

**IN RE: PAWTUCKET WATER SUPPLY :
BOARD GENERAL RATE FILING : DOCKET NO. 4171**

I. Background

Subsequent to the time that the application was filed, the Division of Public Utilities and Carriers filed a Motion for Amendment to the Notice to Customers that the PWSB had filed with its original application. The Division asserted that the filed Notice set forth rate impacts based on the assumption that customers are billed monthly when, in fact, the PWSB customers are currently billed quarterly. The Division noted that should the Commission approve the proposed conversion to monthly billing, the PWSB will collect an additional \$885,937 in revenues resulting in a 28.32% increase to the average

residential customer. It asked that the Notice be reissued to reflect the PWSB's actual billing practice so that customers be adequately informed of the actual rate increases and impacts. The PWSB disputed the Division's allegations that its Notice did not accurately reflect the proposed increases and impacts. It agreed to file an Amended Notice that reflected rates and impacts based on quarterly billing. The new notice set forth a 27.77% increase to collect an additional \$3,647,211 in operating revenues for a total revenue requirement of \$19,845,215. The Amended Notice also identified additional operating revenue of \$900,386 for Phase II effective January 1, 2012 to support a total revenue requirement of \$20,745,600.

The instant general rate case filing represents the PWSB's sixth rate filing in the last nine years. The following table provides a brief history:

| Docket No. | Filing Date | Amount Requested | Amount Allowed | Revenue Increase (%) |
|-------------------|-------------|------------------|----------------|----------------------|
| 3378 | 8/20/01 | \$3,828,966 | \$2,732,584 | 29.9% |
| 3497 | 2/28/03 | \$3,157,389 | \$2,382,459 | 21.13% |
| 3593 ¹ | 2/23/04 | \$3,414,969 | \$3,414,969 | 25% |
| 3674 | 4/11/05 | \$3,540,101 | \$1,259,117 | 7.7% |
| 3945 | 3/28/08 | \$3,109,387 | \$1,333,548 | 11.1% |
| 4171 | 4/14/10 | \$3,647,211 | | |
| 4171 | 4/14/10 | \$ 900,386 | | |

The PWSB and the Division of Public Utilities and Carriers ("Division") each submitted Pre-filed Testimony addressing all, or portions of, the PWSB's revenue requirement for the Rate Year commencing January 1, 2011 using a Test Year of FYE June 30, 2009.

¹ 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.

II. Pawtucket Water Supply Board Direct Testimony

In support of its request for increased revenues, the PWSB submitted the pre-filed direct testimonies of David G. Bebyn, CPA of B&E Consulting LLC, Christopher P.N. Woodcock of Woodcock & Associates, a consulting firm specializing in water and wastewater rate and financial studies, Robert E. Benson, the PWSB's Chief Financial Officer and James L. DeCelles, the PWSB's Chief Engineer. Mr. Bebyn's testimony presented a normalized adjusted test year, July 1, 2008 to June 30, 2009 which he noted was audited. He made a number of adjustments to normalize the test year including adjusting metered sales revenue and sales for resale revenue to reflect a full year of the increased rates allowed in the last rate filing calculated with the maintained test year levels on residential, commercial and industrial consumption. He adjusted the public fire service and private fire service count to reflect the number of services and hydrants at June 30, 2009. He set penalty revenue at the four year average and removed non-recurring miscellaneous revenue representing fees received in the land acquisition fund that are not available to pay for normal operations. He adjusted the customer service count to reflect the number of services at June 30, 2009 and removed interest income earned on monies held in the restricted accounts.²

Because grant revenue is not available for normal operations, Mr. Bebyn removed it from the GAAP basis financial statements. He adjusted the state surcharge revenue levels to reflect test year consumption and removed non-recurring lab testing expenses and administration miscellaneous expense. He added capitalized labor for the T&D, engineering and meter departments and removed expenses related to the acquisition funded by revenues already removed from rates. Mr. Bebyn removed all depreciation

² PWSB Exhibit 1a, Direct Testimony of David G. Bebyn, April 14, 2010 at 1-3.

and amortization expenses and increased the IFR, bond and capitalized lease interest expenditures. Finally, he added back to the test year bond and capitalized lease principal payments made in the test year.³

Mr. Bebyn did not average retail consumption in order to normalize the test year, because all retail consumption appeared to him to be trending downward. He also did not average sales for resale consumption, because he found no clear trend for these sales. He pointed out that since consumption has declined on a statewide basis, he believed that averaging consumption would result in overstating the test year level.⁴

Mr. Woodcock provided testimony summarizing the requested rate year revenue requirements and updating the cost of service allocations and rates based on the Commission's findings in prior dockets. He noted one significant change he made to prior cost allocations methodologies allowing for the modification of R.I. Gen. Laws §46-15.6-6 which eliminated the requirement that IFR costs be recovered "directly proportionate to the users' water consumption" and updated the prior cost of service study to assign those costs to the proper components of rates and charges. He provided testimony that the PWSB needs to increase revenues by 15.6% or \$2,611,923 in order to meet its requested rate year revenue requirement. He stated that the PWSB was only seeking a 1.5% revenue stabilization account rather than the 5% that was suggested in recent cases, and he modified the requested capital plan and reduced the IFR request from \$3.1 million to \$2.5 million. Finally, Mr. Woodcock recognized the legislature's recent attempts to eliminate public fire protection charges and recommended only a modest 5%

³ *Id.* at 3-4.

⁴ *Id.* at 4-5.

increase to the public fire charges with the balance of the costs of fire protection being picked up by service charges.⁵

Mr. Woodcock identified capital items, such as debt service and IFR, and labor costs as the two largest components of the revenue requirement. He noted that while labor and labor related benefits and taxes and IFR were reduced from the last rate case, power and debt costs had increased significantly. He identified a reduction in miscellaneous revenues and a drop in sales as being two factors significantly responsible for the requested \$2.6 million requested increase.⁶

Mr. Woodcock identified the rate year as calendar year 2011. He presented a number of schedules including a summary of test year expenses with proposed adjustments and rate year revenue requirements. He made capital adjustments and adjusted property tax expenses by 5% per year for 2 ½ years. He proposed using the FY 2012 debt for the rate year, because the PWSB must start prefunding its debt payments six months before those payments are due. Mr. Woodcock also adjusted trustee fees, vehicle lease purchase payments, IFR funding and deposits to the O&M reserve fund. In addition to capital adjustments, Mr. Woodcock made a number of non-capital adjustments including increases to the new treatment facility's operating contract with a private operating firm. He also increased postage and printing costs to account for an increase in this expense that would result from a conversion to monthly billing. While he did not increase the cost of power as the existing supply contract does not account for an increase in cost during the rate year, he did increase the distribution portion of the power costs using the GDP inflation rate. Finally, Mr. Woodcock adjusted regulatory expenses

⁵ PWSB Exhibit 1b, Direct Testimony of Christopher P.N. Woodcock, April 14, 2010 at 1-4.

⁶ *Id.* at 6-7.

by using the 2009 fee and increasing that fee for inflation for 2½ years. For rate case expenses, Mr. Woodcock proposed a two year amortization period which he stated was supported by filing history and pointed out that the estimated \$200,000 cost was a decrease of \$77,737 from the actual test year.⁷

Mr. Woodcock indicated that the PWSB was requesting 1.5% of its operating expense for its Revenue Stabilization Account. He discussed the Commission's granting and restricting higher amounts to other water utilities and the adoption of R.I. Gen. Laws §39-15.1-3(c).⁸ The PWSB did not request an increase in this account due to the impact it would have on its customers; however, it did request that the 1.5% be unrestricted especially since that is the amount unrestricted to other water utilities. Furthermore, since it was not requesting an increase in its Revenue Stabilization Account, the PWSB requested that the Commission exercise caution in estimating the projected rate year water sales.⁹

After looking at the trend between FY2004 and FY2009 and projecting sales forward through 2012, the PWSB projected a continued decrease in water sales. Mr. Woodcock prepared a cost allocation study using the same general basis as the filing approved in past Dockets. While he did not propose a major change to the general structure of rates, he noted that the changes to individual rate and charges varied by different percentages. He proposed three revisions to the cost allocations: a change to meter charge allocations, an adjustment to the way IFR costs are allocated and a reduction to the public fire protection allocation with that money being reallocated to the

⁷ *Id.* at 11-14.

⁸ R.I. Gen. Laws §39-15.1-3(c) provides that water suppliers establish a revenue stabilization account of up to ten percent of annual operating expenses to ensure fiscal stability during periods of revenue decline resulting from circumstances beyond the control of the water supplier.

⁹ PWSB Exhibit 1b, Direct Testimony of Christopher P.N. Woodcock, April 14, 2010 at 14-16.

service charge. Mr. Woodcock identified a shift in the emphasis of the time spent by transmission and distribution crews to more time being spent on repairs to services. This shift in emphasis resulted in the direct labor costs being more concentrated in metering, service repairs, meter reading, billing and collection which in turn results in additional costs onto the customer service charge and a reduction in costs allocated to public fire hydrants. Mr. Woodcock recommended in the prior Docket, No. 3945, that some of the service costs be moved onto the metered rate in order to reduce the impact of this shift onto the service charge, and he created three new allocators for the allocation of administrative and capital costs. In the instant proceeding, Mr. Woodcock recommended retaining two of the three allocators created in Docket No. 3945 in order to reduce the allocation of administrative costs to the service charges. He also recommended eliminating the third allocator as it is no longer needed. Mr. Woodcock advised gradually moving back to cost based tariffs by removing the reductions to the overall allocations used in the last docket.¹⁰

As a result of a change in legislation removing the restriction that IFR related costs be recovered through use based charges and not fixed charges, Mr. Woodcock allocated IFR costs to the tariff best associated with their cost. While this results in a large increase to the service charges and fire protection fees, the IFR costs will be more fairly allocated and stability and predictability of the revenues of the water utility will be enhanced, as these costs are fixed and independent of water sales. The final revision Mr. Woodcock made was to allow for a five percent increase in the public fire charges and to recover the remainder of this fixed revenue through the service charge. While the result of this revision is an increase to the service charges, Mr. Woodcock proposed assigning

¹⁰ *Id.* at 16-19.

the reduction in the fire service revenues to the service charges based on size explaining that accounts with larger meters are usually associated with larger buildings and have potentially larger fire demands.¹¹

Mr. Woodcock discussed the overall impact of the proposed rates on a typical residential customer using 800 cubic feet of water per month as resulting in an approximately 17% increase or about \$6.37 per month. He also noted that because of enactment of R.I. Gen. Laws §39-15.1-4¹², the PWSB had proposed a second step increase for CY 2012 with rates to become effective January 1, 2012. Projections for new debt costs, trustee fees, a revenue stabilization allowance and an inflationary increase result in an additional rate increase of 4.5% for the 2012 calendar year.¹³

Mr. Benson provided testimony to support the PWSB's rate increase request. He identified its long term outstanding debt as of June 30, 2009 to be approximately \$97.4 million. He noted that the increases to debt service resulted from the November 2009 borrowing of almost \$6 million and two future borrowings totaling approximately \$13.7 million for main replacement construction projects, refinancing a temporary borrowing from RICWFA, an energy recovery project, a hydraulic modeling project and the demolition of the Pump Station #3.¹⁴

Mr. Benson also discussed personnel costs noting that the PWSB added a third customer service agency position and eliminated one meter reader position. He stated that the collective bargaining agreements with the two unions, Teamster Union Local 251 and AFSCME Union Local 1012, provide for no salary increases for the periods

¹¹ *Id.* at 20-21.

¹² R.I. Gen. Laws §39-15.1-4 allows for water suppliers to file a rate plan for a period not to exceed six years.

¹³ PWSB Exhibit 1b, Direct Testimony of Christopher P.N. Woodcock, April 14, 2010 at 21-22.

¹⁴ PWSB Exhibit 1c, Direct Testimony of Robert E. Benson, April 14, 2010 at 1-4.

beginning July 1, 2009 and July 1, 2010 and for a 3% increase for periods beginning July 1, 2011 and July 1, 2012. In order to arrive at an average increase for medical and dental insurance, Mr. Benson used a five year average. For medical insurance, he determined a 5.3% increase to be appropriate and for dental insurance he determined a 7.8% increase to be appropriate for FY 2012. To determine the FY2012 rate for employee retirement contributions, Mr. Benson used a four year average to arrive at 10.36%. He averaged this and the actual rate for FY 2011 to arrive at a rate of 9.78% for employee retirement contributions for CY 2011.¹⁵

Mr. Benson explained that power costs have increased from Docket No. 3945, because FY 2009 power costs were offset in part by a number of large credits with National Grid. He noted that all of the PWSB's electric accounts are included in a power supply contract between the City of Pawtucket and Gexa Energy RI, LLC set to expire in November 2011 and that he expects a change in the delivery charge due to inflation. Mr. Benson indicated that the service agreement to operate the treatment facility increased from the test year, because the agreement requires an increase by the Consumer Price Index for all Urban Consumers, Northeast Urban S B/C Communities Population <1,500,000 published by the US Department of Labor. Regarding the Water Treatment Plant Decommissioning Account, Mr. Benson identified a cash balance of \$716,579.69 as of December 31, 2009. Finally, he noted that the \$1 million cash payment received from the property tax settlement with the Town of Cumberland was deposited in a restricted receipt account for the purpose of acquiring land to protect the watershed and hiring a professional consultant to perform land surveys to combine the PWSB's properties to generate property tax savings. Since the settlement in Docket No. 3945, the PWSB has

¹⁵ *Id.* at 5-6.

incurred \$106,800 in survey expenses leaving \$893,200 in the restricted land acquisition account.¹⁶

Mr. DeCelles reiterated Mr. Woodcock's identification of the two most significant factors in the PWSB's request for a rate increase as being the sharp decline in water consumption and the significant decrease in miscellaneous revenues. He noted that the new treatment plant is being operated by AECOM, which purchased Earth Tech last year. AECOM agreed to address the disturbance and pressure fluctuation issues that previously occurred. The PWSB is completing the cleaning, lining and replacement of the distribution system pipes. The PWSB will receive 24% principal forgiveness on its next project financed by RICWFA which is scheduled to begin in the spring of 2010 as a result of ARRA funding. The transmission and distribution system rehabilitation is scheduled to be complete by 2016, and subsequent to that, an ongoing replacement program will target the oldest lined pipe needed to be replaced. Mr. DeCelles also noted that the PWSB is currently investigating alternative locations for its T&D department.¹⁷

Mr. DeCelles discussed the decline in consumption since FY 2003 which has resulted in revenue shortfalls and the underfunding of parts of the operations. He also noted the sharp increase in the amount of uncollected revenue due to the economic climate. He pointed out that if the PWSB continues to under collect revenues because of decreased consumption, it may not be able to properly fund its various accounts. Mr. DeCelles noted that neither the decline in water consumption nor the decrease in miscellaneous revenues are within the control of the PWSB. He also claimed that

¹⁶ *Id.* at 6-7.

¹⁷ PWSB Exhibit 1d, Direct Testimony of James L. DeCelles, April 14, 2010 at 1-4.

revisions to the IFR plan delaying a number of projects have allowed PWSB to keep its IFR costs under \$2.6 million in the rate year.¹⁸

III. Division of Public Utilities and Carriers Direct Testimony

In response to the pre-filed testimony submitted by the PWSB, the Division of Public Utilities and Carriers (“Division”) presented the pre-filed testimony of Andrea C. Crane, President of the Columbia Group, Inc, a financial consulting firm that specializes in utility regulation, and Thomas S. Catlin, a principal with Exeter Associates Inc, a firm of consulting economists specializing in issues pertaining to public utilities. Ms. Crane testified regarding the revenue requirement and made recommendations regarding the PWSB’s request. She recommended that the PWSB be allowed a rate increase of \$884,091 or 4.95%, significantly less than the \$2,611,923 or 15.46% it requested. She also indicated that if the Commission found the second phase increase appropriate that it be limited to \$584,295. Ms. Crane stated that the PWSB significantly understated the rate increase it was requesting in this case. She described rate revenue as being comprised of service charges based on meter size, metered rates based on consumption and public and private fire protection charges. Ms. Crane stated that when the PWSB developed its service charge revenue at present rates, it did so assuming that the PWSB would implement monthly billing. She pointed out that currently, the majority of the PWSB customers are billed quarterly. She noted that even at present rates, if residential customers are billed monthly, they will receive a substantial increase to their current bill which is evident by the substantial difference in revenues by two of the PWSB witnesses: Mr. Woodcock who assumed monthly billing and \$2,797,079 of service charge revenue at present rates and Mr. Bebyn who assumed the current billing frequency and service

¹⁸ *Id.* at 4-7.

charge revenue of \$1,911,142. She indicated that the PWSB is actually requesting a rate increase of \$3,497,860, \$885,937 of which will be recovered by converting all customers to monthly billing.¹⁹

While Ms. Crane's recommended increase was based on monthly billing, she also provided a recommendation assuming current billing practices resulting in an increase of 10.43%. Ms. Crane noted that the PWSB has increase rates over the last ten years by almost 117%. She pointed out that the PWSB developed its pro forma consumption revenue by averaging its projected 2011 and 2012 retail sales. Ms. Crane recommended using actual test year sales to determine the pro forma rate year consumption revenue which will balance the historic level of sales with a recognition that these sales were affected by factors that may not occur in the rate year. She did not recommend any adjustment to wholesale sales noting that the PWSB's claim was consistent with her recommendation regarding retail sales. Ms. Crane found the PWSB's use of test year customer counts to be reasonable and thus made no pro forma operating revenue adjustment relating to the number of customer meters.²⁰

Ms. Crane recommended one adjustment to the PWSB's claim for private fire service revenue to reflect the most recent number of private fire service connections. Regarding miscellaneous revenue, Ms. Crane recommended use of a four year average for service installation and service fee revenue noting while the PWSB used a four year average for penalty revenue because it was abnormally high in the test year, service installation and service fee revenue were abnormally low in the test year and thus should be treated in a manner consistent with penalty revenue and consistent with Docket No.

¹⁹ Division Exhibit 1a, Direct Testimony of Andrea C. Crane, July 20, 2010, at 5-9.

²⁰ *Id.* at 9-14.

3945. Since she recommended an adjustment to increase total retail sales, she also recommended increasing the portion of the State imposed surcharge based on the volume of water sold to retail customers that is retained by the PWSB. She noted that the actual state surcharge revenue should be based on the level of pro forma rate year consumption used to determine pro forma revenue at present rates.²¹

Ms. Crane noted that while the number of positions since the last rate case has remained the same, the PWSB added a third customer service agent position and eliminated a meter reading position. Wages and salaries are based on collective bargaining agreements both of which provide for no salary increases from July 1, 2009 through June 29, 2011 and a 3% increase for the two following years. Ms. Crane eliminated the costs of three vacant positions from the revenue requirement and eliminated the 3% wage increase effective June 30, 2012 recommending that this increase be included in the Phase Two increase requested by the PWSB. To reflect the lowering of the pro forma salary and wage expense, she made the corresponding adjustments to the PWSB's payroll tax expense. Ms. Crane also adjusted pension costs based on her adjustments to salary and wage expenses and recommended disallowing benefit costs associated with the three vacant positions.²²

The PWSB used the test year amount increased by an annual inflation adjustment to determine city management fees for the rate year. Ms. Crane reduced the 10% of the Personnel and Payroll Department costs to 2.5% noting that the PWSB did not identify any basis for allocating 10% of the costs of this department to the PWSB. Asserting that there was a general lack of documentation in this case regarding the city management fee,

²¹ *Id.* at 14-19.

²² *Id.* at 19-23.

Ms. Crane suggested that the Commission require the PWSB to provide documentation of all amounts allocated from the City in its next rate case to ensure that they are based on cost causation and that ratepayers are not subsidizing other City departments. Regarding the water treatment plant costs, Ms. Crane did not recommend any adjustment to the PWSB's claim, but did recommend that the Commission require the PWSB to reconcile its actual test year costs to the water treatment plant costs identified by Mr. Benson to determine if there were any test year adjustments to the contractual fee that would be applicable to the rate year.²³

Ms. Crane recommended disallowing the adjustment the PWSB made to property tax expense indicating that Mr. Woodcock's schedules may have been made in error because he increased this expense 5% annually for two and one-half years while the PWSB filing reflects an increase of 0.12%. She noted that even if the PWSB were to modify its claim for a 5% annual increase she would recommend this be disallowed, because the assumption of the maximum that property taxes could increase does not constitute a known and measurable change to the test year. Ms. Crane also recommended that the projected rate year debt service costs be reflected in the revenue requirement. She included the incremental fiscal year 2012 debt service costs in her recommendation for Phase Two.²⁴

Ms. Crane stated that the PWSB requested its revenue stabilization fund be based on 1.5% of its total revenue requirement including operating and maintenance costs and capital costs, less miscellaneous revenues. She noted that the PWSB also has an Operating Reserve Fund which is funded at 25% of the annual operating expenses based

²³ *Id.* at 23-26.

²⁴ *Id.* at 26-29.

on the PWSB's annual budget. While noting that the revenue stabilization fund may be unnecessary because of the Operating Reserve Fund, she recommended that the Commission approve the modest request made by the PWSB in light of the legislation allowing for revenue stability funds. She made a minor adjustment to this fund to reflect the impact of her adjustments to other accounts.²⁵

Ms. Crane indicated that her adjustments reduced the PWSB's revenue requirement from the \$19,784,161 recommended by Mr. Woodcock to \$19,126,862. She recommended a rate increase of \$884,091 or 4.95% of total rate revenue based on the assumption that customers will be billed monthly. She pointed out that the effect of monthly billing, an additional \$885,937, coupled with the rate increase will result in a 10.43% or \$1,770,028 increase. Regarding Phase Two, Ms. Crane noted that the PWSB's request is comprised of four components, new debt service costs or \$397,271, trustee fees of \$2,500, revenue stabilization funds of \$291,414 and inflationary increases of \$208,868. She recommended that the incremental debt service costs included in the Phase Two increase be limited to \$493,611. She also recommended that the Phase Two inflationary adjustment be denied as the PWSB did not demonstrate that it is necessary to pay for all reasonable costs of service and the adjustment is too broad to be utilized in a multi-year rate plan. She did note that the request for the 3% salary and wage increase for 2012 be allowed in Phase 2, because it is relatively known and measurable. She recommended that the Commission reject the PWSB's request to included \$291,414 in its revenue stabilization fund instead suggesting that the fund be replenished in the amount of 1.5% of other incremental costs included in the Phase Two increase. In conclusion,

²⁵ *Id.* at 20-31.

Ms. Crane recommended that should the Commission find the Phase Two increase to be appropriate, it be limited to \$584,295 effective January 1, 2012.²⁶

Mr. Catlin provided testimony regarding the cost allocation and the design of rates. He made several corrections to Mr. Woodcock's cost study. His first correction was to correct the peak hour demand for fire service which he noted would increase maximum hour extra capacity costs allocated to fire service while reducing the portion of those costs allocated to metered water service. He calculated this correction to result in an increase in public fire service costs by over \$239,000. His second correction was to allow capital costs related to meters and services to be recovered from customers based on the amount of investment in meters and services required to serve those customers as opposed to being based on the number of bills which is the same regardless of meter size. His third correction was revise the number of bills to reflect twelve bills per year for private fire service customers consistent with the PWSB's proposed change to monthly billing for those customers. His final change was to partially restore the P-M allocator that was used in Docket No. 3945 in order to moderate the increases in customer charges.²⁷

Regarding rate design, Mr. Catlin proposed one exception to his general proposal to adjust rates to reflect the results of the cost of service study which was to limit the increase in public fire service rates to 20 percent as opposed to the 5 percent limit recommended by Mr. Woodcock. Mr. Catlin made this recommendation for a number of reasons including the failure of the passage of legislation that would allow the City of Pawtucket to opt out of paying fire service charges, the understatement of fire service

²⁶ *Id.* at 31-36.

²⁷ Division Exhibit 1b, Direct Testimony of Thomas S. Catlin, July 20, 2010, at 4-10.

costs in the PWSB's study due to the error in the peak hour demand used in allocating maximum hour extra capacity costs, and the significantly lower hydrant charge. He recommended that if the Commission approves the Phase Two increase, such increase be recovered by increasing all water and fire rates by a uniform percentage.²⁸

IV. Pawtucket Water Supply Board Rebuttal Testimony

On August 17, 2010, PWSB filed the rebuttal testimony of three of its witnesses. Mr. DeCelles filed testimony to address the concerns he had with Ms. Crane's recommendations regarding consumption and salary and wage adjustments and with Mr. Catlin's recommendation regarding public fire service charges. Mr. DeCelles asserted that Ms. Crane did not recognize the PWSB's decreasing consumption trend. He pointed out that the PWSB has taken affirmative steps to limit the rate increase requested by restructuring its capital plan and by only requesting a 1.5% revenue stability account. He noted that even though the PWSB can control expenses, it cannot control consumption. Mr. DeCelles indicated that the PWSB's revenue projections are affected by the amount of uncollected revenue due to the economic climate. He noted that the under-collection of revenue caused by the decrease in consumption has affected the IFR fund and resulted in a delay of a number of projects. Additionally, the PWSB has not filled several positions because of the revenue shortfalls which have also caused a delay of several projects.²⁹

Mr. DeCelles disagreed with Ms. Crane's salary and wage adjustment that eliminated the cost of the three unfilled positions noting that the reluctance of the PWSB to fill the positions was because of the drop in consumption and resulting revenue

²⁸ *Id.* at 10-11.

²⁹ PWSB Exhibit 2a, Rebuttal Testimony of James L. DeCelles, August 17, 2010 at 1-3.

shortfall. He reiterated that these vacancies have caused the PWSB to delay a number of projects. Disallowing this expense, he claimed, penalizes the PWSB for circumstances beyond its control, specifically lower than expected revenue because of consumption being forecast too high. Additionally, he asserted that Ms. Crane's recommendation is not consistent with the PWSB average number of vacancies during the test year which was 2.16. He suggested that if any adjustment should occur, it should be based on the cost of the type of position that is likely to be vacant and the average number of vacancies during the year. Mr. DeCelles' suggestion reduced Ms. Crane's adjustment from \$232,749 to \$78,806. Finally, he cautioned that a twenty percent increase to public fire service charges could result in the Cities of Pawtucket and Central Falls being unable to afford such increase.³⁰

Mr. Woodcock's rebuttal testimony addressed the five issues raised by Mr. Catlin. The first of those issues regarded the adjustment of private fire service bills. While Mr. Woodcock acknowledged that Mr. Catlin was correct in noting that the PWSB proposes to bill the private fire services monthly, he pointed out that since the PWSB proposed that private fire service charges be included in and made part of a customer's water bill, he has assumed no separate bills for this service. He also made an adjustment to the test year for private fire services by size based on Ms. Crane's adjustment to reflect the actual number of hydrants.³¹

Mr. Woodcock disagreed with Mr. Catlin's adjustment to move some capital costs from the service charges to the consumption charges by reassigning half the metering and billing capital costs to the commodity charges for a number of reasons including that it

³⁰ *Id.* at 3-5.

³¹ PWSB Exhibit 2b, Rebuttal Testimony of Christopher P.N. Woodcock, August 17, 2010 at 2-3.

deviates from the cost of service, that the PWSB is proposing phasing out the P-M allocator, that there has been recent drops in sales and unused capacity, that the need to encourage wiser water use has diminished, that the decrease in sales and the volatility of revenue supports higher fixed revenues, that the PWSB is requesting only a 1.5% rate stabilization fund and that the overall service charge requested by PWSB only amounts to \$0.39 per day. Mr. Woodcock agreed to include Mr. Catlin's adjustment with the P-M allocator by allowing only fifty percent of the metering and billing capital costs to the consumption charge if it is phased out in the next full rate case. He cautioned that water utilities cannot afford to lose the fixed revenues generated by the public fire protection charges. He proposed a compromise to Mr. Catlin's recommendation that lost revenues be recovered through the consumption charge by offering that half of this lost revenue be recovered through the fixed service charges and the other half be recovered through the retail metered rates. The resulting increase to customers would be \$1.34 per month over the current monthly charge.³²

Regarding Ms. Crane's testimony, Mr. Woodcock asserted that her testimony regarding the amount of the increase is "a red herring with no relevance" to the instant matter as the issue is how much revenue the PWSB needs to effectively operate. He disagreed with Ms. Crane's recommendation to use test year sales characterizing it as overly optimistic, and he updated his five year average changes to use years 2005 through 2010 as opposed to 2004 through 2009, which further decreased his projected consumption level by approximately 7,000 hcf or 14,000 gallons per day. He noted that even if his projections were incorrect, excess collections could be put into a restricted stabilization account. This treatment would be more beneficial for ratepayers as opposed

³² *Id.* at 4-6.

to the PWSB being unable to collect sufficient revenues to fund its IFR program costs resulting in delays in its capital program. Mr. Woodstock also alleged that since the Commission allowed the Narragansett Bay Commission to use declining consumption in Docket No. 4026, it would be contradictory not to allow the PWSB this same calculation.³³

Mr. Woodstock updated his property tax proposal from 5% to 3%. He also disagreed with Ms. Crane's adjustment to debt service costs and indicated that in the PWSB's last rate case, Ms. Crane had agreed with the inclusion of post-rate year debt service costs. Furthermore, Mr. Woodcock asserted that the Commission recently allowed this funding approach in Newport Water Company's rate filing. In response to Ms. Crane's recommendation that the debt service allowance be reduced, Mr. Woodcock pointed out that use of these funds are limited to extreme emergencies and that any amounts deducted must be replenished prior to the end of the fiscal year. He also noted that the bond indenture limits the use of the funds to funding operating expenses when there are insufficient revenues to do so and requires that reimbursement to the fund be made prior to the end of the fiscal year.³⁴

Regarding Ms. Crane's adjustments to the step two increase, Mr. Woodcock justified the PWSB's request for a second phase rate increase by noting that the law allows for such an increase, that rate filings can be based on a single issue and that a multi-step process may diminish more frequent rate filings. He indicated that his reasoning of fiscal year debt being used as the basis for the rate year debt also supported the lower adjustment to debt service for the Phase Two increase. He disputed Ms.

³³ *Id.* at 7-10.

³⁴ *Id.* at 11-14.

Crane's assertion that only salary costs can carry an inflation adjustment contending that all operational costs are to be considered. Finally, Mr. Woodcock disagreed with Ms. Crane's adjustment to the rate stabilization fund noting that it limited the second step increase to only 1.5% of the PWSB's costs over its last approved revenue allowance. He pointed out that if the Commission were to allow the PWSB's request, the total accumulated allowance over the two year period would only amount to 3% of the PWSB's operating revenue.³⁵

Mr. Benson's rebuttal addressed the number of fire service bills, the service installation and service fee revenue, consumption, payroll related expenses, water treatment plant expenses and tariffs. He disagreed with Mr. Catlin's proposed change in the number of bills for private fire service customers noting that the PWSB's switch to monthly billing includes consolidating the billing of private fire service with each customer's water service bill. He disagreed with Ms. Crane's adjustment to service installation and service fee revenue and her characterization that the service fee revenue was "abnormally low" pointing out that for 2010 this low revenue was the result of the poor economy. He asserted that Ms. Crane provided no evidence of a turn around in the economy to justify her recommendation to use a four year average to compute the service fee adjustment.³⁶

Mr. Benson disagreed with Ms. Crane's consumption adjustment noting again the continuing decline in billed water consumption. He also disagreed with Ms. Crane's recommendation to eliminate the three currently vacant positions. Mr. Benson asserted that the salary budget proposed only includes the 3% increase for FY 2012 contracted for

³⁵ *Id.* at 15-17.

³⁶ PWSB Exhibit 2c, Rebuttal Testimony of Robert E. Benson, August 17, 2010 at 1-4.

with the PWSB's two unions. Additionally, he disagreed with Ms. Crane's adjustments to payroll tax expense and pension expense noting that the post rate year salary increase was not included in his schedule. Mr. Benson provided information to reconcile the actual test year costs with his schedule RB-5 for water treatment plant expense as requested by Ms. Crane. Finally, he explained the correction required to the tariff, specifically Schedule D of the original filing, which set forth incorrect proposed monthly customer charges and provided a correct tariff.³⁷

V. Division of Public Utilities and Carriers Surrebuttal Testimony

Ms. Crane provided surrebuttal testimony to respond to the PWSB's rebuttal testimony and to update her revenue requirement recommendation. Based on her review, she recommended that the Commission approve a rate increase of \$1,021,454 or 5.74% based on the Company's methodology for calculating the proposed increase. She pointed out however that because the majority of the Company's customers are currently billed quarterly, her recommendation will result in an 11.28% increase. She also maintained her position that the Phase Two increase be limited to \$584,295 as opposed to the \$900,053 requested by the PWSB.³⁸

Ms. Crane disagreed with Mr. Woodcock's assertion that the percentage increase of the requested revenue sought was irrelevant to the instant matter. She identified the percentage increase as a way in which customers would be able to easily determine the impact the requested increase would have on those customers. Ms. Crane reiterated her Direct Testimony alleging that the PWSB's calculations, assuming that customers are currently being billed monthly, are deceiving, because currently the majority of the

³⁷ *Id.* at 4-6.

³⁸ Division2a, Surrebuttal Testimony of Andrea C. Crane, filed September 2, 2010 at 1-3.

PWSB's customers are billed quarterly. She also pointed out that the PWSB increased its original request of \$2,612,298 to \$2,761,274. Ms. Crane asserted that the transition to monthly billing alone before any change in billing rates would result in a typical residential customer experiencing a 9.5% increase per year. She then calculated the increase in billing rates requested and concluded that in addition to the transition to monthly billing, the typical residential customer using 96 HCFs annually would experience a 28.32% increase.³⁹

Ms. Crane again reiterated her characterization of the PWSB's representation of a 17.16% increase in rates as deceiving noting that it was important for customers to have accurate information so that they can properly determine the impact that the increase will have on their water bills. She pointed out that the State of Rhode Island has the fourth highest unemployment rate in the country and that Pawtucket and Central Falls both have more residents below poverty level than the State as a whole. She described the actual 28.32% increase that she calculated to be 65% higher than what was represented to customers by the PWSB. She recommended that the Commission not accept Mr. Woodcock's revised consumption claim which projects a decline of 5.45% from actual 2010 fiscal year consumption and recommended that the actual level of test year sales be used to forecast consumption. She noted that her recommendation is consistent with the well-established test year concept used by regulatory commissions.⁴⁰

Ms. Crane indicated that she continued to use the fiscal 2009 sales, because the test year in this case is fiscal year 2009. She asserted that if the PWSB wanted to update the test year it should update all elements of the test year and then afford the Division the

³⁹ *Id.* at 3-5.

⁴⁰ *Id.* at 5-7.

opportunity to conduct discovery. She stated that to update only the sales and no other elements would not be appropriate for ratemaking. She referenced Mr. Woodcock's suggestion that revenue collected in excess of what was authorized should be put into a restricted account noting that the resulting \$982,414 would be better off in ratepayers pockets than in a PWSB restricted account.⁴¹

When asked to comment on a contrary Division position on consumption in a Narragansett Bay Commission matter, Docket No. 4026, Ms. Crane pointed out that she was not part of that case and would not comment on the Division's reason for its position in that matter. Ms. Crane also noted the 2% reduction the PWSB made to its original 5% property tax claim. She continued to dispute this amount asserting that the PWSB did not support its proposal and that the actual dollar amount in the revenue requirement only amounted to a 0.12% increase. Ms. Crane justified her use of the post-rate-year debt service costs in the prior docket noting that it was offset by a credit from the debt stabilization fund. She pointed out that in the instant matter the PWSB is not proposing a similar offset.⁴²

Regarding the Phase Two inflation increase, Ms. Crane disagreed with Mr. Woodcock that this was appropriate. She described the legislation permitting multi-year rate plans as not specifying how "full costs" of water suppliers are to be determined by the Commission and noted that the Commission is afforded discretion to determine what should be approved for inclusion in a multi-rate year plan. She recommended a narrow interpretation of the statute advising that the Commission be cautious in what it approves. Ms. Crane challenged the appropriateness of the new 1.5% revenue stabilization

⁴¹ *Id.* at 7-8.

⁴² *Id.* at 8-10.

allowance on the full service costs of service requested by PWSB for the Phase Two increase. She suggested that the Commission limit the Phase Two increase to 1.5% of the revenue requirement associated with the other elements of the Phase Two increase. Ms. Crane continued to maintain her position that PWSB use a consistent methodology, a four-year average, for Service Installation and Service Fee Revenue and Penalty Revenue as opposed to Mr. Benson's utilization of test year revenues for Service Installation and Service Fee Revenue and a four-year average for Penalty Revenue.⁴³

Ms. Crane identified the three adjustments made to her Direct Testimony as: 1) creating a new starting point for her adjustments based on the PWSB's increase in its original claim; 2) eliminating her private fire service adjustment since the PWSB accepted her recommendation to update its private fire service connections and reflected the same in its claim; and 3) eliminating the 3% post-rate-year payroll adjustment that she was informed was not included in the PWSB's Phase I claim. She calculated that her updates and revisions resulted in a recommended rate increase of 5.74%; however, because most of the PWSB's customers are billed quarterly instead of monthly, her recommendation results in an 11.28% increase. Regarding the Phase II increase, Ms. Crane did not revise her recommendation which supports an increase of \$584,295 or 3.11%.⁴⁴

Mr. Catlin also provided surrebuttal testimony to address the three cost allocation/rate design differences between the Division and PWSB: 1) the inclusion of bills for private fire service in the units of service; 2) the appropriate limit on the increase

⁴³ *Id.* at 10-12.

⁴⁴ *Id.* at 12-13.

in public fire service rates; and how to recover the revenue shortfall associated with public fire service. He also presented updated cost of service studies.⁴⁵

Mr. Catlin disagreed that units of service in the cost of service study should include zero private fire service bills, because he noted that these services will be billed monthly. He noted that it is appropriate to recognize that billing is a shared service that applies to general water service and private fire service, and customers are billed for both services. He compared this to Newport Water's inclusion of a sewer bill with its water bill. Mr. Catlin noted that the Division was willing to maintain public fire service rates at 5% if the City of Pawtucket would commit to not pursuing legislation for an exemption from paying public fire protection charges or not take an exemption if such legislation were to pass. Mr. Catlin asserted that absent a commitment from the City, there is no reason to limit the increase to public fire service rates.⁴⁶

Lastly, Mr. Catlin discussed Mr. Woodcock's compromise regarding the recovery of the shortfall from public fire service revenues. He asserted that he could agree with Mr. Woodcock's recommendation that half of the deficiency be recovered from service charges and the remainder be recovered through commodity rates, if the portion recovered through service charges were allocated between the general service customers and private service charges in the same manner that all other service charges are allocated between these customers and that the increase in the monthly service charge for a 5/8-inch water service be limited to \$10.00. He recommended that any additional deficiency resulting because of the \$10.00 cap be recovered through commodity rates.⁴⁷

⁴⁵ Division Exhibit2b, Surrebuttal of Thomas S. Catlin, filed September 2, 2010 at 1-2.

⁴⁶ *Id.* at 2-4.

⁴⁷ *Id.* at 4-6.

VI. Hearing

A duly noticed public evidentiary hearing was held at the Commission's offices at 89 Jefferson Boulevard, Warwick, Rhode Island on November 9, 2010 for the purpose of considering the proposed rate application.

The following appearances were entered:

FOR PWSB: Joseph Keough, Jr., Esq.

FOR DIVISION: Jon Hagopian, Esq.
Special Assistant Attorney General

FOR COMMISSION: Patricia S. Lucarelli, Esq.
Chief of Legal Services

Brian Murtha and David Sullivan provided public comments in opposition of the increase proposed by the PWSB. Both Mr. Keough and Mr. Hagopian identified the three issues that the parties were unable to reach consensus on: consumption, level of debt service funding and the amount of the Phase II increase. The Commission also questioned the PWSB witnesses about the need for monthly billing that was not objected to by the Division.⁴⁸

The PWSB's first witness, Mr. Woodcock, explained how the issue of property tax was resolved. He acknowledged that after the error in calculating in his original request for a five percent increase was brought to his attention, he modified his request to a three percent increase for property tax. He also explained how he was in agreement with the Division's adjustment to the city management fees and the recommendation that the monthly service charge for the 5/8th inch service charge be capped at \$10.00 with the resulting loss of revenue being recovered through the commodity charge.⁴⁹

⁴⁸ Transcript of Hearing ("T."), November 9, 2010 at pp. 6-14.

⁴⁹ Id. at pp. 16-17.

During cross examination, Mr. Woodcock explained why debt service payments projected for FY 2012 are included in the PWSB revenue requirement noting that deposits of the money needed to make a calendar year payment, at the a time when the fiscal year overlaps with the calendar year, must be deposited prior to the month that the payment is due. He also noted that this approach is what has been allowed by the Commission in other cases. He clarified on redirect that half of FY12 is in calendar year 2011, which is the rate year, and explained that the money deposited is then used to make the payment in the month that it is due.⁵⁰

Mr. Woodcock noted that he agreed with Ms Crane's adjustment to the city management fees and that his recommendation that the fee be 2.5% of the city expenses was consistent with the number of employees that PWSB has in relation to city employees. He also explained that he believed the decrease in consumption was caused by many factors including weather, the amount of rainfall, and a trend to conserve resources. Mr. Woodcock provided testimony about the benefits of monthly billing including smaller bills, leak detection and quicker cash flow for the utility.⁵¹

Regarding consumption, Mr. Woodcock testified that it is trending down. He stated that this coming summer would be an indication of whether the trend will continue to decline. He noted that because of declining consumption, the PWSB has made cuts to its capital improvement programs, by reducing certain infrastructure replacement through rescheduling. He described the reason for the amount of increase as a combination of two factors: the decrease in consumption and the PWSB's no longer having the approximate one and a half million dollars that it previously used to offset debt in its last

⁵⁰ *Id.* at 25-41.

⁵¹ *Id.* at 48-85.

rate case. He also answered questions regarding the inflationary rate proposed and noted it was based on the Gross Domestic Product (“GDP”) of the Bureau of Economic Affairs. He agreed that the legislation allowing for a multiyear increase was in large part driven by the need to conserve water as a precious resource.⁵²

Mr. DeCelles testified that while his position that salaries and wages should not be adjusted, if the Commission were inclined to make an adjustment such should be based on the PWSB’s average of 2.16 vacancies during the test year. He noted that the Division was in agreement with this compromise. In response to questioning regarding the PWSB’s request to cap the increase in public fire protection charges at five percent, Mr. DeCelles represented that he had obtained the assurance of the Mayor of Pawtucket that the City would not pursue the enactment of legislation for an exemption from paying public fire protection charges and that he understood if it did pursue such legislation, the PWSB could not later come before the Commission seeking to make up that revenue lost as a result of the legislation.⁵³

Mr. DeCelles responded to considerable questioning regarding monthly billing and the notice PWSB had provided to its customers regarding the same, and noted that a tremendous amount of effort went into planning this anticipated change. He pointed out that the PWSB received telephone calls from customers indicating that those customers would prefer monthly billing, that customers would be able to monitor their usage better with monthly billing, that customers would be able to detect whether they had a leak and that customers would be able to better manage their bills. He also noted that he was involved in the negotiations regarding the legislation allowing for monthly billing. When

⁵² *Id.* at 86-107.

⁵³ *Id.* at 108-112.

asked whether the PWSB would obtain a benefit from the conversion to monthly billing, Mr. DeCelles noted that there is a cash flow benefit; however, monthly billing was proposed solely because of customer service initiatives and the legislative change. He testified that if the Commission were to deny the proposal for monthly billing, it would become difficult for the PWSB to comply with pending Water Resources Board programs that will likely require seasonal rates. He stated that absent monthly billing and the lack of monthly consumption figures that would be obtained from the initiation of monthly billing, the PWSB would not be able to implement seasonal rates.⁵⁴

Mr. DeCelles also represented that he had the commitment of the current Mayor of Pawtucket that the City would not seek an exemption from fire protection charges should the increase for that charge be capped at five percent. Regarding the delay in commencing of certain projects, Mr. DeCelles acknowledged that putting off the projects did not put the system in jeopardy. He indicated that he was not prepared to respond to the question of whether or not further delay of the projects currently being delayed would result in harm to the ratepayers.⁵⁵

Mr. DeCelles described how the PWSB implemented two tax sales per year to step up its collection efforts coinciding them with the City's tax sales and using the same process, consultants, attorneys and schedules as the city. He also represented that should the Commission approve the conversion to monthly billing, the PWSB would not seek to re-employ the two meter readers that were laid off by the City previously but would maintain the current level of two meter readers. He noted that while the safe yield is between eighteen and twenty million gallons per day, the current average per day is less

⁵⁴ *Id.* at 123-130

⁵⁵ *Id.* at 130-140, 143, 150-151.

than ten million gallons per day. Even though the current average per day is well below the safe yield, Mr. DeCelles testified that the PWSB may have to implement conservation rates if the Water Resources Board plan takes only demand into consideration when developing a conservation rate plan.⁵⁶

Mr. Benson reaffirmed the agreement with the Division that the test year would be used for both service installation and penalty review. He also noted that the PWSB was willing to accept the Division's adjustments for private fire service. He described the PWSB's borrowing process noting that capital projects have been identified, but noted that the PWSB is currently waiting to meet with Clean Water Finance regarding the expected bond sale date. He stated that once rates were approved to provide debt service to meet debt obligations, the PWSB would apply to the Division for approval to proceed with the borrowing.⁵⁷

Mr. DeCelles explained that the only department that would be minimally impacted by the conversion to monthly billing would be the Tax Collection Office, because the majority of the conversion work in switching would be incurred by the Customer Service Department of the PWSB. He also noted that customers would continue to have the ability to pay their bills at City Hall and the PWSB offices. He explained the tax sale process as well as his hope that the implementation of monthly billing will reduce the number of accounts that become delinquent and subject to the tax lien sale process.⁵⁸

Ms. Crane testified on behalf of the Division and clarified the agreement to reduce two vacant positions from the revenue requirement and the incidental costs associated

⁵⁶ *Id.* at 140-148.

⁵⁷ *Id.* at 160-164.

⁵⁸ *Id.* at 164-173.

with those positions, i.e., payroll taxes, pension, life insurance, etc., for a total adjustment of \$131,194. Mr. Keough noted that Mr. Crane's representation of the agreement was accurate. She stated that she agreed with the three percent property tax amount in the interest of settlement. She noted that she did not review the benefits of monthly billing. When questioned about the Phase II impact, she testified that her concern was with the fact that the known and measurable standard is important particularly since this Docket is the first case proposing a multi-year increase since the enactment of the legislation allowing for such. She also noted that an inflation adjustment for Phase II would unfairly penalize ratepayers. She expressed concern with the fact that PWSB represented that it would likely file another rate case in 2013, which she noted was not really a delay in a future filing based on any increase approved for Phase II. She implied that the Phase II increase would be more palpable if PWSB represented that it would wait five years before filing another rate case. When questioned about whether the Division was opposed to monthly billing, Mr. Hagopian represented that the Division did not present any evidence to oppose the PWSB's request for the conversion.⁵⁹

VII. Commission Findings

On December 22, 2010, at the Commission's open meeting, the Commissioners deliberated on the evidence in the record. The three issues that remained in dispute between the parties were the manner in which to calculate consumption, the timing in which the amount of debt service would be collected from the ratepayers and the amount of the requested Phase II increase.

After discussion, the majority voted to approve a consumption figure half way between PWSB's proposal and the Division's recommendation. Recognizing that there

⁵⁹ *Id.* at 180-201.

have been six years of declines where the utility was unable to collect its anticipated revenues, that consumption has continued to decrease and may continue to decrease with the implementation of monthly billing and that an end to the decline in consumption is unknown, the majority opined that modifying the Division's recommendation to half of the adjustment it originally recommended would be fair and reasonable. It conditioned this allowance of additional funds to the test year amount on restricting any revenues that are obtained in excess of this target being held in a restricted account to afford the PWSB with greater IFR ability.

The Commission also discussed the PWSB's debt service funding proposal and how the appropriate timing would ensure that rates are producing the revenue required to make the PWSB's bond payments. The majority reasoned that in order to achieve an appropriate match, the PWSB should have six months of payments at the conclusion of FY2012. The fact that the revenue is restricted provides sufficient protections to ensure that the money is not being used for purposes other than those for which it is intended. Accepting that failure of the utility to comply with its bond covenants would jeopardize its bond rating, the majority agreed to allow the utility to collect the amount it proposed conditioning the approval upon the continuation of the requirement that such funds be restricted.

The last issue the Commission discussed was the proposal for a Phase II increase commencing on January 1, 2012. The majority approved the PWSB's proposal for a Phase II increase for new debt and trustee costs, denied the request for an inflationary adjustment and followed the Division's recommendation as to the increase to the revenue stability fund. The majority reasoned that its interpretation of the intent of the legislature

in passing R.I. Gen. Laws §39-15.1-4 was to allow for water utilities to obtain step increases for those expenses that were known and measurable. The majority did not believe that the statute was intended to “open up Pandora’s box” by allowing for every projected cost which the majority believed would undermine the Commission’s role in the ratemaking process. The majority opined that an increase for inflation as part of Phase II was speculative and not known or measurable and therefore denied it based on its interpretation of the legislative intent of the statute. With regard to the increase requested for the rate stabilization fund, the majority found no reason to increase the total amount of funding beyond the incremental increases, as the Commission had just approved the 1.5% of all operating expenses for the revenue stability fund as part of Phase I of this Docket. It therefore approved the PWSB’s request for an increase to the rate stabilization fund of 1.5% but only as to incremental costs as recommended by the Division. The Chairman dissented arguing that the statute, R.I. Gen. Laws §39-15.1-4 specifically refers to projections and therefore, the utility should not be limited to known and measurable changes.

Even though not disputed by the parties, the Commission is compelled to discuss its reasoning and decision with regard to the PWSB’s request to convert to monthly billing. Previously, in Docket No. 4026, the Commission found that the implementation of monthly billing by the Narragansett Bay Commission would allow customers the ability to better manage smaller bills. See Order No. 19693. The Commission has no evidence that would support denying this request. Currently, customers of National Grid, Pascoag Utility District, and the Narragansett Bay Commission are billed on a monthly basis. This frequency of billing affords the utility the access to the money it needs to

operate in a timelier manner than if it is collected quarterly. The Commission believes that the arguments presented by the PWSB support its request to convert to monthly billing. Not only did the PWSB present testimony as to the benefits that conversion to monthly billing would have on the Company, but it presented testimony regarding the benefits that would be provided to its ratepayers. Based on the evidence presented, the Commission finds that monthly billing will be beneficial to both the PWSB and to its ratepayers.

Accordingly, it is

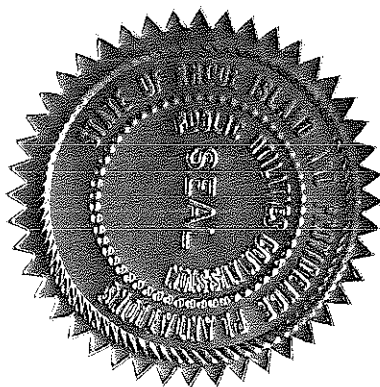
(20376) ORDERED:

1. The Pawtucket Water Supply Board's Application for a General Rate Increase, filed on April 14, 2010, is hereby denied and dismissed.
2. The Pawtucket Water Supply Board is granted a revenue increase of \$1,869,918, for a total cost of service of \$19,672,868 to be applied to usage on and after January 1, 2011.
3. The Pawtucket Water Supply Board shall restrict funds from rates for the following accounts annually: Debt Service (\$7,409,854); IFR (\$2,500,000); Capital Leases (\$0); and O&M Reserve (\$0).
4. The Pawtucket Water Supply Board is granted an increase of \$405,149 effective January 1, 2012 for its Phase II increase, specifically, \$396,661 for New Debt, \$2,500 for Trustee Fees and \$5,987 for its Revenue Stabilization Fund.
5. The Pawtucket Water Supply Board request to convert to monthly billing is approved.

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

EFFECTIVE AT WARWICK, RHODE ISLAND JANUARY 1, 2011
PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 22, 2010.
WRITTEN ORDER ISSUED JUNE 9, 2011.

PUBLIC UTILITIES COMMISSION




Elia Germani, Chairman


Mary E. Bray, Commissioner


Paul J. Roberti, Commissioner