

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY :
BOARD'S APPLICATION TO CHANGE : DOCKET NO. 4061
RATE SCHEDULES :

REPORT AND ORDER

I. Introduction

On April 30, 2009, Providence Water Supply Board ("Providence Water") made an abbreviated rate filing with the Public Utilities Commission ("Commission"). The abbreviated rate filing, if approved, would result in an overall increase of 9.79 percent, increasing rates across-the-board by 10.08 percent, for a total revenue requirement of \$62,476,576, an increase of \$5,569,425. The effect on a typical residential customer using 74,800 gallons of water per year would be a rate increase of \$27.96 per year, or approximately \$6.99 per quarter. Providence Water requested an effective date of May 30, 2009. On May 26, 2009, Kent County Water Authority ("KCWA") filed a Motion to Intervene based on its status as a wholesale purchaser of water from Providence Water. No objection was filed and the Motion was granted in accordance with Rule 1.13(e) of the Commission's Rules of Practice and Procedure. On May 29, 2009, the Commission suspended the filing.

This is Providence Water's fifth request for rate adjustments in the past seven years. A brief history follows:

Docket No.	Filing Date	Effective Date	Increase Requested	Increase Allowed	Percentage Increase
4061 (Reopen) ¹	1/27/10	4/26/10	\$5,271,763	\$5,271,763	9.91%

¹ In its Motion to Reopen Docket No. 4061, Providence Water did not request any additional revenues from the revenue requirement approved on October 5, 2010. However, because of unexpected revenue

4061	4/30/09	10/5/09	\$5,569,425	\$3,355,348	5.9%
3832	3/30/07	11/1/09	\$9,688,321	\$6,935,500	13.7%
3684	6/30/05	1/1/06	\$4,957,115	\$4,065,347	9.2%
3446	7/1/02	1/1/03	\$5,448,798	\$4,658,599	11.1%

In accordance with the Commission's restrictions regarding rate design in Abbreviated Rate Filings, Providence Water filed for the increase to be applied across-the-board to all customer classes.

II. Providence Water's Pre-Filed Testimony

Providence Water submitted the Direct Pre-Filed Testimony of Pamela M. Marchand, P.E., General Manager and Harold Smith, consultant to Providence Water. Ms. Marchand provided an overview of the filing, several updates from the last filing and the general reasons for the requested increase. She indicated that the majority of the request was to meet changes in salaries and wages, employee benefits, property taxes, insurance, Infrastructure Replacement ("IFR") and increased operating reserves.² Specifically, Ms. Marchand provided updates regarding ongoing capital projects and IFR projects. She explained that Providence Water was also seeking funding through Clean Water Finance Agency ("CWFA") for projects that qualify for federal stimulus funding.³ Addressing Providence Water's progress in implementing the EPA-mandated lead replacement program, Ms. Marchand noted that the utility is required to replace approximately 1,800 services per year and in as of March 31, 2009, had replaced 5,463 at an average cost of \$3,735 per service. Additionally, she explained that Providence Water

shortfalls, Providence Water requested an increase in rates to allow it to meet its approved revenue requirement.

² Providence Water Exhibit 2 (Pre-Filed Testimony of Pamela Marchand), pp. 2-3.

³ *Id.* at 5-6, 9.

is working with the EPA to find a treatment process that will reduce the presence of lead in the water.⁴ Ms. Marchand also discussed Providence Water's request for additional funding for Providence Water's Strategic Planning Project. She indicated that the amount approved in Providence Water's last rate case was not spent in the test year.⁵ Finally, Ms. Marchand stated that Providence Water's consumption was significantly below the consumption levels calculated for the CY 2008 water rates and could be further impacted by the filing of conservation rates in 2009. Therefore, she noted that Providence Water was requesting an increase in its Operating Reserve from a total of three percent (3%) to five percent (5%), with three (3) of the five percent (5%) restricted for use when the utility experienced revenue shortfalls.⁶

Mr. Smith's testimony addressed specific adjustments related to the requested increase. Using a Test Year of FYE June 30, 2008, Mr. Smith made six normalizing adjustments, most to adjust for the funding levels approved in Docket No. 3832.⁷ Mr. Smith explained that he used the actual Test Year consumption to set the Rate Year consumption levels rather than a historical average because he stated that "with the exception of FY 2006, we have seen a steady decline in residential sales over the past five years, with the average annual percent decrease being approximately 4%."⁸ According to Mr. Smith, therefore, use of a four-year historical average would result in projected rate year sales that would not be supported by recent trends.⁹

⁴ *Id.* at 7-8..

⁵ *Id.* at 10.

⁶ *Id.*

⁷ Providence Water Exhibit 3 (Pre-Filed Testimony of Harold J. Smith), pp. 4-5.

⁸ *Id.* at 6.

⁹ *Id.*

Discussing the Rate Year of CYE December 31, 2010, Mr. Smith made adjustments to eight groups of accounts: (1) Salaries and Wages (\$377,201, reflecting contractual increases);¹⁰ (2) Property Taxes (\$550,551 based on the maximum allowable increase to the Test Year expense plus projected costs for Scituate absent approval of a Tax Treaty);¹¹ (3) Insurance expense (\$245,986 based on estimates);¹² (4) Pension and other Benefits (\$933,957, including the inclusion of \$248,180 previously disallowed by the Commission in the event the prior Commission Order is reversed);¹³ (5) Regulatory and Rate Case expense (\$171,354 based on a projected 5% increase in the Test Year expense);¹⁴ (6) Chemical and Sludge (\$691,802 based on projected costs applied to rate year consumption plus the average annual cost of a three-year sludge maintenance contract);¹⁵ (7) Contractual Services – Other (\$150,000 to cover the costs of the Strategic Plan);¹⁶ and (8) Infrastructure Replacement Fund (\$2,100,000 to cover costs of additional projects).¹⁷ In addition, Mr. Smith included an increase in the Revenue Reserve Fund to reflect the requested five percent Revenue Reserve for a total of \$2,889,816.

III. KCWA's Pre-Filed Testimony

On July 17, 2009, KCWA filed the Direct Pre-Filed Testimony of Christopher P.N. Woodcock, its consultant. Mr. Woodcock stated that in general, KCWA was not opposed to Providence Water's requested increase.¹⁸ Mr. Woodcock expressed disappointment that because Providence Water chose to file an Abbreviated rate case, it

¹⁰ *Id.* at 7-8.

¹¹ *Id.* at 8.

¹² *Id.* at 9.

¹³ *Id.* at 9-10.

¹⁴ *Id.* at 11.

¹⁵ *Id.*

¹⁶ *Id.*

¹⁷ *Id.* at 12.

¹⁸ KCWA Exhibit 1 (Pre-Filed Testimony of Christopher P.N. Woodcock), p. 4.

could not address alternative methodologies of allocating lost and unaccounted for water.¹⁹ He opined that the result is that wholesale customers pay more than they should. Finally, Mr. Woodcock specifically supported Providence Water's IFR request.²⁰

IV. Division's Pre-Filed Testimony

On July 31, 2009, the Division of Public Utilities and Carriers ("Division") filed the Direct Pre-Filed Testimony of Thomas Catlin, its consultant. Mr. Catlin recommended a total cost of service of \$59,140,521, necessitating a revenue increase of \$2,233,371, or 4.051%.²¹

In arriving at his revenue requirement, Mr. Catlin made four adjustments to Providence Water's pension and benefits expense to reflect updates provided during discovery and to reflect increases in employee health care premium co-shares.²² He also eliminated reimbursement of the retiree health care previously disallowed by the Commission.²³ He also adjusted all insurance expenses to reflect the actual premiums for FY 2010.²⁴

Mr. Catlin made adjustments to Capital Reimbursement to reflect claimed increases in benefits expense.²⁵ He adjusted Chemical expenses to reflect reduced usage of ferric sulfate and to reflect receipt of actual bid prices for 2010.²⁶ Addressing Sludge and Maintenance expense, Mr. Catlin based the rate year expense on a lower cost than Providence Water did. He noted that even if the payment was higher than he projected, Providence Water would have sufficient funds in the restricted account to cover the

¹⁹ *Id.* at 6.

²⁰ *Id.* at 7.

²¹ Division Exhibit 1 (Pre-Filed Testimony of Thomas Catlin), pp. 5, 13, TSC-1, TSC-10.

²² *Id.* at 5-6.

²³ *Id.*

²⁴ *Id.* at 7-8.

²⁵ *Id.* at 7.

²⁶ *Id.* at 8-9.

cost.²⁷ He proposed to amortize Rate Case expense over two years rather than allowing recovery in a single year as proposed by Providence Water.²⁸ Because the Scituate property tax settlement had been completed since Providence Water made its initial filing, Mr. Catlin adjusted the Property Tax expense accordingly.²⁹

Mr. Catlin proposed the Commission continue to allow a three percent (3%) operating reserve rather than the five percent (5%) requested by Providence Water. Mr. Catlin noted that Providence Water had proposed delaying implementation of conservation rates for at least two (2) years. He also noted that the existing three percent (3%) operating reserve had only been in place since the beginning of 2008, too short of a time to evaluate whether that level was reasonable. Finally, he indicated that three percent (3%) is consistent with recent decisions of the Commission in KCWA and Newport Water rate cases.³⁰

V. Providence Water's Rebuttal Testimony

On September 2, 2009, Providence Water submitted the Rebuttal Testimony of Mr. Smith and Ms. Jeanne Bondarevskis, Director of Finance. Mr. Smith conceded to three of the four adjustments Mr. Catlin made to Benefits Expense, noting that the issue of retiree health care reimbursement to the City of Providence was before the Supreme Court and arguing that it should be included in the revenue requirement.³¹ With regard to the Operating Reserve, another area of disagreement between Providence Water and the Division, Mr. Smith retained a five percent (5%) operating reserve noting that despite the fact that the implementation of conservation rates was delayed an additional two (2)

²⁷ *Id.* at 10-11.

²⁸ *Id.* at 11.

²⁹ *Id.* at 11-12.

³⁰ *Id.* at 12.

³¹ Providence Water Exhibit 5 (Rebuttal Testimony of Harold Smith), pp. 3-4.

years, recent reductions in consumption levels support the need for a higher than three percent (3%) reserve.³² Finally, Mr. Smith summarized the Division and KCWA adjustments he had incorporated into his schedules resulting in a \$1,855,526 reduction to the increase sought by Providence Water in this docket. He stated that “Providence Water is now requesting a 6.55 percent increase in rates and charges as opposed to the 10.08% increase requested in the original filing.”³³

VI. Settlement

On September 10, 2009, Providence Water entered into a Stipulation/Settlement (“Settlement”) with the Division and KCWA, wherein the parties indicated that all issues were resolved.³⁴ The parties to the Settlement agreed to additional revenues of \$3,355,348, an increase of 5.9% to support a total cost of service of \$60,262,498. Rates would be effective for usage on and after the Commission’s Open Meeting decision.³⁵

The result of the Settlement would be to set the wholesale rate at \$1,544.16 per million gallons. The retail rates under an across-the-board rate design would be as follows: residential at \$2.264 per HCF, commercial at \$2.174 per HCF, industrial at \$2.134 per HCF, and Public Fire Service at \$308.73 per hydrant. The uniform percentage rate increase would be 6.072%.³⁶

In the Settlement, Providence Water accepted all of the adjustments to benefits expense as proposed by the Division. The parties to the Settlement agreed to adjust the benefits capitalized to account for the increase in benefits expense from the test year to the rate year. Property and casualty insurance and workers’ compensation insurance

³² *Id.* at 7-8.

³³ *Id.* at 10.

³⁴ A copy of the Stipulation/Settlement is attached as Appendix A and incorporated herein by reference.

³⁵ Stipulation/Settlement, p. 1.

³⁶ *Id.* at 5.

were adjusted to reflect actual FY 2010 costs while injuries and damage expense were based on average claims paid from FY 2007 to FY 2009. Safety supplied and program expense reflects the test year expense. Chemical costs were adjusted to reflect actual bid prices received for 2010. Sludge maintenance expense was reduced to reflect an estimated reduction in the payment due in the third year. Rate case expense will be amortized over two years. Property tax expense was adjusted to recognize the reduced level of taxes that Providence Water will pay to the Town of Scituate during the rate year.³⁷

The parties to the Settlement agreed to a five percent (5%) Operating Revenue Allowance in place of the previously approved three percent (3%) Operating Revenue Allowance because of recent declines in water sales. Of the five percent (5%), one percent (1%) would remain “unrestricted for use by Providence Water in meeting expense overruns, and for revenue shortfalls of up to 0.33% of total rate revenue.” The remaining four percent (4%) would be restricted for use by Providence Water only “to cover shortfalls in Total Allowed Rate Revenue when the shortfall exceeds 0.33% of such revenue. If the shortfall exceeds 0.33% of Total Allowed Rate Revenue, Providence Water may seek recovery from the restricted portion of the Operating Reserve of the full shortfall if revenues exceed the Total Allowed Rate Revenue by more than 3%, then 50% of the amount of the revenue in excess of the Total Allowed Rate Revenue shall be deposited to the restricted portion of the Operating Reserve.”³⁸ Under the proposal, the Total Allowed Rate Revenues would be set at the rate revenues allowed in this docket and adjusted annually based on the Consumer Price Index (“CPI”) for the Northeast

³⁷ *Id.* at 2-4.

³⁸ *Id.* at 4.

compared to the 12 months ended June 30, 2009. Finally, there would be a cap on the restricted portion equal to two times the annual total Operating Revenue Allowance.³⁹

VII. Hearing

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on September 29, 2009 to assess the propriety of the Settlement.

The following appearances were entered:

FOR PROVIDENCE WATER:	Michael McElroy, Esq.
FOR KENT COUNTY WATER:	Joseph McGair, Esq.
FOR THE DIVISION:	Leo J. Wold, Esq. Assistant Attorney General
FOR THE COMMISSION:	Cynthia G. Wilson-Frias, Esq. Senior Legal Counsel

Mr. McElroy summarized the components of the Settlement before presenting the witnesses for examination by the Commission. Providence Water presented Ms. Marchand, Ms. Bondarevskis and Mr. Smith in support of the Settlement. KCWA presented Mr. Woodcock in support of the Settlement. The Division presented Mr. John Bell in support of the Settlement.⁴⁰

In response to a number of questions from the Commission related to the request for a five percent (5%) operating reserve, the witnesses discussed the apparent long-term downward trend in water sales over the past several years. The witnesses opined that the reasons for the downward trend include weather, the economic conditions in Rhode

³⁹ *Id.* at 4-5.

⁴⁰ Mr. Catlin was not available for the hearing. Therefore, John Bell, Rate Analyst V, employed by the Division, adopted Mr. Catlin's testimony in full and provided testimony at the hearing on behalf of the Division. Tr. 9/29/09 at 16.

Island, and the advancement of conservation technologies.⁴¹ Ms. Bondarevskis explained the effect of the reduced consumption on Providence Water's revenues compared to those projected in the Commission's previous rate order (Docket No. 3832), noting that in FY 2009, Providence Water had collected \$4 million less than anticipated. As she explained this is the reason Providence Water had filed for permission to transfer funds from the restricted Operating Reserve to the general operating fund. However, as Mr. Smith noted, this would not cover the full amount of the shortfall.⁴² Ms. Bondarevskis explained that a two percent (2%) restricted reserve provides one week of cushion.⁴³ Ms. Bondarevskis also stated that Providence Water's expenses have not increased, but the revenues have dropped for reasons outside of the water company's control.⁴⁴ These were reasons why Providence Water was requesting an additional two percent (2%) in the Operating Reserve.

Discussing the funding of the restricted Operating Reserve, Ms. Bondarevskis explained that based on Providence Water's various Trust Indentures, after paying the monthly operating expenses, the Operating Reserve is one of the first accounts to be funded every month after the general operating expenses. She explained that each of Providence Water's restricted accounts is funded on a "whole dollar basis" whereby the total annual requirement for each account is divided by twelve and each account is funded based on a priority contained in the Trust Indentures. As a result, while the restricted Operating Reserve was fully funded, the IFR account, being the last in the

⁴¹ Tr. 9/29/09 at 85, 97-100.

⁴² *Id.* at 79-80, 93-94. Ms. Bondarevskis also agreed that if Providence Water's request in Docket No. 3832-A to transfer funds from the Operating Reserve to Operations and create a due to Operations in the Operating Reserve of a specific amount to cover a recent shortfall in revenues, the result would be that Providence Water would be collecting funds in the future but not really depositing those funds into the Operating Reserve. *Id.* at 34.

⁴³ Tr. 9/29/09 at 36.

⁴⁴ *Id.* at 62.

priority chain, had not been fully funded for a period of time.⁴⁵ Ms. Marchand stated that because of the delays in funding of the IFR account, Providence Water was “starting to run into some serious deficits in our IFR program that are really going to affect us in the next year.”⁴⁶

In response to Commission questions regarding whether a temporary surcharge for the specific amount of the undercollection would be appropriate, the witnesses testified that while it was a feasible solution and one that has been used in the past for different water companies, it is not as desirable to the utility or the Division as an increased operating reserve. The witnesses pointed out that while it would solve the problem in a targeted manner, a surcharge has the potential to cause customer confusion. A surcharge appears as an additional line item, results in an immediate increase and has a sunset period. Furthermore, if Providence Water were to experience further undercollections, the surcharge may expire for a few months only to reappear. Thus, the parties indicated that the use of a revenue reserve would appear seamless to customers unlike a separate surcharge. Finally, there are costs associated with implementing and canceling a surcharge that would not be incurred with an additional revenue reserve.⁴⁷

However, the witnesses agreed that if the Commission approved a separate request by Providence Water in Docket No. 3832-A to transfer existing funds from the restricted operating reserve to the operating fund with the simultaneous creation of a “due to” operating fund in the operating reserve, the additional funds collected for the operating reserve in this docket would never go into the operating reserve, but rather, would go directly to the operating fund. The expenses that the additional revenues would

⁴⁵ *Id.* at 22-24, 29-33.

⁴⁶ *Id.* at 40.

⁴⁷ *Id.* at 65.

be covering would be for expenses incurred prior to the rate change approved in this docket. Furthermore, the restricted funds would still be underfunded under this scenario. The Commission questioned whether, rather than increasing the restricted operating reserve less than a year after approving a doubling of the operating reserve, it would make more sense to use the additional revenues to increase funding to the restricted accounts. Under this scenario, the restricted operating reserve would continue to be fully funded over the course of the rate year rather than being utilized for operating expenses with the operating reserve unfunded at the end of the twelve-month period. Rather, the additional funds being sought would be available for restricted account funding. Mr. Woodcock agreed that in concept, the result would be the same.⁴⁸ Ms. Marchand stated:

it would be somewhat more workable if we were more caught up with the IFR fund. I'm really concerned that we are getting too far behind to meet our obligations going forward, and only having half of that fund essentially available kind of cuts that back quite a bit as well. Going forward I think it's a great idea; but, unfortunately, we still need some mechanism to fund our IFR account."⁴⁹

Mr. Bell testified that such a course of action would not be the preferred method out of concern that further declines in revenues would still cause a shortfall in operating expenses that would not be able to be covered by an increased operating reserve.⁵⁰ Counsel for the Division stated that this proposal is contrary to the Settlement and the Division could not support it at the hearing.⁵¹

Further discussing consumption in general and the purpose of the operating reserve, the witnesses opined that there are several factors leading to reduced consumption. Ms. Bondarevskis indicated that consumption is not only down in the

⁴⁸ *Id.* at 74-76

⁴⁹ *Id.* at 77.

⁵⁰ *Id.* at 73.

⁵¹ *Id.* at 77-78.

summer, but also in the winter months, which had historically been stable.⁵² Mr. Woodcock noted that consumption in Rhode Island has shown a downward trend over the past ten years and opined that it would never rise to those levels seen eight to ten years prior.⁵³ Mr. Bell noted that the economy can affect utility usage and further, that there have been new technologies in the water industry that reduce water usage.⁵⁴ In light of these reductions, Mr. Bell likened the operating reserve to a storm fund in the electric industry whereby funds are collected to accrue for use when an event defined by the fund occurs. In this instance, it is reduced consumption, whereas the storm fund is triggered by a storm of a certain magnitude.⁵⁵ The goal of the operating reserve, he explained, is to smooth out swings in revenue.⁵⁶

Addressing whether Providence Water has engaged in cost-cutting measures, Ms. Marchand explained that the City of Providence controls negotiation of labor contracts. She clarified that Providence Water is involved in negotiations where new positions are created, but not in future raises. With regard to union concessions the City had recently obtained, Ms. Marchand explained that because employees would be repaid for four (4) furlough days in a future fiscal year, Providence Water was not included in the furloughs because there would be no guarantee the Commission would approve increased rates in the future for such repayment. However, increases to medical co-pays and delays in salary increases were applied to Providence Water.⁵⁷

⁵² *Id.* at 97.

⁵³ *Id.* at 98-100.

⁵⁴ *Id.* at 85.

⁵⁵ *Id.* at 92-93.

⁵⁶ *Id.* at 93.

⁵⁷ *Id.* at 102-06.

VIII. Commission Findings

On October 5, 2009, the Commission rendered its decision at an Open Meeting. The Commission approved the Settlement with one exception, approving the Settled Cost of Service of \$60,254,373 based on historical annual consumption, or 29,046,244 HCF, requiring a revenue increase of \$3,355,348 or 5.9% over the current Cost of Service.⁵⁸ The Commission rejected a five percent (5%) operating reserve with four percent (4%) restricted on the basis that there has not been sufficient experience with the three percent operating reserve which was instituted in Docket No. 3832.⁵⁹ However, the Commission recognized that Providence Water has been experiencing a decline in revenues resulting in inadequate IFR funding. Therefore, the Commission proposed a change to the Settlement that would retain the existing three percent (3%) operating reserve with two percent (2%) restricted,⁶⁰ but allowed Providence Water to collect an additional two percent (2%) in rates (\$92,821 per month or \$1,113,852 per year).

The purpose of this additional two percent (2%) is to require Providence Water to deposit the \$92,821 per month into its IFR account in addition to the amount that it would otherwise be depositing. The Commission also limited the amount Providence Water can collect in the IFR account from the additional revenues to \$2,500,000. The Commission computed this by determining the difference between the \$4,345,864 Providence Water

⁵⁸ Chairman Germani dissented from the majority decision because he would have approved the Settlement as filed.

⁵⁹ The Commission notes that when a utility seeks to withdraw funds from the restricted portion of the operating reserve, it is drawing funds that have been collected on a prospective basis as part of a revenue requirement and may be used to pay for expenses as a result of shortfalls in revenue. These funds are collected prospectively and utilized for expenses incurred either during the same time those charges are being incurred or at a later time. Therefore, there is no issue with retroactive ratemaking. Such would not necessarily be the case if the Commission were to allow a utility to collect through prospective rates funds to cover previously incurred expenses.

⁶⁰ The condition set forth in Order No. 19145 referencing the three percent operating reserve shall continue: "two percent of the reserve shall be restricted and may only be used to cover shortfalls in allowed revenues *upon a showing by Providence Water Supply Board* that the shortfall resulted from reduced consumption." Order No. 19145, p. 82, issued December 13, 2007) (emphasis added).

lost in fiscal year 2009 as compared to the \$1,933,548 which is currently in the operating reserve account.⁶¹ In the event Providence Water exceeds the \$2.5 million limit, it shall make a filing with the Commission for its review setting forth a recommendation for either the reallocation of the additional revenue or to institute a credit to customers.

Providence Water and Kent County Water Authority submitted a letter accepting the Commission's modification to the Settlement Agreement regarding the Operation Revenue Allowance for Providence Water, although Providence Water did express some reservations about the modification. The Division submitted a letter expressing concern and requested that the Commission reconsider its decision and approve the Settlement as filed. The Division, however, did not oppose the Commission's modification to the Settlement. At an open meeting on October 21, 2009, the Commission denied the Division's request for reconsideration by a vote of 2-1, noting that there is no evidence to support reconsideration of the Commission's decision.⁶²

IX. Motion to Reopen

On January 27, 2010, Providence Water filed a Motion to Reopen the docket and to change rates without changing the revenue requirement approved by the Commission on October 5, 2009.⁶³ Providence Water set forth as its material, unexpected change in circumstances, "the dramatic and continuing decline in consumption since the hearings

⁶¹ Because the approval included a modification, the Commission conditioned approval of the Settlement upon receipt of written confirmation from the parties that they would agree to the modification. The parties reluctantly accepted the modification in correspondence to the Commission explaining why they disagreed with it. Letter from Michael McElroy, Esq. to Luly Massaro dated 10/5/09; Letter from Leo Wold, Esq. to Luly Massaro, Esq.

⁶² Chairman Germani dissented from the majority decision because he would have approved the Settlement as filed.

⁶³ Commission Rule of Practice and Procedure 1.26(a) states in part, "...at any time after the conclusion of a hearing in a proceeding, but before the issuance of the written order, any party to the proceeding may, for good cause shown, move to reopen the proceedings for the purpose of taking additional evidence. Copies of such motion shall be served upon all participants or their attorneys of record, and shall set forth clearly the facts claimed to constitute grounds requiring reopening of the proceedings, including material changes of fact or of law alleged to have occurred since the conclusion of the hearing...."

were held in this matter on September 29, 2009.”⁶⁴ According to Providence Water, CY 2009 consumption was 25,760,032 HCF, or 11.3% less than that upon which rates were set. If approved, the average rate increase would be approximately 9.9% on each rate class. A residential customer’s annual water bill would increase by \$29.00 per year, or \$7.25 per quarter.

On February 8, 2010, the Division submitted a Memorandum from Thomas Catlin to Stephen Scialabba, Division Chief Accountant and John Bell, Rate Analyst V. After summarizing Providence Water’s Filing, Mr. Catlin concluded that Providence Water had correctly calculated the rates necessary to generate the revenue requirement the Commission approved in Docket No. 4061 based on the CY 2009 sales. On February 10, 2010, the Commission unanimously granted Providence Water’s Motion to Reopen at an open meeting, noting that an evidentiary hearing on the proposed rate change was scheduled for April 7, 2010.

A public hearing was held at the Commission’s offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on April 7, 2010, to hear evidence on Providence Water’s request to change rates.⁶⁵ The following appearances were entered:

FOR PROVIDENCE WATER: Michael McElroy, Esq.

FOR KENT COUNTY WATER: Joseph McGair, Esq.

FOR THE DIVISION: Leo J. Wold, Esq.
Assistant Attorney General

⁶⁴ Providence Water Exhibits 7, pp. 1, 2; Providence Water Exhibit 8, pp. 2, 3-4. Providence Water also discussed a recent law change, but that law change did not factor into the Commission’s consideration at the hearing or open meeting for purposes of its review of Providence Water’s Motion to Reopen and change rates. Providence Water Exhibit 7 at 3.

⁶⁵ An additional public hearing was held in Providence on April 22, 2010 for purposes of taking public comment. No members of the public appeared to speak.

FOR THE COMMISSION:

Cynthia G. Wilson-Frias, Esq.
Senior Legal Counsel

Mr. McElroy presented Ms. Bondarevskis in support of Providence Water's request. Ms. Bondarevskis provided an exhibit that the first quarter of 2010 included lower sales than the first quarter of CY 2009, 2008 or 2007. According to Ms. Bondarevskis, Providence Water has experienced the lowest sales since 1995 and specifically, from July 2009 through March 2010 in each month but two.⁶⁶ At the hearing, Ms. Bondarevskis provided documentation and discussed ways that Providence Water had cut or deferred costs in light of the reduced sales.⁶⁷ However, she stated that the cuts could not be maintained long term and suggested, as she had in past cases, that the Commission consider allocating more costs from consumption based rates to fixed rates.⁶⁸

In the event Providence Water collects more revenues than allowed, Providence Water agreed to deposit the excess revenue into the restricted revenue reserve fund and will be required to seek Commission approval for disposition of the excess. Ms. Bondarevskis stated that Providence Water would review a twelve-month period to determine whether or not this provision would be triggered. She indicated that it did not matter to Providence Water whether the twelve-month period was a calendar year or fiscal year.⁶⁹

Legal Counsel for the Division indicated that the Division did not oppose the rate change proposed by Providence Water.⁷⁰

⁶⁶ Tr. 4/7/10 at 18-22.

⁶⁷ Providence Water Exhibit 12, Tr. 4/7/10 at 22-24.

⁶⁸ Tr. 4/7/10 at 32, 36-37.

⁶⁹ Tr. 4/7/10 at 29-31.

⁷⁰ *Id.* at 50.

On April 27, 2010, at an open meeting, the Commission considered the evidence presented and unanimously approved Providence Water's proposed rate change designed to generate the revenues required to meet the revenue requirement approved by the Commission in the instant docket on October 5, 2009. The consumption period utilized for this rate change is Calendar Year 2009. The Commission finds that Providence Water met its burden of showing good cause exists for such a change by proving a material change in fact since the time of the Commission's decision less than four (4) months prior to Providence Water's Motion to Reopen and only one (1) month into the rate year. In particular, the Commission finds that at the time of the October 5, 2009 decision, further decline in consumption to the extent experienced by Providence Water was unforeseeable given the fact that Providence Water had been experiencing a decline in prior years, with the exception of 2008.

Providence Water's request in this case is reasonable in light of the fact that it was made within four (4) months of the Commission's decision setting a revenue requirement for the rate year commencing January 1, 2010 and was filed within one (1) month of the start of the rate year after Providence Water had been able to bill for a full quarter of usage under the new rates. The Commission also notes that Providence Water presented evidence that shows that it has made reasonable efforts to run the water utility within its budget, factoring in the reduced consumption. However, the Commission accepts that these reductions cannot continue indefinitely without a decline in service quality. Finally, Providence Water has agreed that in the event it collects more revenues than allowed, it will deposit the excess revenue into the restricted revenue reserve fund and will be required to seek Commission approval for disposition of the excess. For purposes

of this review, the Commission directs Providence Water to utilize the rate year as its starting point for comparison.

This docket has shown the primary challenge that faces the utilities and the regulators in setting prospective rates for water utilities in particular, namely, projecting consumption. As Mr. Bell had pointed out during the September 2009 hearings, the Commission has historically set rate year consumption based on a “normal” year. Therefore, the parties had agreed to a Settlement upon which retail consumption was based on FY 2008 consumption. Setting consumption based on a single year is fairly new to this Commission, with prior policy suggesting an averaging of several years may be more appropriate. The recent departure from the use of a historical average for setting rate year consumption in favor of the test year consumption was based on a prior finding by the Commission that it may be appropriate where a utility can show a downward trend in consumption. This Settlement also assumed a rate year wholesale consumption based on a four-year average. However, this case shows that utilities and regulators cannot predict the weather any better than weather forecasters. In this case, retail consumption based on the test year and wholesale consumption based on a historical average proved too optimistic.

While recognizing this challenge, the Commission will not use this docket as its rationale for implementing changes to water utilities’ rate design for a number of reasons: the summer of 2009 was cooler and wetter than normal, the water utilities are not all exactly alike in terms of usage data, and they have not necessarily proposed the same remedies. Finally, some of the remedies proposed are either more than incremental or may, on their face, conflict with State policy, particularly related to conservation.

Therefore, the Commission has opened a docket to review the rate design of water utilities.

Accordingly, it is hereby

(20160) ORDERED

1. Providence Water Supply Board's Rate Filing of April 30, 2009, is hereby denied and dismissed.
2. The Stipulation/Settlement filed on September 10, 2009 by and between Providence Water, Kent County Water Authority and the Division of Public Utilities and Carriers, providing for a revenue increase of \$3,355,348, total revenue of \$60,262,498, and a total cost of service of \$60,254,373, is hereby approved, with the exception of Paragraph 3.H.
3. The Providence Water Supply Board is allowed a three percent (3%) net operating reserve. Two percent (2%) of the reserve shall be restricted and may only be used to cover shortfalls in allowed revenues upon a showing by Providence Water Supply Board that the shortfall resulted from reduced consumption.
4. Providence Water Supply Board shall file its semi-annual reports no later than ninety (90) days after the respective reporting period ends.
5. Providence Water Supply Board shall continue to include in its semi-annual reports a line item that breaks out capitalized labor in its reports on IFR and CIP projects.
6. Providence Water Supply Board shall continue to include in its semi-annual reports the following: Pensions: amount of contribution, percentage

of actuarial recommendation compared to the City's and the School Department's, any changes to the pension plan, the cost of the pension contribution as a percentage of actual payroll of those who are in the pension system, and once per year, shall provide the annual report from Providence Water' actuary on the pension plan and the annual audited report on the pension plan. Retiree Health Care Reporting related to GASB 43/45 actuarial recommendations: amount of contribution, percentage of the actuary's recommendation compared to the City's and the School Department's. Any amounts allowed in rates in excess of the actual contributions shall be restricted.

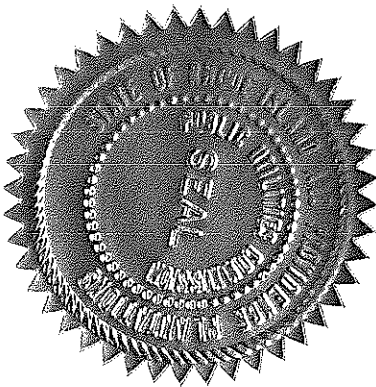
7. In Order No. 19145, Ordering Paragraph 6 stated: Out of the Property Tax Refund account, \$375,000 shall be credited to customers annually, for a total over three years of \$1,125,000. The remaining balance in the account shall be used for litigation expenses related to property tax challenges, but not increased property taxes. Funds may be expended only on invoices for services rendered on and after November 1, 2007. For purposes of the final years and pursuant to this docket, in conjunction with its semi-annual financial report, Providence Water shall continue to provide to the Commission, with a copy to the parties to this docket, a reconciliation of the activity in the account. Any future tax refunds or adjustments in Providence Water's favor shall be deposited into this account for further disposition as ordered by the Commission.

8. The Providence Water Supply Board shall continue to restrict the following accounts in the following amounts collected through rates: Capital Improvements - \$2,450,000; Western Cranston Fund - \$62,069; IFR - \$16,000,000; Meter Replacement - \$1,000,000; Insurance Fund - \$1,777,062; Chemicals and Sludge – \$2,458,942; and Equipment Replacement - \$600,000.
9. The compliance tariffs filed by the Providence Water Supply Board on are hereby approved for usage on and after October 5, 2009.
10. Providence Water Supply Board's Motion to Reopen, filed on January 27, 2010, including the rates calculated therein, is hereby approved.
11. The compliance tariffs filed by the Providence Water Supply Board on January 27, 2010 are hereby approved for usage on and after April 27, 2010.
12. The Providence Water Supply Board shall comply with the reporting requirements and all other terms and conditions imposed by the Stipulation/Settlement Agreement and this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON OCTOBER 5, 2009
PURSUANT TO OPEN MEETING DECISIONS ON OCTOBER 5, 2009 AND
OCTOBER 21, 2009.

EFFECTIVE AT WARWICK, RHODE ISLAND ON APRIL 27, 2010
PURSUANT TO OPEN MEETING DECISIONS ON FEBRUARY 10, 2010 AND
APRIL 27, 2010. WRITTEN ORDER ISSUED OCTOBER 12, 2010.

PUBLIC UTILITIES COMMISSION



*Elia Germani, Chairman


Mary E. Bray, Commissioner


Paul J. Roberti, Commissioner

*Chairman Germani dissented from the majority decisions on October 5, 2009 and October 21, 2009 because he would have approved the Settlement as filed. Chairman Germani voted with the majority on all votes related to the Motion to Reopen.

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

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY BOARD :
ABBREVIATED APPLICATION : Docket No. 4061
FOR GENERAL RATE RELIEF :

STIPULATION/SETTLEMENT

Pursuant to Rule 1.24 of the Rules of Practice and Procedure, Providence Water Supply Board ("Providence Water"), the Division of Public Utilities and Carriers (the "Division"), and the Kent County Water Authority ("KCWA") (collectively referred to herein as the "Parties"), hereby stipulate and agree as follows:

1. On or about April 30, 2009, Providence Water filed for additional revenues of \$5,569,425 (an increase of 9.79%) to support a total revenue request of \$62,476,576. However, after negotiating several issues, all Parties now agree that Providence Water may be granted additional revenues of \$3,355,348 (an increase of 5.9%) to provide total pro forma revenues of \$60,262,498, as set forth on the Schedules attached hereto and incorporated by reference herein.

2. The agreed calculations and adjustments to Providence Water's original proposal are set forth in the following Schedules:

- HJS Settlement-1. Summary of Revenues and Expenses.
- HJS Settlement-2. Summary of Settlement Adjustments.
- HJS Settlement-3. Adjustment to Pension and Benefits.
- HJS Settlement-4. Adjustment to Benefits Component of Capital Reimbursement Offset.
- HJS Settlement-5. Adjustment to Insurance Expense.
- HJS Settlement-6. Adjustment to Chemical Expense.
- HJS Settlement-7. Adjustment to Sludge Maintenance Expense.

- HJS Settlement-8. Adjustment to Rate Case Expense.
- HJS Settlement-9. Adjustment to Property Tax Expense.
- HJS Settlement-10. Calculation of Uniform Percentage Increase.
- HJS Settlement-11. Development of Proposed Rates and Proof of Revenue.
- HJS Settlement-12. Customer Bill Impacts.

3. The agreed adjustments to Providence Water's original filing are summarized in Schedules HJS Settlement-1 (Summary of Revenue and Expenses) and HJS Settlement-2 (Summary of Settlement Adjustments) attached hereto and are further explained as follows:

A. **Benefits Expense.** The Parties agree to the four adjustments suggested by the Division for benefits expense, which are: (1) updated amounts for union combined benefits, union life insurance premiums, and laborers international pension expense, to reflect the updated Union 1033 contract amounts for the rate year; (2) adjusted amounts for medical and dental insurance to reflect the actual premiums for 2010; (3) adjusted benefits expense to reflect increases in the percentage co-share of health costs by both union and non-union employees; and (4) elimination of \$248,180 included by Providence Water for reimbursement to the City of Providence for retiree health benefits because the issue of the recovery of those benefits (among other related issues), having been denied by the Commission in Docket No. 3832, Order No. 19145, are currently on appeal and pending before the Rhode Island Supreme Court in In Re: Providence Water Supply Board's Application to Change Rate Schedules No. 2007-378- M.P., and have not been decided by the Court. These adjustments are detailed on the attached Schedule HJS Settlement-3 Adjustment to Pension and Benefits Expense.

B. **Capital Reimbursement.** The Division pointed out that Providence Water's original filing failed to reflect the increase in the benefits capitalized as a result of the increases in benefits expense. Providence Water agrees that this increase should have been

reflected, and accordingly, the Parties have agreed to adjust the benefits capitalized to account for the increase in benefits expense from the test year to the rate year in the capital reimbursement component of Providence Water's requested expenses as shown on the attached Schedule HJS Settlement-4 Adjustment to Benefits Component of Capital Reimbursement Offset.

C. **Insurance Expense.** The Parties have agreed to adjust the amounts included for property and casualty insurance and workers compensation insurance to reflect the actual FY 2010 costs. For injuries and damages, the Parties have included \$60,000 by agreement based on the average claims paid for FY07 through FY09. The Parties have based the amounts for safety supplies and program expense on the expenses incurred in the test year. These adjustments are reflected on Schedule HJS Settlement-5 Adjustment to Insurance Expense.

D. **Chemical Expense.** The Parties have agreed to reduce the quantity of ferric sulfate that it is projected will be required in the rate year, and to adjust chemical costs to reflect the actual bid prices that were recently received for 2010. These adjustments are reflected on Schedule HJS Settlement-6 Adjustment to Chemical Expense.

E. **Sludge Maintenance Expense.** The Parties have agreed to a decrease in the sludge maintenance expense based on an estimated reduction in the payment due in the third year. This reduction is reflected on Schedule HJS Settlement-7 Adjustment to Sludge Maintenance Expense.

F. **Rate Case Expense.** The Parties have agreed that the cost of this rate case and Providence Water's conservation rate filing will be amortized over 2 years. This adjustment is reflected on Schedule HJS Settlement-8 Adjustment to Rate Case Expense.

G. **Property Taxes.** The Parties have agreed to adjust property tax expense to recognize the reduced level of taxes that Providence Water will pay to Scituate in the rate year

pursuant to a tax settlement with Scituate that has now been finalized. This reduction is reflected on Schedule HJS Settlement-9 Adjustment to Property Tax Expense.

H. **Operating Reserve.** Pursuant to the terms of Order No. 19145 in Docket No. 3832, Providence Water is currently allowed a 3.0% Operating Reserve (otherwise referred to herein as the "Operating Revenue Allowance"): 2% restricted and 1% unrestricted. The Parties have agreed that the existing 1% unrestricted portion of the Operating Reserve for unanticipated expenses should be retained, but that the existing 2% restricted amount for revenue shortfalls should be increased to 4%, due to reduced consumption, for a total Operating Reserve, both restricted and unrestricted, of 5%. The Parties are in agreement that recent declines in water sales have demonstrated that the current 2% restricted revenue reserve allowance is inadequate. For example, fiscal year 2009 water consumption was 8.5% below the consumption projected in Docket 3832. This resulted in a shortfall of \$4,345,864 for fiscal year 2009, but the 2% restricted revenue account for such shortfalls generated only \$1,103,696 during this period.

The Parties agree to a 5% total Operating Revenue Allowance, and of the total Operating Revenue Allowance, 1.0% shall be unrestricted for use by Providence Water in meeting expense overruns, and for revenue shortfalls of up to 0.33% of total rate revenue. The remaining 4% of the total Operating Revenue Allowance shall be restricted and may only be used to cover shortfalls in Total Allowed Rate Revenue when the shortfall exceeds 0.33% of such revenue. If the shortfall exceeds 0.33% of Total Allowed Rate Revenue, Providence Water may seek recovery from the restricted portion of the Operating Reserve of the full shortfall. If revenues exceed the Total Allowed Rate Revenue by more than 3%, then 50% of the amount of the revenue in excess of the Total Allowed Rate Revenue shall be deposited to the restricted portion of the Operating Reserve. Total Allowed Rate Revenues will initially be set at the rate revenues allowed in this proceeding. This amount shall be adjusted annually based on any increase in the

Consumer Price Index (CPI) for the Northeast compared to the 12 months ended June 30, 2009. The balance in the restricted portion of the Operating Revenue Allowance shall be limited to two times the annual total Operating Reserve Allowance. Providence Water shall file a report each year in its semi-annual report that presents the revenues for the prior fiscal year and the level of restricted Operating Reserve. If the restricted Operating Revenue Allowance balance exceeds two times the annual total Operating Revenue Allowance, the Parties will recommend to the Commission to open a proceeding to address the appropriate adjustment to Providence Water's rates. All Parties agree that this provision will not preclude any Party from taking a differing position with regard to the appropriate Operating Reserve in any future proceeding.

4. The wholesale rate is set at \$1,544.16 per million gallons.

5. The residential retail rate is set at \$2.264 per hundred cubic feet (hcf); the commercial retail rate is set at \$2.174 per hcf; and the industrial retail rate is set at \$2.134 per hcf.

6. Retail consumption is projected at 14,630,493 hcf. FY 2008 was used. Wholesale consumption is projected at 14,415,751 hcf. A four-year average (FY 2005 – FY 2008) was used.

7. The uniform percentage rate increase is 6.072 %.

8. The Public Fire Supply rate is set at \$308.73 per hydrant, and Private Fire Service rates are shown on Schedule E.

9. The impact of this settlement on customers' bills is illustrated on HJS Settlement-12 Customer Bill Impacts.

10. It is agreed that this change in rates may be implemented by Providence Water for consumption on and after approval by the Commission at Open Meeting.

11. It is agreed that all accounts restricted by previous Commission Orders shall remain restricted, except as provided herein.

12. It is agreed that Providence Water's new tariffs will be those shown as Schedules A through F inclusive, attached hereto.

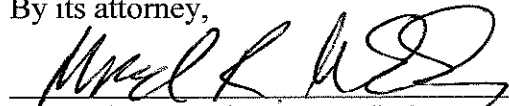
13. This Stipulation/Settlement is the result of negotiated settlement among the Parties. The agreement by the Parties to this Stipulation/Settlement shall not be construed as an agreement to any matter of fact or law addressed in this Stipulation/Settlement in any future Division or Commission proceedings, and no party, by executing this Stipulation/Settlement, is bound by any of the positions taken in this Stipulation/Settlement in any said future proceedings, and no position taken by any of the Parties to this Stipulation/Settlement on any issue is to be construed as a precedent in any future Division or Commission proceedings, nor shall it be cited as a precedent.

14. In the event the Commission rejects or fails to approve any part of this Stipulation/Settlement, the entire Stipulation/Settlement shall be void.

Executed this 10th day of September, 2009.

Providence Water Supply Board

By its attorney,



Michael R. McElroy, Esq., #2627

21 Dryden Lane

P.O. Box 6721

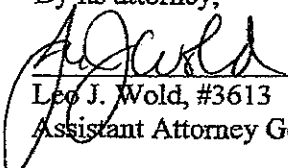
Providence, RI 02940-6721

Tel: (401) 351-4100

Fax: (401) 421-5696

Email: McElroyMik@aol.com

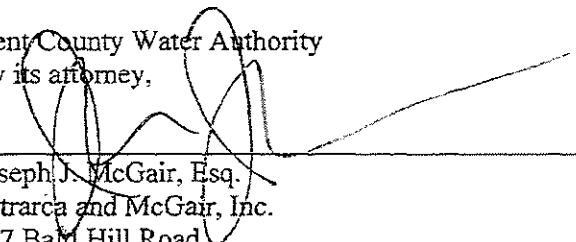
Division of Public Utilities and Carriers
By its attorney,



Leo J. Wold, #3613
Assistant Attorney General

150 South Main Street
Providence, RI 02903
Tel: (401) 274-4400, ext. 2218
Fax: (401) 222-3016

Kent County Water Authority
By its attorney,



Joseph J. McGair, Esq.
Petrarca and McGair, Inc.
797 Bald Hill Road
Warwick, RI 02886
Tel: (401) 821-1330
Fax: (401) 823-0970

PROVIDENCE WATER SUPPLY BOARD

Summary of Revenues and Expenses at
Present and Proposed Rates
Rate Year Ended December 31, 2010

	Rate Year Amount Per PWSB Original Filing	Settlement Adjustments	Rate Year at Present Rates	Increase from Present Rates	Rate Year at Proposed Rates
Revenue					
Retail Water Sales	\$30,829,934	\$ -	\$ 30,829,934	\$ 1,879,021	\$ 32,708,955
Wholesale Water Sales	15,697,498	-	15,697,498	953,156	16,650,654
Retail Service Charges	4,999,279	-	4,999,279	304,383	5,303,662
Private Fire Protection	1,833,075	-	1,833,075	111,319	1,944,394
Public Fire Protection	1,770,227	-	1,770,227	107,469	1,877,696
Miscellaneous	1,777,137	-	1,777,137	-	1,777,137
Total Revenue	\$56,907,150	\$ -	\$ 56,907,150	\$ 3,355,348	\$ 60,262,498
Expenses					
Operation & Maintenance	27,804,463	(607,968)	27,196,495	-	27,196,495
Insurance	2,144,150	(367,088)	1,777,062	-	1,777,062
Chemical & Sludge	2,874,631	(415,689)	2,458,942	-	2,458,942
City Service Expense	839,167	-	839,167	-	839,167
Property Taxes	6,779,095	(694,933)	6,084,162	-	6,084,162
Capital Reimbursement	(980,125)	(18,029)	(998,154)	-	(998,154)
Net Operations	\$39,461,381	\$ (2,103,707)	\$ 37,357,674	\$ -	\$ 37,357,674
Capital Improvements	2,450,000	-	2,450,000	-	2,450,000
Western Cranston Fund	62,069	-	62,069	-	62,069
Infrastructure Replacement	16,000,000	-	16,000,000	-	16,000,000
Meter Replacement	1,000,000	-	1,000,000	-	1,000,000
Equipment Replacement	600,000	-	600,000	-	600,000
Net Restricted	\$20,112,069	\$ -	\$ 20,112,069	\$ -	\$ 20,112,069
Total Expenses	\$59,573,450	\$ (2,103,707)	\$ 57,469,743	\$ -	\$ 57,469,743
Operating Reserve	2,889,816	(105,185)	2,784,630	-	2,784,630
Total Cost of Service	\$62,463,266	\$ (2,208,892)	\$ 60,254,373	\$ -	\$ 60,254,373
Revenue Surplus/(Deficiency)	\$ (5,556,116)	\$ 2,208,892	\$ (3,347,223)	\$ 3,355,348	\$ 8,125

PROVIDENCE WATER SUPPLY BOARD

Summary of Settlement Adjustments to
Rate Year Revenues and Expenses at Present Rates
Rate Year Ended December 31, 2010

<u>Description</u>	<u>Amount</u>	<u>Source</u>
Benefits Expense	(502,543)	Schedule HJS Settlement-3
Capital Reimbursement	(18,029)	Schedule HJS Settlement-4
Insurance Expense	(367,088)	Schedule HJS Settlement-5
Chemicals Expense	(365,689)	Schedule HJS Settlement-6
Sludge Maintenance	(50,000)	Schedule HJS Settlement-7
Rate Case Expense	(105,425)	Schedule HJS Settlement-8
Property Tax Expense	(694,933)	Schedule HJS Settlement-9
Operating Reserve	<u>(105,185)</u>	See Note (1)
Total Settlement Adjustments	<u>\$ (2,208,892)</u>	

Note:

(1) Based on 5.0% of total expenses net of miscellaneous revenue.
Adjustment due to decrease in other expenses.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Pension and Benefits Expense
Rate Year Ended December 31, 2010

Benefit Description	Test Year FY 2008 (1)	Adjustment	Pro-Forma Amount	Amount per PWSB Original Filing (1)	Adjustment
1033 Union Combined Benefits	\$ 532,995	9.68%	\$ 584,575	\$ 598,330	\$ (13,755)
Laborers International Pension	362,742	1.96%	369,855	382,302	(12,447)
Life Insurance Premium	1,845	9.68%	2,024	2,071	(47)
FICA (1)	953,638	3.0301%	982,534	982,534	-
1/2% Wage Assignment (1)	40,984	3.0301%	42,226	42,226	-
Blue Cross/United Health	2,078,214	16.08%	2,412,391	2,476,269	(63,878)
Delta Dental	224,371	8.89%	244,318	247,157	(2,839)
GASB 43/45 Reserve Required (1)	917,217	88.345	1,005,562	1,005,562	-
Reimburse City for Retired Health	-	-	-	248,180	(248,180)
City Retirement (1)	2,726,971	61.333	2,788,304	2,788,304	-
Total	\$ 7,838,977	\$ 149,678	\$ 8,431,788	\$ 8,772,935	\$ (341,147)
Plus Increase in Employee Co-Pays					(161,396)
Total Adjustment to Benefits Expense					\$ (502,543)

Notes:
(1) Per Schedule HJS-8.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Benefits Component of the
Capital Reimbursement Offset to O&M
Rate Year Ended December 31, 2010

Test Year Capitalized Benefits (1)	\$ (327,594)
Rate Year Percent Increase in Benefits Expense	<u>1.05503</u>
Capitalized Benefits in Rate Year	\$ (345,623)
Adjustment to Reflect Increase In Capitalized Benefits	<u><u>\$ (18,029)</u></u>

Notes:

(1) Per Schedule HJS-2, page 2.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Insurance Expense
Rate Year Ended December 31, 2010

	<u>FY2008 (1)</u>	<u>FY 2009</u>	<u>FY 2010</u>	<u>Rate Year Expense</u>
Property and Casualty	\$ 1,227,230	\$ 1,082,673	\$ 1,052,446	\$ 1,052,446
Workers Compensation	672,370	693,928	659,098	659,098
Old Workers Comp Claims	-	-	-	-
Injuries & Damages (4)	48,232	63,911	60,000	60,000
Safety Supplies & Other	793	793	793	793
Program Expense	<u>4,755</u>	<u>4,755</u>	<u>4,755</u>	<u>4,755</u>
Total Insurance Expense	\$ 1,953,380	\$ 1,846,060	\$ 1,777,092	\$ 1,777,092
Amount per PWSB Filing (3)				<u>2,144,180</u>
Adjustment to Rate Year Expense				<u>\$ (367,088)</u>

Notes:

(1) Per Schedule HJS-7. The amount shown for Injuries & Damages has been adjusted to exclude prior year adjustments and to reflect actual claims paid.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Chemical Expense
Rate Year Ended December 31, 2010

Chemical	Quantity Used FY 2007 (1)	Quantity Used FY 2008 (1)	Quantity Used TME 12/31/08 (1)	3 year Average	Unit Price	Rate Year Expense
Ferric Sulfate (gallons)	835,383.00	738,505.00	722,327.00	738,505.00	\$ 1.320	\$ 974,827
Lime (tons)	1,674.57	1,702.05	1,619.04	1,665.22	\$ 208.45	\$ 347,114
Chlorine (tons)	152.66	146.42	159.75	152.94	\$ 850.00	\$ 130,003
Flouride (gallons)	99,008.00	99,100.00	96,884.00	98,330.67	\$ 3.156	\$ 310,332
Projected Cost Per Settlement						\$ 1,762,275
Amount per Providence Water (1)						\$ 2,127,964
Adjustment to Rate Year Expense						\$ (365,689)

Notes:

(1) Per Schedule HJS-10A.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Sludge Maintenance Expense
Rate Year Ended December 31, 2010

	<u>Amount per PWSB (1)</u>	<u>Amount per Settlement</u>	<u>Difference</u>
Year 1	\$520,000	\$520,000	\$ -
Year 2	520,000	520,000	-
Year 3	<u>1,200,000</u>	<u>1,050,000</u>	<u>(150,000)</u>
Total	\$ 2,240,000	\$ 2,090,000	\$ (150,000)
Average Annual Expense	746,667	696,667	<u>\$ (50,000)</u>

Notes:

(1) Per response to Div 2-3.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Rate Case Expense
Rate Year Ended December 31, 2010

Rate Expense per Providence Water (1)	\$ 210,850
Rate Expense per Settlement (2)	<u>105,425</u>
Adjustment to Rate Year Expense	<u><u>\$ (105,425)</u></u>

Notes:

(1) Per Schedule HJS-9.

(2) Based on 2 year amortization period.

PROVIDENCE WATER SUPPLY BOARD

Adjustment to Property Tax Expense
Rate Year Ended December 31, 2010

<u>Municipality</u>	<u>Adjustment to Rate Year Expense</u>
Scituate Property Taxes per PWSB (1)	\$ 5,969,094
Scituate Property Taxes after Settlement (2)	<u>5,274,161</u>
Adjustment to Property Taxes	<u><u>\$ (694,933)</u></u>

Notes:

(1) Per Schedule HJS-6

(2) Per testimony of Harold J. Smith.

PROVIDENCE WATER SUPPLY BOARD

Calculation of Uniform Percentage Increase
Required to Recover Calculated Revenue Deficiency
Rate Year Ended December 31, 2010

	Amount (1)
Revenue at Existing Rates	
Retail Water Sales	\$ 30,829,934
Wholesale Water Sales	15,697,498
Retail Service Charges	4,999,279
Private Fire Protection	1,833,075
Public Fire Protection	1,770,227
Total Service Revenue	\$ 55,130,013
Revenue Deficiency per Settlement	\$ 3,347,223
Uniform Percentage Increase	<u>6.072%</u>

Note:

(1) Per Schedule HJS Settlement-1.

PROVIDENCE WATER SUPPLY BOARD

Development of Proposed Rates and
Proof of Revenue at Proposed Rates
Rate Year Ended December 31, 2010

Billing Unit	Units of Service	Current Rates	Proposed Rates	Proposed Revenues
<u>Quarterly Service Charges</u>				
5/8"	53,007	\$ 15.73	\$ 16.69	\$ 3,538,747
3/4"	10,265	16.70	17.71	727,173
1"	5,046	19.60	20.79	419,625
1.5"	1,479	23.47	24.89	147,249
2"	1,684	34.11	36.18	243,708
3"	83	112.49	119.32	39,614
4"	34	141.51	150.10	20,414
6"	69	209.25	221.95	61,258
8"	36	286.65	304.05	43,783
10"	2	356.80	378.46	3,028
12"	6	426.95	452.87	10,869
Total	71,711			\$ 5,255,469
<u>Monthly Service Charges</u>				
5/8"	-	\$ 9.28	\$ 9.84	\$ -
3/4"	-	9.60	10.18	-
1"	-	10.57	11.21	-
1.5"	2	11.86	12.58	302
2"	34	15.41	16.35	6,671
3"	11	41.53	44.05	5,815
4"	8	51.21	54.32	5,215
6"	20	73.78	78.26	18,782
8"	9	99.59	105.64	11,409
10"	-	122.97	130.44	-
12"	-	146.35	155.24	-
Total	84			\$ 48,194
Total Service Charge Revenue				\$ 5,303,662
<u>Retail Consumption Charges</u>				
Residential (HCF)	10,192,807	\$ 2.134	\$ 2.264	23,076,515
Commercial (HCF)	4,060,451	\$ 2.049	\$ 2.174	8,827,420
Industrial (HCF)	377,235	\$ 2.011	\$ 2.134	805,019
Total	14,630,493			\$ 32,708,955
<u>Wholesale Consumption Charges</u>				
Consumption (HCF)	14,415,751	\$ 1.08891	\$ 1.15503	\$ 16,650,654
	10,782.98	1,455.77	1,544.16	
<u>Private Fire Service Charges</u>				
3/4"	6	\$ 16.88	\$ 17.90	430
1"	10	20.00	21.21	848
1.5"	3	24.62	26.11	313
2"	31	36.57	38.79	4,810
4"	302	156.72	166.24	200,818
6"	1,220	253.42	268.81	1,311,793
8"	229	380.78	403.90	369,972
10"	4	526.08	558.02	8,928
12"	14	700.38	742.90	41,602
16"	1	1,149.93	1,219.75	4,879
Total	1,820			\$ 1,944,394
<u>Public Fire Service Charges</u>				
Hydrants	6,082	\$ 291.06	\$ 308.73	\$ 1,877,696
Miscellaneous Revenue				1,777,137
Total Revenue				\$ 60,262,498
Revenue Requirement				\$ 60,254,373
Difference				\$ 8,125

PROVIDENCE WATER SUPPLY BOARD

Customer Bill Impacts
Rate Year Ended December 31, 2010

	Annual Water Bill (1)				
	Current Rates	Proposed Rate	Dollar Increase	Percent Increase	
<u>Residential</u>					
100 Ccf w/ 5/8 meter					
Customer Charge	\$ 62.92	\$ 66.76	\$ 3.84		
Consumption	213.40	226.40	13.00		
Total 100 Ccf	\$ 276.32	\$ 293.16	\$ 16.84	6.09%	
<u>Commercial</u>					
2,000 Ccf w/ 2in meter					
Customer Charge	\$ 184.92	\$ 196.20	\$ 11.28		
Consumption	4,098.00	4,348.00	250.00		
Total 2000 Ccf	\$ 4,282.92	\$ 4,544.20	\$ 261.28	6.10%	
<u>Industrial</u>					
10,000 Ccf w/ 6in. meter					
Customer Charge	\$ 885.36	\$ 939.12	\$ 53.76		
Consumption	20,110.00	21,340.00	1,230.00		
Total 10,000 Ccf	\$ 20,995.36	\$ 22,279.12	\$ 1,283.76	6.11%	
<u>Industrial (Large)</u>					
50,000 Ccf w/ 10in. meter					
Customer Charge	\$ 1,475.64	\$ 1,565.28	\$ 89.64		
Consumption	100,550.00	106,700.00	6,150.00		
Total 50,000 Ccf	\$ 102,025.64	\$ 108,265.28	\$ 6,239.64	6.12%	
<u>Wholesale</u>					
400,000 Ccf	\$ 435,565.20	\$ 462,012.80	\$ 26,447.60	6.07%	
2,500,000 Ccf	\$ 2,722,282.50	\$ 2,887,580.00	\$ 165,297.50	6.07%	

(1) Assumes quarterly billing for Residential and monthly billing for Commercial, Industrial and Wholesale.

PROVIDENCE WATER SUPPLY BOARD TARIFF

Replaces Tariff
November 1, 2007

Effective: _____, 2009

RI Public Utilities Commission Docket No. 4061

TARIFF SCHEDULES

Schedule

- | | |
|---|---|
| A | Service Charges – Retail |
| B | Metered Sales – Retail |
| C | Bulk Sales to Public Authorities for Resale |
| D | Public Fire Protection |
| E | Private Fire Service |
| F | Miscellaneous Charges |

SCHEDULE A

Providence Water Supply Board Service Charges Retail

Rhode Island Public Utilities Commission Docket No. 4061

Effective: _____, 2009

Applicability

Applicable to all metered customers for industrial, commercial and residential use, exclusive of fire service connection, in the Providence Water Supply Board service area.

Rates

For each service connected to the Providence Water Supply Board mains, the following customer service charges shall apply:

<u>Size of Meter</u>	<u>Quarterly</u>	<u>Monthly</u>
5/8"	\$16.69	\$9.84
3/4	17.71	10.18
1	20.79	11.21
1 ½	24.89	12.58
2	36.18	16.35
3	119.32	44.05
4	150.10	54.32
6	221.95	78.26
8	304.05	105.64
10	378.46	130.44
12	452.87	155.24

Terms of Payment

All customer service charges may be billed quarterly or monthly and are due and payable when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE B

Providence Water Supply Board Metered Sales Retail

Rhode Island Public Utilities Commission Docket No. 4061

Effective: ____, 2009

Applicability

Applicable to all general metered water service in the Providence Water Supply Board service area.

Rates

For all quantities used, except for bulk sales to public authorities for resale, the following rates per HCF shall apply:

Quarterly Accounts

Residential	\$2.264
Commercial	\$2.174
Industrial	\$2.134

Monthly Accounts

Residential	\$2.264
Commercial	\$2.174
Industrial	\$2.134

Terms of Payment

All metered sales bills are rendered in arrears quarterly or monthly at the option of the Providence Water Supply Board and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE C

Providence Water Supply Board Bulk Sales to Public Authorities for Resale

Rhode Island Public Utilities Commission Docket No. 4061

Effective: ____, 2009

Applicability

Applicable to all public authorities in the Providence Water Supply Board service area purchasing water for resale.

Rates-Volume Charge

\$1,544.16 per million gallons, or
\$1.15503 per HCF

Terms of Payment

All bills for bulk sales are rendered monthly in arrears and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date

SCHEDULE D

Providence Water Supply Board Public Fire Protection

Rhode Island Public Utilities Commission Docket No. 4061

Effective: ____, 2009

Applicability

Applicable to all service to public fire hydrants in the Providence Water Supply Board service area.

Rates

For each hydrant: \$308.73

Terms of Payment

All bills for public fire service are rendered quarterly and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE E

Providence Water Supply Board Private Fire Service

Rhode Island Public Utilities Commission Docket No. 4061

Effective: _____, 2009

Applicability

Applicable for service to private fire protection appliances owned and maintained by the customer in the Providence Water Supply service area.

Rates

For each fire service connection to the Providence Water Supply Board mains, the following charges shall apply:

<u>Size of Service</u>	<u>Quarterly</u>
3/4"	\$17.90
1	21.21
1 ½	26.11
2	38.79
4	166.24
6	268.81
8	403.90
10	558.02
12	742.90
16	1,219.75

Terms of Payment

All bills for private fire services are rendered quarterly and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE F
PROVIDENCE WATER
TERMS & CONDITIONS
SERVICE FEE SCHEDULE
(effective ____, 2009)
page 1 of 2

NOTE: All applicants must complete financial arrangements prior to services being rendered. Applicants are responsible for obtaining and paying for all permits and any additional fees.

SERVICE	FEE
PHOTOCOPYING	
Distribution Sheet	\$ 3.00/copy
Letter or Legal Size Document	\$.15/copy
LIEN CERTIFICATE	\$ 6.00
RETURNED CHECK FEE	\$ 20.00
PLAN CHECKING/WATER AVAILABILITY REVIEW	\$ 57.00/hour
EASEMENT/ABANDONMENT REQUEST	\$ 50.00/hour
FIRE HYDRANT FLOW TEST	\$ 118.00
NEW WATER SERVICE INSTALLATION - BASIC	
1" Water Service	\$1,673.00
1 ½" Water Service	2,596.00
2" Water Service	2,931.00
4" Water Service	3,700.00
6" Water Service	3,998.00

NEW WATER SERVICE INSTALLATION - SPECIAL CIRCUMSTANCES

All services greater than 6" will be installed and charged on a time and materials basis, consistent with the methodology used in computing the above service charges. **Notwithstanding the above schedule**, any sites where special circumstances may be encountered (ie. ledge, special fittings, routing around other utilities) will also be charged on a time and materials basis. The average time rate for all manpower and equipment (including overhead) averages approximately \$400/hr.

PAVEMENT/SIDEWALK RESTORATION CHARGES

Applicants are responsible for all *actual* road and/or sidewalk restoration charges, as the charge varies with the size of the excavation and the pavement thickness. For illustrative purposes, on average, the charge is approximately \$300 for pavement restoration and \$75 for sidewalk.

**SCHEDULE F
PROVIDENCE WATER
TERMS & CONDITIONS
SERVICE FEE SCHEDULE
(effective _____, 2009)
page 2 of 2**

SERVICE	FEE
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POLICE DETAILS

If the work being performed presents a safety hazard and it is necessary to employ police details for traffic control, the applicant will be responsible for such costs at the then current rate of the respective Town or City. For illustrative purposes, the hourly detail rates as of January 31, 2007 are as follows:

Cranston	\$37.11
Johnston	40.05
North Providence	37.00
Providence	42.92

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NEW WATER METER INSTALLATION - INCLUDING ERT

5/8" Meter	\$ 184.00
3/4" Meter	230.00
1" Meter	266.00
1 ½" Meter	457.00
2" Meter	545.00

All meters greater than 2" will be charged on an actual time and materials basis.

NEW ERT - ALL METER SIZES	\$ 109.00
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(Applies only to existing ERT's that are lost, stolen, or damaged by customers. There is no charge to retro-fit an existing meter to AMR technology.)

SERVICE SHUTOFF FEE	\$ 64.00
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SERVICE RESTORATION FEE	\$ 43.00
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SPECIAL REQUESTS FOR SERVICES NOT LISTED ABOVE THAT DO NOT BENEFIT ALL CUSTOMERS	Billed at actual Cost plus overhead Rates in effect
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