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**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**DOCKET NO. 3684**

**PROVIDENCE WATER DEPARTMENT**

**PREFILED TESTIMONY OF**

**CHRISTOPHER P.N. WOODCOCK**

**ON BEHALF OF**

**KENT COUNTY WATER AUTHORITY**

1 **Q: Please state your name and business address?**

2 A: My name is Christopher P.N. Woodcock and my business address is 18 Increase  
3 Ward Drive, Northborough, Massachusetts 01532.

4  
5 **Q: By whom are you employed and in what capacity?**

6 A: I am the President of Woodcock & Associates, Inc. a consulting firm specializing in  
7 water and wastewater rate and financial studies.

8 **Prior Experience**

9 **Q: Please describe your qualifications and experience.**

10 A: I have undergraduate degrees in Economics and in Civil Engineering from Tufts  
11 University in Medford, Massachusetts. After graduating in 1974, I was employed by  
12 the environmental consulting firm of Camp, Dresser and McKee Inc. (CDM). For  
13 approximately 18 months I worked in the firm's environmental engineering group  
14 performing such tasks as designing water distribution and transmission pipes,  
15 sewer collection and interception systems, pumping facilities and portions of a  
16 wastewater treatment facility. From approximately January 1976, I worked in the  
17 firm's management and financial consulting services group, gaining increasing re-  
18 sponsibility. At the time of my resignation, I was a corporate Vice President and  
19 appointed the leader of the group overseeing all rate and financial studies. In my  
20 career, I have worked on more than 300 water and wastewater rate and financial  
21 studies, primarily in the United States, but also for government agencies overseas.  
22 I have also worked on a number of engineering and financial feasibility studies in  
23 support of revenue bond issues, I have helped draft and review revenue bond in-  
24 dentures, and I worked on several valuation studies, capital improvement financing  
25 analyses and management audits of public works agencies. In addition to my pro-  
26 fessional experience I have also held elected and appointed positions on municipal  
27 boards overseeing public works functions.

28

29 **Q: Have you previously testified before state regulatory commissions or courts**

1       **on rate related matters?**

2 A: Yes, I have provided testimony on rate related matters before utility commissions in  
3 Rhode Island, Maine, Connecticut, New York, New Hampshire, Texas, and Alberta,  
4 Canada. I have also been retained as an expert witness on utility rate related mat-  
5 ters in proceedings in state courts in Arkansas, Florida, Massachusetts, Michigan,  
6 New Jersey, Maryland, Ohio, and Pennsylvania, as well as the Federal Court in  
7 Michigan. I have been selected to several arbitration panels related to disputes  
8 over water rates and charges, I have provided testimony on rate related matters to  
9 the Michigan and Massachusetts legislatures, and I have provided testimony at ad-  
10 ministrative hearings on a number of occasions.

11  
12 **Q: Do you belong to any professional organizations or committees?**

13 A: Yes, I am a member of the Water Environment Federation, the Rhode Island Water  
14 Works Association, the Massachusetts Water Works Association, the New England  
15 Water Works Association, and the American Water Works Association. For the Wa-  
16 ter Environment Federation, I was a member of the committee that prepared their  
17 manual on Wastewater Rates and Financing. For the New England Water Associa-  
18 tion, I am a member of the Conservation Committee and the co-chairman of the Fi-  
19 nancial Management Committee. In my capacity as Assistant Treasurer for the  
20 New England Water Works Association I also sit on the Executive Committee and  
21 the Board of Directors as well as several other administrative committees. For the  
22 American Water Works Association, I am past chairman of the Financial Manage-  
23 ment Committee and the Rates and Charges Committee that has prepared the  
24 manuals on Revenue Requirements, Water Rates, Alternative Rate Structures, and  
25 Water Rates and Related Charges. I have been reappointed to and am currently a  
26 member of the Rates & Charges Committee.

1 **Q: Please describe your role in this proceeding.**

2 A: I have been retained by the Kent County Water Authority (KCWA) to review Provi-  
3 dence Water's rate filing in Docket 3684. I had been involved in a similar capacity  
4 in a number of Providence Water's rate filings.

5

6 **Q: Would you summarize your overall findings?**

7 A: Generally I am supportive of the filing by Providence Water. There are several ar-  
8 eas that I would like to discuss where I believe revisions to the requested increase  
9 may be warranted. I also have some concerns with Providence Water's proposals  
10 to move funds in restricted accounts.

## 11 **Revenue Requirements**

12 **Q: Have you reviewed the rate year revenue requirements as proposed by Provi-  
13 dence Water?**

14 A: Yes, but I have not spent substantial time reviewing some areas that it appears the  
15 Division is considering. I am hoping to minimize some of the Authority's regulatory  
16 costs.

17

18 Mr. Edge has clearly presented the areas where Providence Water is seeking in-  
19 creases. In some data responses he has indicated areas where he will update the  
20 claim by Providence Water. The largest areas of increases are in Insurance Ex-  
21 penses, Pensions and Other Benefits, Salaries, Property Taxes, and  
22 Sludge/Chemicals. Providence Water has also presented a reduction in some re-  
23 stricted funds. I have noted that the current rates became effective January 1, 2003  
24 – nearly three years ago. Avoiding regulatory proceedings is in everyone's best in-  
25 terests.

26

27 **Q: Do you have any general comments?**

28 A: Providence Water has chosen to submit an abbreviated rate filing. For several  
29 items, Providence has asked for allowances that I do not believe fall into the "known

1 and measurable” category under the Commission’s rules; rather, I believe they fall  
2 under a “general attrition or inflation factor” that is not permitted for abbreviated fil-  
3 ings. For example, Mr. Edge had projected property tax increases from FY 2005  
4 amounts based on the maximum allowed increase of 5.5% per year. Since the filing  
5 we have the actual taxes for FY 2006 from a number of the jurisdictions that shows  
6 that the increases were not as large as projected – they were clearly not “known”  
7

8 I recognize that other water utilities have included changes that were not strictly  
9 “known and measurable” in abbreviated filings in the past and that these have been  
10 accepted. I am ***not*** suggesting that the Commission disallow them in this case ei-  
11 ther. I believe it would be helpful to Providence Water and the state’s other water  
12 utilities if the Commission clarified its position on this matter however.  
13

14 **Q: Do you have any comments on Providence Water’s proposed salary and wage**  
15 **adjustments?**

16 A: As with all water utilities, Providence Water has had some vacancies in some posi-  
17 tions. In other proceedings, the Division has typically suggested adjustments to re-  
18 flect such vacancies. As the Commission knows, I have taken the position that all  
19 valid positions should be funded – without such funding it is impossible for the water  
20 departments to ever achieve the full complement of staff they need. In the case of  
21 Providence Water there are significantly more employees (251) and expenses (over  
22 \$12 million proposed) than other water utilities in the state. This does give Provi-  
23 dence a greater degree of latitude. For example, in response to Division Data Re-  
24 quest 1-7, Providence has indicated that it was allowed funding for 248 positions yet  
25 it was able to establish 251 positions.  
26

27 Despite Providence’s demonstrated ability to work with lower employee funding, I  
28 have no problem with providing them with the full funding for all positions. To the  
29 extent that a position may be vacant for a period of time, Providence Water will

1 have some extra funds for unknown expenses and may be able to put off its next  
2 rate increase for another 2 ½ to 3 years.

3  
4 I do recommend that the Commission reduce the salary and wages claimed in this  
5 case by \$488,164 of labor costs that are capitalized. Mr. Edge appears to concur  
6 with at least some of this adjustment in his response to Division Data Request 1-9.  
7 Rather than using the \$405,532 allowed in the last case, I suggest that the full  
8 amount of \$488,164 reflected in this case be used. I also recommend that an ap-  
9 propriate level of employee benefits be added to this direct cost of capitalized labor.  
10 The pensions and other benefits on WEE-8 (\$6,813,553) equal 54% of the total pro  
11 forma (rate year) salary and wages of \$12,565,477. I therefore recommend an ad-  
12 ditional \$263,609 of benefit expenses associated with the raw salary cost of  
13 \$488,164 also be eliminated (capitalized), for a total of \$751,773 to be recovered  
14 through capital programs and not operating costs. An appropriate reduction in the  
15 1.5% operating revenue allowance should also be reflected.

16  
17 **Q: Have you reviewed the proposed allowance for Property Taxes?**

18 A: I have. In response to Division data request 1-12 (and a subsequent follow-up),  
19 Providence provided actual taxes for FY 2006 for nearly all jurisdictions. I have in-  
20 creased the FY 2006 amounts by 2.75% (half a year's maximum increase) to derive  
21 the following for CY 2006 (the rate year).

	<u>FY06 Taxes</u>	<u>CY06 Estim.</u>
Scituate	\$ 4,857,896	\$ 5,017,408
Foster	\$ 308,492	\$ 316,975
Cranston	\$ 531,738	\$ 546,361
N. Providence	\$ 224,715	\$ 230,895
Johnston	\$ 56,424	\$ 57,976
Glocester	\$ 43,112	\$ 44,298
W. Warwick	\$ 3,855	\$ 3,961
W. Glocester Fire	\$ 3,577	\$ 3,675
Harmony Fire	\$ 147	\$ 151

Chepachet Fire	\$ 145	\$ 149
Warwick	<u>\$ 21</u>	<u>\$ 21</u>
Total	\$ 6,030,122	\$ 6,221,871

1

2 This revision to the property taxes is a reduction from the amount claimed by Provi-  
3 dence Water of \$73,870.

4

5 **Q: Have you reviewed the Insurance Expenses claimed by Providence Water?**

6 A: I have briefly looked at these. In general, Providence has taken its expenses for FY  
7 2005 and increased them 10% per year for 1 ½ years to derive the rate year  
8 amount. Rather than estimating the FY 2006 amounts I suggest that the actual  
9 costs for this year (FY 2006) be used and then increased for a half year to CY 2006.  
10 At this point I do not have the actual costs but ask that these be reflected once  
11 known.

12

13 **Q: Will you summarize your recommendations on revenue requirements?**

14 A: Without having reviewed other matters that may be raised by the Division, the fol-  
15 lowing are the reductions I recommend:

16 Capitalized Labor:	\$488,164
17 Assoc. Benefits:	263,609
18 Property Taxes:	<u>73,870</u>
19 Subtotal	\$825,643
20 Oper. Rev. Allow.	<u>12,385</u>
21 Total Reduction	\$838,028

22 As discussed later in my testimony, I also believe an increase in (at least wholesale)  
23 revenues under the current rates may be appropriate, further reducing the increase  
24 needed.

1 **Restricted Funds**

2 **Q: Providence Water has asked that amounts that were restricted for the Alterna-**  
3 **tive Supply Study and the 102” Valve Replacement be moved to the restricted**  
4 **Insurance Fund. Do you agree with this request?**

5 A: I do not. While it is clear that these two restricted funds are no longer needed, I do  
6 not believe that the available funds for the Alternative Supply Study should be as-  
7 signed to the Insurance Fund. My objection goes to the manner in which these  
8 costs were allocated in the rates from the last docket. More than 46% of the costs  
9 associated with the Alternative Supply Study were allocated to wholesale custom-  
10 ers. The insurance costs were allocated differently with about half that amount as-  
11 signed to wholesale customers. Providence is looking for an increase of \$232,980  
12 for chemicals and sludge. Because these costs are allocated the same as the Al-  
13 ternative Supply Study costs, I recommend that the funds available from the Alter-  
14 native Supply Study be assigned to the Chemical account, thereby reducing the re-  
15 quest for chemicals and sludge by at least the \$150,000 allowance for that study.  
16 By assigning the costs to chemicals rather than insurance, they will go to accounts  
17 that are allocated similarly to the wholesale customers.

18

19 **Q: Isn't Providence seeking an across the board increase? How will your rec-**  
20 **ommendation impact this?**

21 A: I agree with Providence's proposal for an across the board increase, I just ask that  
22 the available restricted funds be assigned to a different account that more closely  
23 matches which customers these revenues were derived from. While it should have  
24 little impact on this filing, to the extent there are available restricted funds in the  
25 chemical account for the next rate filing (and less in the Insurance account) it may  
26 very well impact Providence's next cost allocation filing.

27

28 **Q: Do you have a similar concern with the proposal to assign the funds in the**  
29 **102” Valve Replacement Fund to the Insurance Fund?**



1 A: I do not. Because the customer classes from which these the revenues were de-  
2 rived is similar for both funds I do not have the same concern. I agree with the pro-  
3 posal that the available funds and revenues from the 102" Valve Replacement Fund  
4 be transferred to the Insurance Fund.

5 **Projected Water Sales/Revenues**

6 **Q: Do you agree with the sales and revenue projections prepared by Providence**  
7 **in this docket?**

8 A: For the Kent County Water Authority, Providence has used the test year (FY 2004)  
9 sales of 3,857,756 hundred cubic feet. KCWA's purchases for FY 2005 were  
10 higher<sup>1</sup>. A review of the response to Division data request 1-1 shows that many  
11 other wholesale customers also used higher amounts in FY 2005 than the test year.  
12 I recommend that revenues be based on the actual FY 2005 sales with the adjust-  
13 ment for reduced sales to the Bristol County Water Authority as testified to by Mr.  
14 Edge and corrected in his response to Division data request 1-3. These somewhat  
15 higher sales will result in a slight reduction of the revenue requirements.

16

17 **Q: Have you also looked at the retail sales?**

18 A: At this time, those values are not known. If they are available prior to the hearings,  
19 I suggest that these be examined as well.

20

21 **Q: Does this conclude your testimony?**

22 A: Because we do not have responses to our data requests I may have some addi-  
23 tional direct testimony. I suspect any additional matters will be minor and that sup-  
24 plemental testimony will not be needed. I suggest that any other matters that may  
25 result from those responses be covered in surrebuttal testimony if needed.

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<sup>1</sup> KCWA reports a slightly higher value than shown on Div 1-1, however this may be a timing question.