, Ms. Crane stated, it is necessary to review rainfall and other system factors in normalizing sales.<sup>57</sup> She disagreed with PWSB that just because recent projections may have been higher than actual consumption does not mean that the projections have been high when compared to usage in a normal year.<sup>58</sup> She noted that “the purpose of regulation is to overall set a revenue requirement that’s based on the best information available to provide safe and adequate service. The Commission has done that because [PWSB] has provided safe and adequate service.” She continued, noting that the revenues have not recently met the projections, but pointed out that certain expenses had been lower as well.<sup>59</sup>

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<sup>54</sup> Id. at 33-34.

<sup>55</sup> Id. at 192-93.

<sup>56</sup> Id. at 163.

<sup>57</sup> Id. at 168.

<sup>58</sup> Id. at 170-71.

<sup>59</sup> Id. at 187.

## **B. Employee Funding**

Responding to questions regarding employee funding, Ms. Marchand initially testified that the Company was requesting funding for sixty employees, 55 for the existing PWSB operations and 5 for the Central Falls operations.<sup>60</sup> She explained that after the conclusion of the prior docket, 16 employees had been transferred to EarthTech in accordance with the DBO contract.<sup>61</sup> EarthTech may reduce that number to 11 through attrition.<sup>62</sup>

On cross-examination, Ms. Crane explained that her recommendation not to fund vacant positions was not a recommendation to cut specific positions, but rather, to provide funding which recognized that there were routinely vacant positions within PWSB.<sup>63</sup>

## **C. Water Treatment Reserve Account**

Responding to questions regarding the WTP Reserve, Ms. Marchand testified that the \$778,000 was funded in the previous rate case was for long-term operation of the existing Water Treatment Plant. However, as of the date of the hearing, only \$5,450 had been spent because of the transfer of treatment plant operations to EarthTech.<sup>64</sup> Ms. Marchand testified that at the time of the filing of the prior docket, she did not know when the EarthTech contract would be finalized. She had no response when questioned about the fact that at the time of the hearings on that matter, a contract was imminent. However, she did indicate that she was not 100 percent certain that the contract would go through until after the issuance of the Commission's Order in the prior docket. When

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<sup>60</sup> Tr. 9/13/05, pp. 73, 98.

<sup>61</sup> Id. at 75, 139.

<sup>62</sup> Id. at 141.

<sup>63</sup> Id. at 196-98.

<sup>64</sup> Id. at 76.

questioned about the Commission's Order quoting her as stating that the WTP Reserve funds were required to provide additional repairs or replacements through 2005 and 2006, she stated that PWSB was "trying to get through the next couple of years."<sup>65</sup>

#### **D. Operating Revenue Allowance**

On cross examination regarding retail sales, Mr. Woodcock stated that to the best of his knowledge, the fact that actual collections had been below projections for several years did not affect the quality and reliability of service.<sup>66</sup> He also conceded that this rate case was not necessitated entirely by the reduced revenues and that a significant portion of the request was for the proposed Operating Revenue Allowance. However, he maintained that a five percent operating reserve is necessary to cover fluctuations in revenues and expenses in order to allow for long-term quality of service without the need for frequent rate changes.

Mr. Woodcock expressed interest in one idea that a five percent operating reserve be allowed, with 3.5% being restricted for the purposes of covering revenue shortfalls. He added that such an account should be allowed to grow to seven or eight percent before the Company would be required to return funds. He believed that expenses and revenues would be reviewed prior to the Company being allowed to utilize the funds, but that rates would not have to be increased.<sup>67</sup> Despite this position, Mr. Woodcock agreed that a five percent Operating Revenue Allowance would not allow PWSB to remain without a rate filing for the next 18 months.<sup>68</sup>

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<sup>65</sup> Id. at 98-101; Tr. 9/14/05, p. 12.

<sup>66</sup> Tr. 9/14/05, pp. 32-33, 51.

<sup>67</sup> Id. at 59, 61-62, 64-67, 69.

<sup>68</sup> Id. at 72

With regard to the Division's position that cash flow issues could be addressed through the use of the O&M Reserve, Mr. Woodcock stated that "[t]he O&M reserve required by the bond certainly could be used within a year to deal with fluctuation in expenses...fluctuation in expenses was [not] anything we ever had an issue with."<sup>69</sup> He indicated that the proposed Operating Revenue Allowance is meant to address fluctuations in revenues.<sup>70</sup> Ms. Gurghigian agreed with Mr. Woodcock's assessment that the O&M Reserve could be made available to address unforeseen expenditures, but reiterated that this account would have to be reimbursed before the end of the year in which the funds were withdrawn.<sup>71</sup>

Ms. Crane clarified that it was not her position that the O&M Reserve should be used to cover operating and maintenance costs on an ongoing basis. However, in noting that PWSB has never withdrawn funds from that account to make up shortfalls, she continued to maintain that those funds are available for such a purpose should it become necessary. She also acknowledged that the fund would need to be reimbursed by the end of the year in which it was utilized.<sup>72</sup>

Furthermore, she stated that because Mr. Woodcock had testified that PWSB would be seeking another rate increase within the next 12 to 18 months and that service had not suffered in the past, now was not the time to be allowing a five percent Operating Revenue Allowance.<sup>73</sup> She expressed concern with PWSB's request for \$950,000 of what she termed "unfettered revenue." She explained that the Company is allowed rates that are expected to cover a certain level of projected expenses and that those rates are

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<sup>69</sup> Id. at 82.

<sup>70</sup> Id.

<sup>71</sup> Id. at 94.

<sup>72</sup> Id. at 157, 201-02.

<sup>73</sup> Id. at 158.

expected to match the overall level of expenses that will need to be met, but, with the exception of restricted accounts, line item expenses are not approved and overall, rates are not supposed to be designed with guarantees, even with an investor-owned utility.<sup>74</sup> She again noted that the Company had been providing safe and adequate service.

With regard to the proposal to provide a five percent operating reserve and restrict 3.5% in order to cover revenue shortfalls, Ms. Crane expressed concern that such a methodology would look at only revenues and not expenses. She stated that “you could have a situation where revenues are down but expenses are down as well for whatever reason and it just wouldn’t be reasonable to ask ratepayers to pay higher rates under that scenario.”<sup>75</sup> She also expressed concern that the practice of funding restricted accounts may not result in the funds being available at the time they are needed.<sup>76</sup> Finally, she noted that based on public comment, ratepayers expect to pay for the cost of the water provided and not an inflated rate in order to provide a cushion.<sup>77</sup>

### **E. Central Falls**

Ms. Marchand explained that no additional funds had been requested for the purchase of the Central Falls distribution system. She noted that the Memorandum of Understanding contained a provision that would exempt PWSB from paying taxes on the water mains after the purchase.<sup>78</sup> On cross-examination, she agreed that the five employees dedicated to the Central Falls system would not be required until the date of the purchase, expected to occur in July 2006.<sup>79</sup> She agreed to deposit funds associated

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<sup>74</sup> Id. at 205-07, 218.

<sup>75</sup> Id. at 220-21.

<sup>76</sup> Id. at 221.

<sup>77</sup> Id. at 222.

<sup>78</sup> Tr. 9/13/05, p. 86.

<sup>79</sup> Id. at 82.

with the five employees into a restricted account until such time as the purchase was completed and the employees needed to be hired.<sup>80</sup> She agreed that if there were additional funds available in the Central Falls Franchise Account, these could be used to offset costs associated with the crew and additional equipment.<sup>81</sup>

Responding to a question from the Bench, Ms. Marchand noted that there had been some contentiousness surrounding the purchase price of the Central Falls system. However, she noted that because of the design of the PWSB and Central Falls system, ratepayers would benefit from the purchase. She noted that the separation costs would be more than the purchase price and although there would be additional costs associated with repairing the existing Central Falls system, more potential quality and health concerns would arise from a separation.<sup>82</sup>

Ms. Marchand noted that the cost of the purchase would be funded through money in the Restricted Central Falls Account (\$550,000) and an EPA grant (\$540,000). Additionally, she had acquired another grant (\$440,000) to use toward the repairs to the Central Falls system. She opined that there were more grant funds for which PWSB would be eligible after the finalization of the transfer.<sup>83</sup>

#### **F. Electricity**

Responding to questions from the Bench regarding proposed increases to the electricity expenses, Ms. Marchand testified that PWSB was purchasing the energy portion of its electricity through competitive contract through 2008. Mr. Woodcock confirmed that his adjustment had been based on increased energy costs. He conceded

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<sup>80</sup> Id. at 89.

<sup>81</sup> Tr. 9/14/05, p. 16.

<sup>82</sup> Tr. 9/13/05, pp. 91-95, 109-15, 119-25; Tr. 9/14/05, p. 19.

<sup>83</sup> Tr. 9/13/05, pp. 110-111.

that considering PWSB's response to a Commission data request stating that the energy portion of the bill would be maintained at the same rate through 2008 and his understanding that the distribution portion of Narragansett Electric Company's charges would be frozen through 2009, he did not believe the volatility he had initially predicted would be as significant a factor during the Rate Year.<sup>84</sup>

### **G. Restricted Accounts**

In response to questioning from the Bench, Ms. Marchand agreed that it would be appropriate to create a restricted account for royalties to Calgon Corporation associated with the ultraviolet treatment technology developed by Calgon and used by EarthTech. The royalties are based on gallons treated and Ms. Marchand estimated the annual cost to be approximately \$73,000.<sup>85</sup>

With regard to the level of funding and account balances of each of the restricted accounts, Mr. Benson conceded that he could not provide an exact accounting and was working to reconcile the book balances with the actual bank balances, at which time he would make any necessary transfers.<sup>86</sup>

## **VI. Commission Findings**

Many of the issues in this case have been settled through the various parties' testimony and during the hearing and briefing process. Each side has zealously advocated for its respective position. However, there remain six areas of dispute between the parties, including (1) Rate Year Consumption, (2) Employee Funding, (3) Central Falls System, (4) Water Treatment Plant Reserve Account Funding, (5) Miscellaneous Revenue, and the (6) Operating Revenue Allowance. Therefore, the Commission is left

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<sup>84</sup> *Id.* at 136; Tr. 9/14/05, pp. 54-55.

<sup>85</sup> Tr. 9/13/05, pp. 96-97.

<sup>86</sup> Tr. 9/14/05, p. 109-10, 128-37.

to determine which positions best serve the interests of the ratepayers. An important aspect of that analysis is balancing the needs of the utility to provide sufficient amounts of potable water to its ratepayers with the desire to set the rates as low as possible. In addition, there are two issues which were raised, but need further adjustments or examination by the Commission, including funding of Electricity and a review of the Restricted Accounts.

After a review of the evidence presented, the Commission finds that PWSB has a total revenue requirement of \$17,874,873, requiring revenues from rates of \$17,539,491. This results in an increase over current rates of \$1,259,117 or 7.7%. The revenue increase shall be allocated in accordance with the rate design agreed to by PWSB and the Division, with customers experiencing rate changes between -15.54% and 19.48%. The effect on a typical residential customer, a family of four using 100HCF per year will be an increase in the annual bill of \$16.12, or 4.7%, increasing the annual bill from \$341.76 to \$357.88.<sup>87</sup>

With regard to the items in dispute, the Commission finds as follows:

**A. Rate Year Consumption**

PWSB argued that the last six years shows a clear downward trend in retail sales. Therefore, rather than using a multi-year average, PWSB based its Rate Year projection on the Test Year sales. The Division recommended using a five year average for residential and commercial consumption and for wholesale consumption and the Test Year for industrial consumption. Cumberland, the only anticipated wholesale customer in the Rate Year, provided its own projection for wholesale usage based on the fact that

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<sup>87</sup> A copy of the PUC Schedules developed as a result of the Commission's decision are attached hereto as Appendix A.



they will be performing maintenance on their system, requiring additional purchases of water from PWSB. PWSB accepted Cumberland's projection.

PWSB has shown a downward trend of retail consumption. However, the Test Year and FY 2005 were close in consumption with FY 2005 being slightly higher. Therefore, the Commission will continue to utilize an averaging approach for setting residential and commercial consumption, but will only use two years, FY 2004 and FY 2005 (3,102,347 hcf). The Commission will set Rate Year consumption for industrial users equal to the Test Year consumption for those users (1,443,090 hcf). Like PWSB, the Commission accepts Cumberland's Rate Year projection (612,000 hcf) for wholesale usage. Therefore, the Commission will base rates on a projected Rate Year consumption of 5,157,437 hcf.

## **B. Employee Funding**

### *Full Time Equivalents*

PWSB requested funding for sixty employees. The Division recommends funding fifty-seven employees. These numbers include the five additional employees that would be hired if PWSB completes the purchase of the Central Falls system. Based on the testimony and evidence presented by the parties, the Commission will allow funding for 57 employees including 5 new employees for Central Falls. However, the Commission is requiring PWSB to restrict the funding for the 5 new employees until the closing date of the sale. During the Rate Year, the Commission will provide six months of funding through rates for the new employees (\$172,039). The Commission notes that PWSB has requested a full year of funding in the amount of \$344,078, despite the fact that it will not need the employees until July 2006. The Commission rejects this request.

A review of the Commission's prior orders shows that the Commission expected PWSB to have 48 funded full time positions following the transfer of the water treatment plant to the DBO vendor. The Commission expected PWSB to hire a Source Water Manager and Source Water Technician, and in fact, this was done in 2004. PWSB has also consistently requested funding for a Leak Detection Equipment Operator and the prior rate case included funding for the equipment. This totals 51 employees. In early 2005, PWSB hired a CFO, which can be justified. This brings the total to 52 employees. PWSB is fully capable of providing safe and adequate service to its existing system with 52 employees. However, once it completes the purchase of the Central Falls system, it will need 5 additional employees, for a total of 57.

#### *Temporary Employees*

PWSB requested an increase in funding for temporary employees. The Division recommended setting funding for temporary employees at the Test Year level. The Commission accepts the Division's position because there is no indication that the Test Year was abnormal as to the level of absences.

#### **C. Central Falls**

The Commission approves of the purchase of the Central Falls system at the negotiated price of \$1.1 million. This is completely consistent with the urging of the Commission over several years. The system was built as an integrated system and it would cost more to separate the systems than to have PWSB purchase it. The sale price is significantly less than the appraisal upon which Central Falls made prior demands. It is an asset of the City of Central Falls and the City cannot reasonably be expected to donate it to PWSB.

The purchase will be funded through EPA grants and through rates, but will not require an increase. PWSB has been collecting \$172,831 in rates for several years for franchise fees that it has not had to expend. By the start of FY 2007, the Company expects to have enough money in that restricted account to pay for the system. The sale is expected to take place on approximately July 1, 2006.

However, this leaves the Commission with the decision of how to treat the funds collected for franchise fees during the second half of the Rate Year (7/1/06-12/31/06) and beyond (CY 2007). During CY 2006, PWSB will collect \$172,831 for old franchise fees. It will expend approximately \$86,000 of this on the purchase of the system at mid year. This will leave a balance of approximately \$86,000 at the end of CY 2006. In CY 2007, PWSB will still be collecting these funds, which, at the end to CY 2007 would total \$172,831. PWSB shall cease collecting the franchise fees beginning January 1, 2007 and shall commence applying those funds to pay the 5 employees hired in conjunction with the purchase of the Central Falls system (\$172,831). This will allow a full year's worth of funding of these employees in rates during CY 2007, without requiring over-funding in the Rate Year.

With regard to the excess that accumulates in the franchise fee account through the end of CY 2006, in its quarterly report for the period ending December 31, 2006, PWSB shall provide the actual account balance as of December 21, 2006 and shall provide a recommendation of the application of those funds. The Commission can then dissolve the account and decide where PWSB should apply the excess funds.

The effect of the Commission adjustment is to reduce PWSB's claim for expenses by \$172,039 (the amount of the ½ year funding for the Central Falls related employees noted in the employee section, above).

**D. Water Treatment Reserve Account**

This account was established to pay for repairs to the old water treatment plant. However, PWSB has a significant portion unexpended. PWSB wishes to continue funding the account at 50% of the original amount on the basis that it could be used to dismantle the old plant and pump station. The Division recommends discontinuing funding on the basis that there should be sufficient funds in the account by the end of CY 2005 to pay for the dismantling. PWSB indicates that currently there is no money in that account, but that could be the result of a reconciliation issue which will be discussed below. The Commission accepts the Division's position.

**E. Miscellaneous Revenue**

Miscellaneous Revenue is derived from service installation fees and certain other non-service installation fees. PWSB proposes using a six year average to derive its figure. The Division recommends a 5 year average which coincided with its recommended calculation of the Rate Year consumption. The Commission accepts the Division's position. Six years provides too long of a historical period, but less than five uses figures that seem abnormally high. The effect is to increase PWSB's revenue projection by \$32,157.

**F. Electricity**

PWSB has projected a \$125,560 increase in electricity costs in pumping and purification. Mr. Woodcock testified that his adjustment was due to increased energy

costs. However, Mr. Benson's data response indicated that PWSB's energy component is under competitive contract at a fixed price through 2008. It is likely there will be a *de minimis* impact, to transmission and transition in CY 2006. Therefore, because electric distribution rates are frozen through the end of CY 2009 and any increase to PWSB is likely to be *de minimis*, the Commission is eliminating PWSB's adjustment for electricity expenses.

#### **G. Operating Revenue Allowance**

PWSB requests 5% on total revenues for a total of \$938,385. The Division recommends the continuation of 1.5% on operating expenses. PWSB's main justification is that consumption has been projected too optimistically in past rate cases and this money is needed to cover the effects of that optimism. The Commission declines to increase the Operating Revenue Allowance as requested by PWSB and accepts the Division's position. The Commission has already based rates on a Rate Year consumption that is within 6,000 hcf (equal to approximately \$18,000) of PWSB's request and that is because FY 2005 resulted in more consumption than the Test Year. As a policy matter, we believe that it is more reasonable to attempt to accurately project consumption than to provide a one million dollar slush fund to a utility the size of PWSB.

There was some discussion of allowing a 5% Operating Reserve and restricting a certain amount for the purpose of accounting for revenue shortfalls based on consumption. However, even allowing a 5% operating reserve on total revenues and restricting 3.5% of it would be dangerous because of the way restricted accounts are funded under the Trust Indenture. Such an account would be the last to be funded and funds would not necessarily be there when needed. Furthermore, it is unlikely the utility

would seek to use that money just to cover shortfalls as a result of reduced sales, but would request to use it for new projects rather than coming in for rate cases. In any rate case, the Commission's goal should be to set rates which are not designed to collect more than the Company can justify.

#### **H. Restricted Accounts**

PWSB shall restrict \$9,519,489 from rates annually to fund the following accounts: Debt Service, IFR, O&M Reserve, Capital Leases, WTP Reserve, and Central Falls Franchise Fees. PWSB should also restrict the following: Calgon Royalties Account and a Central Falls System Funds Account for tools, truck lease payments, salaries and benefits, and additional Transmission and Distribution expenses. The Central Falls System Funds Account may be unrestricted at the time of the closing on the Central Falls System purchase and shall be used for the specific purpose outlined by PWSB (\$28,163 truck lease payment; \$23,000 for tools; \$32,000 for T&D and \$172,039 for the employees).

PWSB shall notify the Commission immediately upon resolution of the Cumberland tax dispute. In the event PWSB receives a refund, it shall deposit said funds into a restricted account and provide the Commission with a recommendation regarding the disposition of said funds. For example, the money could be used for debt service rather than a direct refund to customers.

During the hearing, it became apparent that PWSB has been unable to accurately reconcile its restricted accounts for the past few years. The CFO was working on this matter and promised to provide such reconciliations to the Commission when they were complete. The estimated time of 6-8 weeks passed and the Commission sent a Post-

Hearing Request to PWSB to provide that documentation by Tuesday, November 8, 2005. The Commission received that information and staff met with the parties via teleconference to discuss the information provided. It appears that Mr. Benson is in the process of reconciling the accounts and has indicated an ability to complete the process and make all necessary transfers by December 1, 2005.<sup>88</sup> The Commission will expect PWSB to maintain communication with the Commission regarding the status of this matter. PWSB shall also provide its Annual Report for the FYE June 30, 2005 as soon as possible given the fact that it was due on or before September 30, 2005.

Accordingly, it is

(18598) ORDERED:

1. Pawtucket Water Supply Board's Application for a General Rate Increase, filed on April 11, 2005, is hereby denied and dismissed.
2. Pawtucket Water Supply Board is granted a revenue increase of \$1,259,117, for a total cost of service of \$17,874,873 to be applied to usage on and after November 11, 2005.
3. Pawtucket Water Supply Board shall restrict funds from rates for the following accounts annually: Debt Service (\$5,736,014); IFR (\$3,100,000); O&M Reserve (\$31,480); Capital Leases (\$150,962); WTP Reserve (\$0.00); Central Falls Franchise Fee (\$172,831); Calgon Royalties (\$73,000); and Central Falls System Fund (\$255,202).
4. Pawtucket Water Supply Board's Tariffs, filed on November 16, 2005, as revised on January 3, 2005, are hereby approved.

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<sup>88</sup> PWSB requested an extension of time to April 30, 2006. On May 2, 2006, PWSB requested a two-week extension. This will be the last extension granted to PWSB on this matter.

5. Pawtucket Water Supply Board shall comply with all other findings and instructions as contained in this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISIONS ON NOVEMBER 10, 2005 AND NOVEMBER 30, 2005. WRITTEN ORDER ISSUED MAY 5, 2006.

PUBLIC UTILITIES COMMISSION

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Elia Germani, Chairman

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Robert B. Holbrook, Commissioner

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\*Mary E. Bray, Commissioner

\*Commissioner Bray recused herself from this docket as a result of her position on the Pawtucket City Council.



PWSB - Rate Year

<u>Expense Item</u>	PWSB Request Rate Year <u>CY 2006</u>	PUC		PUC Allowed Rate Year <u>CY 2006</u>
		<u>Adjustments</u>	<u>Notes</u>	
<b>ADMINISTRATION</b>				
Admin Salaries	\$599,450	-\$34,152	(E)	\$565,298
Admin Overtime	\$7,952			\$7,952
Police Payroll	\$19,334			\$19,334
Out of Class Pay	\$0			\$0
Admin. Longevity	\$27,832			\$27,832
Admin. Vacation & Sick Pay	\$0			\$0
FICA Payroll Tax	\$37,595			\$37,595
Medicare Payroll Tax	\$9,211	-\$2,613	(E)	\$6,598
Health/Dental Benefits	\$724,100	-\$40,880	(E)	\$683,220
MERS Contribution	\$32,975	-\$8,024	(E)	\$24,951
Education & Training	\$14,850			\$14,850
Outside Services	\$120,628			\$120,628
Pagers/Cell Phones	\$18,044			\$18,044
Maint. of Gen'l Plant	\$19,629			\$19,629
Repairs & Main/water plant	\$1,666			\$1,666
Telephone	\$13,472			\$13,472
Heating Fuel	\$22,313			\$22,313
Other Utilities	\$2,667			\$2,667
Unemployment Insurance	\$4,584			\$4,584
Workers Compensation	\$98,323	-\$5,960	(E)	\$92,363
Property Insurance	\$139,851			\$139,851
Advertising/Classified	\$10,094			\$10,094
Printing	\$8,582			\$8,582
Dues & Subscriptions	\$19,834			\$19,834
Office Supplies/Other	\$18,560			\$18,560
Postage	\$13,000			\$13,000
Housekeeping Supplies	\$8,274			\$8,274
Municipal Charges	\$144,926			\$144,926
Capitalized Materials	\$48,142			\$48,142
Materials & Supplies	\$1,832			\$1,832
Bad Debt Expense	\$0			\$0
Damage Claims	\$7,976			\$7,976
Bond Trustee Fees	\$13,000			\$13,000
Cent Falls Franch. Fee/Purchase	\$172,831			\$172,831
Regulatory Comm. Expense	\$173,333			\$173,333
Other Miscellaneous	<u>\$10,511</u>			\$10,511
<b>Subtotal - Admin</b>	<b>\$2,565,371</b>	<b>-\$91,629</b>		<b>\$2,473,742</b>
<b>CUSTOMER SERVICE</b>				
Payroll	\$135,161			\$135,161
Overtime	\$2,514			\$2,514

PWSB - Rate Year

<u>Expense Item</u>	PWSB Request Rate Year <u>CY 2006</u>	PUC <u>Adjustments</u> <u>Notes</u>	PUC Allowed Rate Year <u>CY 2006</u>
Out of Class Pay	\$627		\$627
Longevity	\$6,888		\$6,888
Vacation & Sick Time	\$0		\$0
FICA	\$9,002		\$9,002
Medicare	\$2,105		\$2,105
MERS Contribution	\$7,731		\$7,731
Education & Training	\$3,075		\$3,075
Outside Services	\$16,907		\$16,907
Vehicle Maint - Fuel & Misc.	\$2,101		\$2,101
Main. of Misc Equipment	\$1,262		\$1,262
Telephone	\$1,369		\$1,369
Other Utilities	\$0		\$0
Printing	\$17,128		\$17,128
Dues & Subscriptions	\$0		\$0
Postage	\$27,486		\$27,486
Miscellaneous Supplies	\$138		\$138
Other Misc.	<u>\$1,890</u>		\$1,890
<b>Subtotal - Customer Accts</b>	<b>\$235,384</b>	<b>\$0</b>	<b>\$235,384</b>
SOURCE OF SUPPLY			
Salaries	\$145,624		\$145,624
Overtime	\$0		\$0
Source of Supply Beeper	\$2,175		\$2,175
Longevity	\$12,299		\$12,299
Vacation & Sick Time	\$0		\$0
FICA	\$9,926		\$9,926
Medicare Payroll Tax	\$2,321		\$2,321
MERS Contribution	\$8,113		\$8,113
Education Training	\$2,000		\$2,000
Security Services	\$66,060		\$66,060
Vehicle Maint - Fuel & Misc.	\$2,000		\$2,000
Maint of Structures	\$7,010		\$7,010
Maint - Collection Reservoirs	\$130,500		\$130,500
Maint - Wells	\$0		\$0
Maint - Misc. Plant	\$1,000		\$1,000
Maint - Wells & Springs	\$0		\$0
Light & Power	\$28,290		\$28,290
Other Utilities	\$0		\$0
Materials & Supplies	\$6,739		\$6,739
Property Tax	\$271,326		\$271,326
Miscellaneous	<u>\$7,152</u>		\$7,152
<b>Subtotal - Supply</b>	<b>\$702,536</b>	<b>\$0</b>	<b>\$702,536</b>

**PWSB - Rate Year**

<u>Expense Item</u>	PWSB Request Rate Year <u>CY 2006</u>	PUC <u>Adjustments</u>	<u>Notes</u>	PUC Allowed Rate Year <u>CY 2006</u>
<b>PUMPING</b>				
Salaries	\$0			\$0
Overtime	\$0			\$0
Longevity	\$0			\$0
Vacation & Sick Time	\$0			\$0
FICA	\$0			\$0
Medicare Payroll Tax	\$0			\$0
MERS Contribution	\$0			\$0
Maint - Structures & Improvmnt	\$0			\$0
Maint - Water Treatment Plant	\$0			\$0
Maint - Equipment	\$0			\$0
Plant Maintenance	\$0			\$0
Telephone	\$0			\$0
Heating	\$0			\$0
Purchased Power	\$564,045	-\$87,774 (B)		\$476,271
Depreciation	\$0			\$0
Property Tax	\$4,404			\$4,404
Miscellaneous	<u>\$0</u>			\$0
<b>Subtotal - Pumping</b>	<b>\$568,449</b>	<b>-\$87,774</b>		<b>\$480,675</b>
<b>PURIFICATION</b>				
DBO O&M Contract	\$1,559,852			\$1,559,852
Overtime	\$0			\$0
Out of Class Pay	\$0			\$0
Beeper Stipend	\$0			\$0
Longevity	\$0			\$0
Vacation & Sick Time	\$0			\$0
FICA	\$0			\$0
Medicare	\$0			\$0
MERS Contribution	\$0			\$0
Education & Training	\$0			\$0
Lab Testing	\$0			\$0
Vehicle Maint - Tires	\$0			\$0
Vehicle Maint - Batteries	\$0			\$0
Vehicle Maint - Outside Parts	\$0			\$0
Vehicle Maint - Fuel & Misc	\$0			\$0
Maint - Structures	\$0			\$0
Maint - Distrib. Reservoirs	\$0			\$0
Maint - Wells	\$0			\$0
Maint - Equipment	\$0			\$0
Maint - Facilities	\$0			\$0
Telephone	\$0			\$0

PWSB - Rate Year

<u>Expense Item</u>	PWSB Request	PUC		PUC Allowed
	Rate Year <u>CY 2006</u>	<u>Adjustments</u>	<u>Notes</u>	Rate Year <u>CY 2006</u>
Light & Power	\$210,263	-\$37,786	(C)	\$172,477
Heating	\$0			\$0
Other Utilities	\$0			\$0
Advertising/Classified	\$0			\$0
Dues & Subscriptions	\$0			\$0
Office Supplies	\$0			\$0
Postage	\$0			\$0
Materials & Supplies	\$0			\$0
Chemicals	\$0			\$0
Depreciation	\$0			\$0
Property Tax	\$128,201			\$128,201
Other Miscellaneous	<u>\$0</u>			\$0
<b>Subtotal - Purification</b>	<b>\$1,898,317</b>	<b>-\$37,786</b>		<b>\$1,860,531</b>
<b>TRANSMISSION &amp; DISTRIBUTION</b>				
Payroll	\$903,347	-\$157,168	(E) (F)	\$746,179
Overtime	\$98,362			\$98,362
Out of Class Pay	\$2,091			\$2,091
Beeper Stipend	\$7,611			\$7,611
Longevity	\$55,191	-\$3,317	(E)	\$51,874
Vacation & Sick Time	\$54,298			\$54,298
FICA	\$65,009	-\$8,427	(E)	\$56,582
Medicare	\$16,253			\$16,253
MERS Contribution	\$50,537			\$50,537
Education & Training	\$7,237			\$7,237
Vehicle Maint-Registration	\$102			\$102
Vehicle Maint - Inspection	\$653			\$653
Vehicle Maint - Tires	\$935			\$935
Vehicle Maint - Batteries	\$0			\$0
Vehicle Maint - Outside Parts	\$33,656			\$33,656
Vehicle Maint - Fuel & Misc	\$18,707			\$18,707
Maint - Misc Plant	\$2,967			\$2,967
Maint - T&D Mains	\$20,786			\$20,786
Maint - Services	\$11,940			\$11,940
Maint - Hydrants	\$4,525			\$4,525
Telephone	\$2,053			\$2,053
Advertising & Classified	\$1,567			\$1,567
Dues & Subscriptions	\$32			\$32
Postage	-\$526			-\$526
Capitalized Materials	\$0			\$0
Misc. Tools & Supplies/Inventory	\$46,634			\$46,634
Inventory Water Material	\$5,748			\$5,748

PWSB - Rate Year

<u>Expense Item</u>	PWSB Request	PUC		PUC Allowed
	Rate Year <u>CY 2006</u>	<u>Adjustments</u>	<u>Notes</u>	Rate Year <u>CY 2006</u>
Road Surface Restoration	\$0			\$0
Other Misc Supplies	\$928			\$928
Central Falls System Operations	\$398,667	-\$172,039	(D)	\$226,628
Property Tax	\$421,906			\$421,906
Other Miscellaneous	<u>\$30,972</u>			\$30,972
<b>Subtotal - T&amp;D</b>	<b>\$2,262,185</b>	<b>-\$340,951</b>		<b>\$1,921,234</b>
<b>ENGINEERING</b>				
Payroll	\$392,131			\$392,131
Overtime	\$5,687			\$5,687
Out of Class Pay	\$1,965			\$1,965
Beeper Stipend	\$0			\$0
Longevity	\$23,309			\$23,309
Vacation & Sick Time	\$6,395			\$6,395
FICA	\$26,628			\$26,628
Medicare	\$6,228			\$6,228
MERS Contribution	\$22,654			\$22,654
Education & Training	\$3,690			\$3,690
Outside Services	\$0			\$0
Vehicle Maint-Registration	\$60			\$60
Vehicle Maint - Inspec	\$81			\$81
Vehicle Maint - Tires	\$481			\$481
Vehicle Maint - Batteries	\$0			\$0
Vehicle Maint - Outside Parts	\$2,171			\$2,171
Vehicle Maint - Fuel & Misc	\$5,758			\$5,758
Maint - Misc Equipment	\$157			\$157
Telephone	\$3,422			\$3,422
Utilities Exp	\$0			\$0
Advertising and Classifieds	\$599			\$599
Printing	\$0			\$0
Dues & Subscriptions	\$37			\$37
Office Supplies & Other	\$20,642			\$20,642
Postage	\$0			\$0
Capitalized Materials	\$98			\$98
Other Misc. Expense	\$3,379			\$3,379
Miscellaneous Expense	<u>\$9,612</u>			\$9,612
<b>Subtotal - Engineering</b>	<b>\$535,183</b>	<b>\$0</b>		<b>\$535,183</b>
<b>METER DEPARTMENT</b>				
Payroll	\$386,422			\$386,422
Overtime	\$1,283			\$1,283
Out of Class Pay	\$314			\$314
Beeper Stipend	\$1,359			\$1,359

PWSB - Rate Year

<u>Expense Item</u>	PWSB Request Rate Year <u>CY 2006</u>	PUC <u>Adjustments</u> <u>Notes</u>	PUC Allowed Rate Year <u>CY 2006</u>
Longevity	\$20,110		\$20,110
Vacation & Sick Time	\$0		\$0
FICA	\$25,388		\$25,388
Medicare	\$5,938		\$5,938
MERS Contribution	\$21,447		\$21,447
Education & Training	\$682		\$682
Vehicle Maint - Inspec	\$9		\$9
Vehicle Maint - Batteries	\$0		\$0
Vehicle Maint - Tires	\$108		\$108
Vehicle Maint - Outside Parts	\$1,764		\$1,764
Vehicle Maint - Fuel & Misc	\$7,387		\$7,387
Maint - Misc Equipment	\$3,209		\$3,209
Maint - Meters	\$899		\$899
Telephone	\$1,597		\$1,597
Advertising & Classified	\$0		\$0
Travel	\$1,653		\$1,653
Supplies	\$2,918		\$2,918
Postage	\$0		\$0
Capitalized Materials	\$0		\$0
Merchandising & Jobbing	\$27,722		\$27,722
Meter Maint. Expense	\$0		\$0
Meter Reading Expense	\$5,176		\$5,176
Meter Inventory	\$721		\$721
Other Misc, Expense	\$145		\$145
<b>Subtotal - Meter Department</b>	<b>\$516,249</b>	<b>\$0</b>	<b>\$516,249</b>
CAPITAL EXPENSE			
PBA Misc. Exp.	\$0		\$0
CWFA Fees	\$0		\$0
Restrict. Bond Principal & Interest	\$5,736,014		\$5,736,014
Lease Principal	\$135,729		\$135,729
Lease Interest	\$15,233		\$15,233
Capitalized Labor	\$0		\$0
Capitalized Material & Supply	\$0		\$0
IFR	\$3,100,000		\$3,100,000
WRB - Settlement	\$0		\$0
Cent Falls Franch. Fee Settlement	\$0		\$0
Lead Pipe Replacement	\$0		\$0
T&D Replacement	\$0		\$0
Rate Stabiliz/Capital Program	\$0		\$0
O&M Reserve Deposit	\$108,055	-\$76,575 (G)	\$31,480
R & R Reserve Deposit	\$0		\$0

5/5/2006

PWSB - Rate Year

<u>Expense Item</u>	PWSB Request Rate Year <u>CY 2006</u>	PUC Adjustments	Notes	PUC Allowed Rate Year <u>CY 2006</u>
WTP Reserve	\$389,000	-\$389,000	(A)	\$0
<b>Subtotal - Capital</b>	<b><u>\$9,484,032</u></b>	<b><u>-\$465,575</u></b>		<b><u>\$9,018,457</u></b>
TOTAL EXPENSES	\$18,767,705	-\$1,023,715		\$17,743,990
PLUS: Operating Rev Allow	\$938,385	-\$807,502	(H)	\$130,883
LESS: Service Instal Revenue	-\$106,352	-\$32,157	(I)	-\$138,509
LESS: State Surcharge Revenue	-\$64,364	\$0		-\$64,364
LESS: MISC. REVENUES	<u>-\$132,509</u>	<u>\$0</u>		<u>-\$132,509</u>
REQUIRED FROM RATES	\$19,402,865	-\$1,863,374		\$17,539,491

**PWSB Rate Year**  
**Notes**

- (A)** To remove requested increase of \$389,000 for water treatment reserve
- (B)** To remove requested increase of \$87,774 for Purchased Power  
Comm Data Request 2-4 provides evidence that PWSB has a fixed rate power contract through 2008
- (C)** To remove requested increase of \$37,786 for Purchased Power  
Comm Data Request 2-4 provides evidence that PWSB has a fixed rate power contract through 2008
- (D)** To remove \$172,039 (6 months salary / fringe / benefits) of new Central Falls employees as PWSB is not expected to purchase Central Falls System until July 2006.
- (E)** To reflect 3 vacancies in the Administration and T&D Departments per Division recommendation Crane Brief Sch ACC-8
- (F)** To remove \$50,324 of Temporary Labor as per Division Brief (Crane Brief Sch ACC-9)
- (G)** To adjust O&M Reserve deposit funding based on PUC allowed expenses
- (H)** To Adjust Operating Revenue Allowance to 1.5% of Operating Expense
- (I)** To adjust Miscellaneous Revenue to Division Position



**COMPARISON OF CURRENT & COST OF SERVICE RATES**

		<u>Current (4/1/05)</u>	<u>Cost of Service</u>	<u>% Change</u>
<u>Metered Rates</u>				
Small (5/8 - 1")		\$2.571	\$2.903	12.9%
Medium (1.5 - 2" & By pass)		\$2.395	\$2.709	13.1%
Large (3" and up)		\$2.265	\$2.544	12.3%
Extra Large		\$2.120	\$2.544	20.0%
<u>Wholesale</u>		\$2.132	\$2.217	4.0%
<u>Service Charges</u>				
Quarterly	5/8	\$21.16	\$16.89	-20.2%
	3/4	\$26.49	\$21.84	-17.6%
	1	\$36.73	\$29.72	-19.1%
	1 1/2	\$73.71	\$56.29	-23.6%
	2	\$117.78	\$71.87	-39.0%
	3	\$235.67	\$81.03	-65.6%
	4	\$368.37	\$183.66	-50.1%
	6	\$736.63	\$273.47	-62.9%
	8	\$1,694.23	\$388.93	-77.0%
	Monthly	5/8	\$11.99	\$8.34
3/4		\$13.76	\$9.99	-27.4%
1		\$16.57	\$12.61	-23.9%
1 1/2		\$26.09	\$21.47	-17.7%
2		\$39.26	\$26.66	-32.1%
3		\$78.56	\$29.72	-62.2%
4		\$122.79	\$63.93	-47.9%
6		\$245.54	\$93.86	-61.8%
8		\$564.74	\$132.35	-76.6%
<u>Fire Service (annual)</u>				
Public	/hydrant/yr	\$527.50	\$629.93	19.4%
Private	2	\$189.95	\$185.92	-2.1%
	4	\$449.20	\$523.75	16.6%
	6	\$734.00	\$876.95	19.5%
	8	\$1,641.76	\$1,386.65	-15.5%
	10	\$2,712.50	\$1,715.05	-36.8%
	12	\$4,354.30	\$2,170.20	-50.2%

**IMPACT OF COST OF SERVICE RATES**  
(quarterly bills unless otherwise noted)

METER SIZE	QUARTERLY USE - CU FT	CURRENT RATES	<----- COST OF SERVICE ----->		
			NEW BILL	\$ INCREASE	% INCREASE
<u>Metered Service (Quarterly Bills)</u>					
Small					
5/8	2,000	\$72.58	\$74.95	\$2.37	3.27%
<b>5/8</b>	<b>2,500</b>	<b>\$85.44</b>	<b>\$89.47</b>	<b>\$4.03</b>	<b>4.72%</b>
5/8	4,000	\$124.00	\$133.01	\$9.01	7.27%
5/8	5,000	\$149.71	\$162.04	\$12.33	8.24%
5/8	7,500	\$213.99	\$234.62	\$20.63	9.64%
5/8	10,000	\$278.26	\$307.19	\$28.93	10.40%
5/8	15,000	\$406.81	\$452.34	\$45.53	11.19%
5/8	20,000	\$535.36	\$597.49	\$62.13	11.61%
5/8	25,000	\$663.91	\$742.64	\$78.73	11.86%
1	30,000	\$808.03	\$900.62	\$92.59	11.46%
1	40,000	\$1,065.13	\$1,190.92	\$125.79	11.81%
1	75,000	\$1,964.98	\$2,206.97	\$241.99	12.32%
Medium					
1 1/2	100,000	\$2,468.71	\$2,765.29	\$296.58	12.01%
1 1/2	200,000	\$4,863.71	\$5,474.29	\$610.58	12.55%
2	300,000	\$7,302.78	\$8,198.87	\$896.09	12.27%
2	400,000	\$9,697.78	\$10,907.87	\$1,210.09	12.48%
Large					
3	250,000	\$5,898.17	\$6,441.03	\$542.86	9.20%
3	500,000	\$11,560.67	\$12,801.03	\$1,240.36	10.73%
4	750,000	\$17,355.87	\$19,263.66	\$1,907.79	10.99%
6	1,000,000	\$21,936.63	\$25,713.47	\$3,776.84	17.22%
6	3,000,000	\$64,336.63	\$76,593.47	\$12,256.84	19.05%
<u>Fire Service (Annual Bill)</u>					
Municipal Fire Service	200 hydrants	\$105,500.00	\$125,986.00	\$20,486.00	19.42%
	1400 hydrants	\$738,500.00	\$881,902.00	\$143,402.00	19.42%
Private Fire Service	4 Inch Service	\$449.20	\$523.75	\$74.55	16.60%
	6 Inch Service	\$734.00	\$876.95	\$142.95	19.48%
	8 Inch Service	\$1,641.76	\$1,386.65	-\$255.11	-15.54%

**REVENUE RECONCILIATION**

<b>Service Charge:</b>		<----- Current ----->		<---- Cost of Service ----->	
<u>Quarterly</u>	<u>Number</u>	<u>Rate</u>	<u>Revenue</u>	<u>Rate</u>	<u>Revenue</u>
5/8	21,243	\$21.16	\$1,798,008	\$16.89	\$1,435,177
3/4	239	\$26.49	\$25,324	\$21.84	\$20,879
1	474	\$36.73	\$69,640	\$29.72	\$56,349
1 1/2	230	\$73.71	\$67,813	\$56.29	\$51,787
2	374	\$117.78	\$176,199	\$71.87	\$107,518
3	24	\$235.67	\$22,624	\$81.03	\$7,779
4	10	\$368.37	\$14,735	\$183.66	\$7,346
6	4	\$736.63	\$11,786	\$273.47	\$4,376
8	0	\$1,694.23	\$0	\$388.93	\$0
<u>Monthly</u>					
5/8	8	\$11.99	\$1,151	\$8.34	\$801
3/4	4	\$13.76	\$660	\$9.99	\$480
1	11	\$16.57	\$2,187	\$12.61	\$1,665
1 1/2	6	\$26.09	\$1,878	\$21.47	\$1,546
2	28	\$39.26	\$13,191	\$26.66	\$8,958
3	16	\$78.56	\$15,084	\$29.72	\$5,706
4	6	\$122.79	\$8,841	\$63.93	\$4,603
6	3	\$245.54	\$8,839	\$93.86	\$3,379
8	0	\$564.74	\$0	\$132.35	\$0
<b>Consumption Charge:</b>					
Small (5/8 - 1")	3,102,347	\$2.571	\$7,976,134	\$2.903	\$9,006,113
Medium (1.5 - 2" & By p	763,379	\$2.395	\$1,828,293	\$2.709	\$2,067,994
Large (3" and up)	367,351	\$2.265	\$832,050	\$2.544	\$934,541
Extra Large	312,360	\$2.120	\$662,203	\$2.544	\$794,644
<u>Wholesale</u>	612,000	\$2.132	\$1,304,784	\$2.217	\$1,356,804

**REVENUE RECONCILIATION**

		<u>&lt;----- Current -----&gt;</u>		<u>&lt;---- Cost of Service -----&gt;</u>	
<u>Fire Protection:</u>					
Public Hydrants	1,912	\$527.50	\$1,008,580	\$629.93	\$1,204,426
Private Fire Protection					
2	18	\$189.95	\$3,419	\$185.92	\$3,347
4	29	\$449.20	\$13,027	\$523.75	\$15,189
6	354	\$734.00	\$259,836	\$876.95	\$310,440
8	88	\$1,641.76	\$144,475	\$1,386.65	\$122,025
10	4	\$2,712.50	\$10,850	\$1,715.05	\$6,860
12	0	\$4,354.30	\$0	\$2,170.20	\$0
			=====		=====
Total			\$16,281,613		\$17,540,730
Plus: Misc Revenues			\$335,383		\$335,383
			=====		=====
Pro Forma Revenue			\$16,616,995		\$17,876,112
Required Revenue			\$17,874,873		\$17,874,873
Difference			-\$1,257,878		\$1,239
Increase in Revenues					\$1,259,117
Percent Increase in Total Revenues					7.6%
Percent Increase in Rate Revenues (non-misc)					7.7%