

STATE OF RHODE ISLAND  
BEFORE THE  
PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION	)	Docket No. 4320
OF WOONSOCKET WATER DIVISION	)	
FOR AN INCREASE IN RATES FOR	)	
WATER SERVICE	)	

DIRECT TESTIMONY OF  
ANDREA C. CRANE  
REGARDING REVENUE REQUIREMENTS

ON BEHALF OF  
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

July 13, 2012

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**I. STATEMENT OF QUALIFICATIONS**

**Q. Please state your name and business address.**

A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211, Ridgefield, CT 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829)

**Q. By whom are you employed and in what capacity?**

A. I am President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various studies relating to utility rates and regulatory policy. I have held several positions of increasing responsibility since I joined The Columbia Group, Inc. in January 1989. I became President of the firm in 2008.

**Q. Please summarize your professional experience in the utility industry.**

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic (now Verizon) subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

**Q. Have you previously testified in regulatory proceedings?**

1 A. Yes, since joining The Columbia Group, Inc., I have testified in over 350 regulatory  
2 proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas,  
3 Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania,  
4 Rhode Island, South Carolina, Vermont, Washington, West Virginia and the District of  
5 Columbia. These proceedings involved water, wastewater, gas, electric, telephone, solid  
6 waste, cable television, and navigation utilities. A list of dockets in which I have filed  
7 testimony since January 2008 is included in Appendix A.

8  
9 **Q. What is your educational background?**

10 A. I received a Master of Business Administration degree, with a concentration in Finance, from  
11 Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in  
12 Chemistry from Temple University.

13  
14 **Q. Do you have any additional relevant experience?**

15 A. Yes, from January 1991 until January 1998, I served as Vice Chairman of the Water  
16 Pollution Control Commission in Redding, Connecticut. This Commission was charged with  
17 designing, constructing, and operating a sewage collection and treatment facility for the  
18 Town of Redding.

**II. PURPOSE OF TESTIMONY**

**Q. What is the purpose of your testimony?**

A. The Columbia Group, Inc. was engaged by The Division of Public Utilities and Carriers (“Division”) to review the recent base rate filing by Woonsocket Water Division (“WWD”) and to provide revenue requirement recommendations regarding the filing to the State of Rhode Island, Public Utilities Commission (“Commission”). In developing my revenue requirement recommendations, I reviewed WWD’s testimony and exhibits and the responses to data requests propounded upon WWD by the Division and by the Staff of the Commission. I also reviewed several prior Commission decisions as well as other documents useful in an analysis of WWD’s filing.

**III. SUMMARY OF CONCLUSIONS**

**Q. What are your conclusions concerning WWD's revenue requirement?**

A. Based on my review, my conclusions and recommendations are as follows:

1. Based on the Rate Year ending June 30, 2013, WWD has pro forma revenue at present rates of \$7,488,628, including \$7,243,696 in operating rate revenue and \$244,932 in miscellaneous service revenue (see Schedule ACC-1). This is the same pro forma revenue that WWD included in its filing. Thus, I am not recommending any revenue adjustments at this time.
2. WWD has pro forma costs, including pro forma debt service costs, of \$7,495,172 (see Schedule ACC-1).

3. Based on these determinations, a minimal rate increase of \$6,544 is appropriate.

This represents an increase of 0.09% over total pro forma rate revenue at present rates. My recommendation is significantly less than the rate increase of \$813,326, or 10.86%, requested by WWD in its filing (see Schedule ACC-1).

4. As of the preparation of this testimony, we are still waiting for a report referenced in the response to DIV 2-15, as well as the response to one informal request. My recommendations will be updated, if necessary, once we receive these responses.

#### **IV. DISCUSSION OF THE ISSUES**

##### **A. Introduction**

**Q. Please summarize WWD's request for rate relief in this case.**

**A.** WWD is requesting a rate increase of \$813,326 or 10.86% over its claimed level of pro forma revenue at present rates. WWD witness Walter Edge claims that the most significant issue in this case is the fact that the Company has not earned the level of revenue anticipated in its last base rate. In this case, WWD is proposing that the actual Test Year level of revenue be utilized as its pro forma Rate Year revenue.

With regard to operating expenses, WWD has done a relatively good job of holding down operating costs. As shown on Schedule DGB-2, WWD's unadjusted operating expenses (excluding restricted accounts) in the Test Year were only marginally higher than operating expenses in fiscal year 2008:

	Operating Expenses
Fiscal Year 2008	\$4,205,246
Fiscal Year 2009	\$4,646,721
Fiscal Year 2010	\$4,689,599
Fiscal Year 2011	\$4,216,255

These expenses include depreciation expense and do not include costs that were capitalized. Thus, one cannot directly compare these historic costs to the Normalized Test Year costs of \$3,783,372 (excluding restricted accounts) shown in Schedule WEE-3. Nevertheless, a review of the individual expense components does indicate that WWD appears to have done a relatively good job of controlling costs over the past few years.

WWD is proposing an increase of \$324,030 in various operating expenses, offset by a decrease of \$172,818 in certain restricted accounts. Thus, WWD has included a net increase of \$151,211 from the normalized Test Year to the Rate Year.

In spite of these modest increases, we still believe that WWD's Rate Year claim is overstated. In some cases, WWD has included Rate Year adjustments that are speculative and do not reflect known and measurable changes to the Test Year. In addition, WWD has also included City Services Charges that have not been supported with sufficient documentation. Finally, WWD included funding for some restricted accounts that we believe is excessive in light of historical spending and current account balances. Overall, we are recommending only a very modest rate increase for WWD. Each of our adjustments will be discussed in more detail below.

1  
2 **Q. In addition to its requested rate increase, are there other important issues that have a**  
3 **potential impact on WWD and future rates for water service?**

4 A. Yes, there are two important issues that should be noted. First, as described in the testimony  
5 of Ms. McGauvran, WWD is moving forward with its plans to construct a new treatment  
6 plant to meet the requirements of a June 27, 2008 Consent Agreement between the City of  
7 Woonsocket (“City”) and the Rhode Island Department of Environmental Management  
8 (“RIDEM”). That agreement imposed certain requirements relating to suspended solids and  
9 the discharge of filter backwash that must be met by March 1, 2013. The current filing  
10 includes debt service costs of \$50,000 relating to a short-term bridge loan with the Rhode  
11 Island Clean Water Finance Agency (“RICWFA”) for site acquisition and preliminary  
12 engineering for the new treatment plant, as stated in the response to DIV 2-21.

13 The second important issue is the impact, if any, of the City’s current financial  
14 difficulties upon the WWD. It is my understanding that a Budget Commission is currently  
15 overseeing the finances of the City. In response to CLC-1, WWD stated that as a standalone  
16 enterprise fund with its own revenue source, it should be excluded from Budget Commission  
17 oversight. Nevertheless, WWD acknowledged that the Budget Commission has broad  
18 oversight authority in the Budget Commission statute. WWD has asked the Budget  
19 Commission to clarify its role regarding oversight of WWD and its enterprise fund. In  
20 preparing my testimony, I have assumed that the Budget Commission’s activities and  
21 oversight responsibilities will not impact upon WWD’s operations or its finances. Similarly,



I have assumed that all existing WWD contracts, as well as City contracts that impact WWD employees, will be honored. The recommendations contained in this testimony could change if it is determined that the Budget Commission has the ability to terminate these contracts or to supersede the authority of the Commission with regard to WWD's operations and financial transactions.

**Q. Please summarize the post Test Year adjustments included by Mr. Edge in his testimony.**

A. Mr. Edge has included the following post Test Year adjustments in his revenue requirement claim:

Personnel Expense	\$110,943
Light and Power Expense	\$7,794
Property and Fire Tax Expense	\$10,903
Insurance Costs	\$204,389
Debt Service Reserve	(\$202,067)
Renewal and Replacement Reserve	(\$30,000)
Operating Reserve Allowance	\$59,249
Total	\$151,211

**Q. Are you recommending any adjustments to the Company's revenue or expense claims in this case?**

A. I am not recommending any adjustments to WWD's pro forma revenue claims. Based on documentation provided in this case, I believe that WWD's proposal to utilize the actual Test Year revenue levels for all revenue accounts is appropriate. I have reviewed the history of

each revenue category, both operating revenue and miscellaneous revenue. Based on this review, the use of the actual Test Year data appears reasonable. However, I am recommending adjustments to several of WWD's expense claims. Specifically, I am recommending adjustments to its claims for: Light and Power Expense, Property and Fire Tax Expense, Insurance Expense, City Services Charges Expense, Infrastructure Replacement Fund, Debt Service Reserve, and Operating Reserve Allowance.

**B. Light and Power Expense**

**Q. How did WWD determine its claim for Light and Power Expense?**

A. As shown in the details provided in Schedule WEE-6a, WWD's claim is based on Test Year electric usage, by electric account, adjusted for known and measurable changes in its energy charge from Hess. In addition, WWD reflected some minor adjustments to its charges for other components of Electric Rate Schedule G32.

**Q. Please describe your recommended adjustment to WWD's Light and Power Expense claim.**

A. A summary of WWD's adjustment is shown in Schedule WEE-6. As shown in that schedule, WWD's actual Test Year costs included \$1,202 in late payment penalties. These penalties are not an appropriate expense claim to recover from regulated ratepayers. WWD has the responsibility to pay its bills in a timely manner and to avoid late payment fees. Moreover, there is no indication that the delay in payment was due to the lack of funds by

1 WWD. Thus, WWD management should have taken the appropriate steps to see that its  
2 Light and Power bills were paid in a timely manner and that late payment fees were avoided.

3 In addition, since late payment fees are not a normal operating expense, they are not  
4 expected to reoccur in the future. Such non-recurring costs should be excluded from  
5 WWD's revenue requirement claim. For both these reasons, at Schedule ACC-2, I have  
6 made an adjustment to remove \$1,202 of late payment fees from WWD's claim for Light and  
7 Power Expenses.

8  
9 **C. Property and Fire Tax Expense**

10 **Q. How did WWD develop its claim for property and fire taxes?**

11 A. WWD first calculated the difference between its actual Test Year costs and its Interim Year  
12 costs for each taxing authority. As shown on Schedule WEE-7, WWD applied the resulting  
13 percentage increase to the Interim Year costs to develop its pro forma claim for the Rate  
14 Year.

15  
16 **Q. Are you recommending any adjustment to WWD's claim?**

17 A. Yes, I am. I recommend that the Company's claim be rejected, and that instead the Interim  
18 Year costs be reflected in the Company's revenue requirement. There is no evidence to  
19 suggest that the percentage increases experienced in the Interim Year will also be  
20 experienced in the Rate Year. As shown in Schedule DGB-2, Property and Fire Taxes have  
21 been very stable over the past three years: \$160,738 in fiscal year 2009, \$159,792 in fiscal

1 year 2010, and \$160,127 in fiscal year 2011. While costs did increase to \$163,543 in the  
2 Interim Year, any further increase would be speculative and would, in my view, not meet the  
3 regulatory criteria for a known and measurable change to the Test Year. Accordingly, I  
4 recommend that the Interim Year costs be reflected in WWD's revenue requirement. My  
5 adjustment, which reduces WWD's operating expenses by \$3,516, is shown in Schedule  
6 ACC-3.

7  
8 **D. Insurance Expense**

9 **Q. What costs are included in WWD's Insurance Expense claim?**

10 A. As shown on Schedule WEE-8, these costs include vehicles and equipment insurance,  
11 workman's compensation insurance, liability insurance, group life insurance, health  
12 insurance, and dental insurance.

13  
14 **Q. How did WWD develop its claim for Rate Year Insurance Expenses?**

15 A. Similar to the methodology used for Property and Fire Taxes, WWD first calculated the  
16 difference between its actual Test Year costs and its Interim Year costs for each insurance  
17 category. WWD then applied the resulting percentage increase to the Interim Year insurance  
18 costs to develop its pro forma claim for the Rate Year. WWD's methodology results in an  
19 increase of \$155,589. As shown in Schedule WEE-8, there was no increase between the Test  
20 Year and the Interim Year for three of the insurance categories: vehicles and equipment  
21 insurance, liability insurance, and group life insurance.

**Q. Have you accepted WWD's proposed adjustment?**

A. No, I have not. Once again, I believe that this methodology results in a speculative adjustment and should be rejected by the Commission. Instead, I recommend that the Commission utilize the Interim Year costs to determine WWD's revenue requirement. My adjustment is shown in Schedule ACC-4 and will reduce WWD's claimed Insurance Expense by \$81,425.

**E. City Services Charge Expense**

**Q. Please describe WWD's claim for City Services Charges.**

A. In its filing, WWD included a claim of \$320,453 related to charges allocated from the City. This allocation included both labor costs for services provided by City personnel as well as an allocation of certain non-labor costs. The annual amount of \$320,453 has been charged to WWD for the past three fiscal years.

**Q. How was this charge determined?**

A. In response to DIV 1-9, WWD provided a schedule purporting to support City Services Charges in the amount of \$326,122. This included \$201,671 in Personnel Services costs as well as other charges, as shown below:

Costs Allocated to WWD:	
Personnel Services	\$201,671
Personnel Budget Purchased Services (9%)	\$1,544
Finance Dept. Safety Paper & Supplies (15%)	\$1,490
Finance Dept. Equipment Maintenance (15%)	\$6,173
Tax Sales & Delinquent Account Collections	\$20,000
Apex & Other Software Costs (15%)	\$6,810
Opal & A/R Accounting Systems Maintenance	\$15,000
City Property Expenses (12.5%)	\$73,435
Total	\$326,122

Personnel costs include costs for the Finance, Public Works, and Executive Departments. Finance Department personnel allocations range from 9.0% to 20%. With regard to costs for the Director of Public Works and the Public Works Executive Secretary, 33% of these costs are allocated to WWD. In addition, 10% of the costs of the Office of the Mayor (Executive) are allocated to WWD.

With regard to non-labor costs, the largest cost category relates to a general City Property Expense allocation that includes electrical, heating, security, and other costs for the City Hall Building. According to the response to DIV 3-5, the accounting and customer service employees of the water department have office space in the City Hall. The response to DIV 1-9 indicates that WWD was allocated 12.5% of all City Property Expenses, based on a finding that 6 out of the 48 employees working in City Hall are water division employees.

**Q. Do City employees use timesheets to record and allocate their time?**

1 A. No, according to the response to DIV 3-4, City employees do not use timesheets to record  
2 their time. Therefore, there is no independent documentation to verify that the costs being  
3 allocated to WWD are reasonable relative to the amount of time being spent on WWD  
4 activities. Moreover, according to the response to DIV 3-6, no studies have been conducted  
5 within the last five years to support the costs allocated from the City to WWD. There is no  
6 assurance that the costs allocated to WWD are cost-based or commensurate with the effort  
7 required to safely and efficiently manage the water utility. Without such documentation, it is  
8 impossible to verify that the City Services Charge Expenses do not result in any  
9 subsidization of other City services by water utility customers.

10  
11 **Q. Are you recommending any adjustment to the City Services Charge Expenses allocated**  
12 **to WWD?**

13 A. Yes, I am. Unfortunately, neither the City nor WWD have provided sufficient documentation  
14 to verify the reasonableness of the cost allocation. In the absence of any studies or  
15 timesheets to support the allocation, it is very difficult to determine the appropriate amount  
16 of costs, if any, that should be allocated to WWD. Faced with this difficulty, I am  
17 recommending that the Commission disallow the personnel costs for the Office of the Mayor  
18 and the City Property Expenses associated with City Hall.

19 Both the personnel costs associated with the Office of the Mayor and the City  
20 Property Expenses are fixed costs. Regardless of the amount of time and effort spent by the  
21 Mayor on WWD activities, the City is required to pay its Mayor and to operate City Hall.

1 Thus, these costs would be incurred by the City regardless of whether or not it offered  
2 municipal water service. Accordingly, I am recommending that these two areas of cost be  
3 eliminated from WWD's revenue requirement. I am not recommending any adjustment to  
4 the remaining personnel or non-labor costs allocated to WWD. While I recognize that the  
5 City has failed to fully support these costs, nevertheless it is reasonable to conclude that  
6 some level of incremental support is being provided to WWD. Therefore, I have limited my  
7 recommended adjustments to the fixed executive-type costs discussed above. My  
8 adjustment is shown in Schedule ACC-5. My recommendation to remove the Office of the  
9 Mayor charges and the City Property Expenses reduces the City Services Charge Expense  
10 from \$320,453 to \$236,300.

11  
12 **Q. Isn't it reasonable to assume that some level of Executive Support and City Property**  
13 **expenses associated with City Hall should be allocated to WWD?**

14 A. If WWD or the City had provided timesheets and other detailed documentation to support the  
15 City Services Charges Expense allocations, then it may have been reasonable to include  
16 some amount of executive costs or general City Hall costs in water utility rates. However,  
17 given the lack of supporting documentation, it was necessary to develop a recommendation  
18 that would balance the need to compensate the City fairly with the need to ensure that water  
19 utility rates are reasonable and include only those costs necessary to provide safe and reliable  
20 service. Therefore, my recommendation, which only eliminates executive-level fixed costs  
21 that would be incurred in the absence of the WWD, provides an appropriate balance and



1 should be adopted by the Commission.

2  
3 **Q. Are you recommending any other adjustment to the Company's claim for City Services**  
4 **Charge Expenses?**

5 A. Yes, I am. On May 3, 2012, the Commission issued an Order in Docket No. 4309, requiring  
6 the WWD to net certain hydrant fees owed by the City against City Services Charges until  
7 such time as the WWD recovered the hydrant fees owed. To provide a brief background,  
8 R.I.G.L. § 39-3-11.1(C) states, "In setting rates for publicly owned water authorities, the  
9 commission shall not require the payment of rental fees for fire hydrants from any  
10 municipality that has prohibited such fees by ordinance as provided in section 45-39-4 and  
11 has given notice to the commission of said ordinance." On December 22, 2011, the City  
12 filed a Hydrant Ordinance with the Commission prohibiting hydrant fees to the City and  
13 stating that "the rental or other charges for any fire hydrant located within the city which is  
14 supplied by the Water Division shall be the responsibility of the water ratepayers of the  
15 Water Division." WWD subsequently filed a request to recover the revenue that would no  
16 longer be collected from hydrant charges to the City from City ratepayers. The Commission  
17 approved the implementation of a fire protection charge, effective February 1, 2012.

18 In evaluating the Hydrant Ordinance and request for a fire protection charge, the  
19 Commission determined that the City had not been paid the hydrant charge to the WWD  
20 since July 1, 2011, and that the City did not intend to pay these arrearages due to budget  
21 constraints. The total amount due to WWD for service prior to December 22, 2012 is

1       \$272,932.<sup>1</sup> The Commission ordered that WWD “collect the public fire protection charge  
2       from the City of Woonsocket for the period July 1, 2011 through December 21, 2011 by  
3       netting the Hydrant Fees it is owed by the City against the City Services it is required to pay  
4       to the City at the level allowed in Docket No. 3800 until such time as the hydrant fee  
5       receivable has been reduced to zero.”

6             In response to COMM 1-27, WWD stated that “the offset approach suggested by the  
7       Commission was impossible because given the City’s very difficult financial position the  
8       City had already collected the City Services revenue.” This statement is problematic for two  
9       reasons. First, the Commission did not “suggest” this offset, rather, it ordered such an offset  
10      to be made. Second, the fact that the WWD had prepaid the City Services charges casts  
11      further doubt on the argument that that these charges are cost-based reimbursements for  
12      services rendered, and instead suggests that the City Services Charges are viewed by both  
13      parties as simply a revenue-transfer mechanism to force WWD ratepayers to contribute to  
14      the City’s General Fund.

15  
16   **Q.     What do you recommend?**

17   A.     Since the WWD was not able to comply with the Commission’s order during the fiscal year  
18       ending June 30, 2012, I recommend that the Commission impute the past-due City hydrant  
19       revenue into rates that will be established as a result of this case. Accordingly, at Schedule  
20       ACC-5, I have made an adjustment to reduce the pro forma annual City Service Charges that

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1 Order in Docket No. 4309, page 5.

1 I recommended above, by the amount that is owned to WWD by the City. In calculating this  
2 offset, I have assumed a three-year amortization period for the amounts owed. Thus, I have  
3 reduced the \$236,300 that I recommended above for City Services Charge Expense by  
4 \$90,977 annually.

5  
6 **Q. What is the total adjustment that you are recommending to WWD's City Services**  
7 **Charges?**

8 A. As shown in Schedule ACC-5, I am recommending a total adjustment of \$175,130. This  
9 includes an adjustment of \$84,153 relating to the elimination of the Office of the Mayor  
10 allocation and City Property Expense, and \$90,977 relating to amortization of the past due  
11 amounts owed by the City for past due hydrant charges.

12  
13 **F. Infrastructure Replacement Fund**

14 **Q. How much is the WWD requesting in this case for annual funding of the Infrastructure**  
15 **Replacement Fund?**

16 A. The WWD is requesting continuation of the amount of annual funding to the Infrastructure  
17 Replacement Fund approved in the last rate case, i.e., \$1,956,000.

18  
19 **Q. Has WWD actually spent the amounts allocated to the Infrastructure Replacement**  
20 **Fund over the past few years?**

21 A. No, WWD has not spent anywhere near the level of authorized Infrastructure Replacement

Fund allocations over the last several years. As shown in the response to DIV 2-12, WWD's actual Infrastructure Replacement Fund expenditures over the past four years were as follows:

	Actual IFR Expenditures
2008	\$384,934
2009	\$360,331
2010	\$1,287,467
2011	\$1,268,023

In addition, as shown in Schedule WWD-10, WWD currently has accrued carryover funds of \$5,791,096. Therefore, WWD has not undertaken the level of Infrastructure Replacement Fund expenditures authorized by the Commission even though significant funds were available for additional projects.

Moreover, it is likely that much of WWD's attention over the next few years will be focused on construction of the new treatment plant. As a result, there may not be as much emphasis on Infrastructure Replacement (or Renewal and Replacement) projects as there would otherwise be. In addition, it is my understanding that WWD does not have a permanent Superintendent in place at this time, a fact that is also likely to have an impact on the level of activity relating to Infrastructure Replacement and Renewal and Replacement projects. I would expect reduced activity with regard to these projects until such time as a permanent Superintendent is hired and has the opportunity to assess WWD's Infrastructure Replacement and Renewal and Replacement programs. Accordingly, there is no reason to believe that WWD will be spending considerably more from the Infrastructure Replacement

Fund than it has spent over the past few years.

**Q. What do you recommend?**

A. Given the fact that WWD has not spent its authorized annual Infrastructure Replacement Fund allowance over the past several years, and given the large surplus that has accumulated in the Fund, I recommend that the annual Infrastructure Replacement Fund allowance included in prospective rates be reduced to \$1,500,000. This is still well above the amount actually spent by WWD in any of the past four years but it is a more reasonable allowance than the \$1,956,000 claimed by WWD. Moreover, since I understand that WWD intends to file another rate case within a relatively short period of time, the parties will have the opportunity to examine more recent data and make an adjustment in the next case, if the WWD demonstrates that it has significantly increased the amount spent on Infrastructure Replacement Fund projects. My adjustment to reduce WWD's Infrastructure Replacement Fund allowance from \$1,956,000 to \$1,500,000 is shown in Schedule ACC-6.

**G. Debt Service Reserve**

**Q. How much has WWD included in its claim for Debt Service Reserve costs?**

A. WWD has included Debt Service Reserve funding of \$1,630,000 in its claim. This represents a reduction from the \$1,832,067 currently embedded in base rates.

**Q. What is the current balance of the Debt Service Reserve account?**

1 A. As shown on Schedule WEE-12, WWD projected a surplus of \$436,781 at the end of fiscal  
2 year 2012.

3  
4 **Q. Are you recommending any adjustment to WWD's claim?**

5 A. Yes, I am. Debt Service Reserve costs are easier to estimate than other types of costs  
6 incurred by WWD, due to the fact that these costs are tied to specific financing agreements  
7 and the annual payments are established many years into the future. Moreover, WWD has  
8 virtually no discretion over these expenditures. Unlike Infrastructure Replacement Fund  
9 projects, WWD cannot choose to delay debt service payments or to modify the size of a  
10 payment. Accordingly, the Debt Service Reserve expenditures are predicable and stable.

11 Given that these expenditures are known with relative certainty, I believe that that the  
12 Debt Service Reserve funding proposed by WWD is excessive. As shown in Schedule  
13 WEE-12, WWD projects a reserve balance of \$436,781 by the end of the 2012 Fiscal Year  
14 and projects annual funding of \$1,703,112 in Fiscal Years 2013, 2014, and 2015. Assuming  
15 that the 2012 Fiscal Year surplus is amortized over three years, WWD would need only  
16 \$1,557,518 per year in the Rate Year and subsequent two years to fund its debt service costs.  
17 While I believe it is reasonable to include some amount over this minimum funding level in  
18 utility rates, I believe that WWD's claim is too high, especially when one considers the  
19 relative stability of these payments. Given a projected net annual cost of \$1,557,518, I am  
20 recommending that the Commission include an annual Debt Service Reserve funding level of  
21 \$1,600,000 in utility rates. This amount will still provide some "cushion" to WWD to meet

unanticipated Debt Service Reserve costs, but it is more reasonable for ratepayers than the \$1,630,000 proposed by WWD. My adjustment is shown in Schedule ACC-7.

**H. Operating Reserve Allowance**

**Q. What is an Operating Reserve Allowance?**

A. WWD is not an investor-owned utility. Accordingly, it is regulated on a cash-flow basis. WWD's revenue requirement does not include any return on rate base, which is traditionally included in the revenue requirement of an investor-owned utility. However, the Commission has traditionally allowed municipal water utilities to collect an Operating Reserve Allowance of 1.5% of expenses in order to mitigate cash-flow problems, and to provide for unforeseen expenditures or reduced revenue. WWD has included an Operating Reserve Allowance of 1.5% of total costs in its revenue requirement claim.

**Q. What are you recommending in this case?**

A. I recommend that the Commission continue to permit WWD to recover a 1.5% Operating Reserve Allowance, but I recommend that this percentage be applied only to WWD's operating and maintenance expenses. These costs are subject to greater variation and uncertainty than the capital costs included in WWD's filing. Accordingly, at Schedule ACC-8, I have made an adjustment to apply the 1.5% Operating Reserve Allowance to the pro forma level of operating and maintenance expenses that I have found to be reasonable. In developing my adjustment, I applied the 1.5% to all costs except for the Infrastructure

1 Replacement Fund, the Debt Service Reserve, and the Renewal and Replacement Reserve.

2 It should be noted that I have included both the Chemical Expense Reserve and Rate Case  
3 Expense Reserve in the amounts to which the 1.5% is applied. As discussed below, I am  
4 recommending that the Commission terminate the restrictions on these two accounts. If my  
5 recommendation is accepted, then chemical costs and rate case costs would be considered as  
6 normal operating and maintenance costs and would be included in the Operating Reserve  
7 Allowance along with other operating and maintenance expenses.

8  
9 **Q. If the Commission rejects your recommendation to terminate the restriction of these**  
10 **two accounts, would you still recommend that these reserves be included in the**  
11 **calculation of the Operating Reserve Allowance?**

12 A. Yes, I would. Even if the Commission decides to continue the restricted funding of these  
13 two accounts, I still recommend that the Chemical Expense Reserve and Rate Case Expense  
14 Reserve be included in the calculation of the Operating Reserve Allowance. Although in  
15 that case, the annual funding amounts associated with these reserves would not vary each  
16 year, the actual underlying costs would still be subject to annual fluctuations, as would  
17 disbursements from the reserve. Therefore, I believe that it would be appropriate to include  
18 the Chemical Reserve and Rate Case Reserve in the costs that are subject to the Operating  
19 Reserve Allowance. Disbursements from the remaining reserve accounts do not fluctuate  
20 significantly and/or are within WWD's control and therefore funding for the Infrastructure  
21 Replacement Fund, the Debt Service Reserve, and the Renewal and Replacement Reserve



1 should not be included in the costs subject to the Operating Reserve Allowance.

2  
3 **Q. Is your recommendation consistent with the Commission's decision in prior WWD**  
4 **cases?**

5 A. Yes, it is. I made a similar adjustment in Docket 3800. Moreover, in my testimony in that  
6 case, I noted that my adjustment was consistent with the Commission's decision in the  
7 preceding WWD rate case (Docket No. 3626). Mr. Edge later acknowledged that my  
8 recommendation was consistent with the Commission's prior determination. Moreover, in  
9 Data Request COMM 1-22 from Docket No. 3800, Mr. Edge indicated that he would accept  
10 my methodology in his rebuttal testimony, stating that he would "use the Commission  
11 approved approach." The Commission noted in its Order in Docket No. 3800 that Mr. Edge  
12 "also agreed with the methodology used by Ms. Crane in calculating the Operating Reserve  
13 Allowance."<sup>2</sup> Thus, the methodology that I am recommending in this case has been utilized  
14 in the past two WWD cases and has been accepted by Mr. Edge.

15  
16 **Q. What is the impact of your adjustment?**

17 A. My recommendation to exclude the Infrastructure and Replacement Fund, the Renewal and  
18 Replacement Reserve, and the Debt Service Reserve from the calculation of the Operating  
19 Reserve Allowance will reduce the Operating Reserve Allowance by \$55,590. In addition,

20  

---

2 Order in Docket No. 3800, page 14.

1 the operating expense adjustments that I have recommended will reduce the Operating  
2 Reserve Allowance by an additional \$3,919. Thus, my total recommended reduction to the  
3 Operating Reserve Allowance proposed by WWD is \$59,509, as shown in Schedule ACC-8.

4  
5 **I. Other Restricted Accounts**

6 **Q. Please identify the restricted accounts that are included in WWD's revenue**  
7 **requirement.**

8 A. WWD currently has five restricted accounts: the Chemical Expense Reserve, Renewal and  
9 Replacement Reserve, Infrastructure Replacement Fund, Rate Case Expense Reserve, and  
10 Debt Service Reserve.

11  
12 **Q. Does WWD have any discretion as to whether or not to fund these reserves?**

13 A. While the intent is that WWD will fund these reserves on an annual basis, up to the amount  
14 specified in its authorized revenue requirement, in practice WWD does have varying degrees  
15 of discretion with regard to funding at least some of these accounts. The only reserve over  
16 which WWD has virtually no discretion is the Debt Service Reserve. This is because WWD  
17 has a legal and contractual obligation to meet its debt service payments. Moreover, as noted  
18 above, these payments are relatively predictable and stable. WWD knows what its debt  
19 service payments will be for many years into the future as soon as new debt is issued and a  
20 debt amortization schedule is determined. This is similar to a homeowner knowing with  
21 certainly what his mortgage payment will be for thirty years into the future.

1           With regard to the Infrastructure Replacement Fund and the Renewal and  
2           Replacement Reserve, WWD does have some discretion regarding both the funding of these  
3           reserves and expenditures made from the reserves. While there may be certain capital  
4           projects that must be completed at any given time, for the most part the projects funded by  
5           these reserves can be scheduled to take advantage of available funds. Similarly, if funds are  
6           not available in these reserves, then projects may be postponed or rescheduled to a later date.

7           The last two reserves, the Chemical Expense Reserve and the Rate Case Expense  
8           Reserve, are mechanisms to fund ongoing operating expenses of WWD. Chemical costs are  
9           normal expenses that are integral to the operation of any water utility. Moreover, WWD,  
10          and other water utilities, have limited ability to control or impact these costs. The most  
11          significant factor impacting chemical costs is customer usage and the utility's ultimate level  
12          of water sales. Chemical costs are also periodically impacted by the need to replace carbon  
13          filters, although water utilities do have some limited flexibility with regard to the timing of  
14          such replacements.

15          Rate case expenses, while not being incurred every year, are incurred periodically  
16          and again constitute a normal, ongoing operating expense for the utility. In addition, while  
17          some rate case costs are in the utility's direct control, there is some minimal level of rate  
18          case cost that must be incurred in order to actually compile and file a base rate case.  
19          Therefore, if a utility wants to file a base rate case, it must incur some level of rate case cost  
20          regardless of the balance in the Rate Case Expense Reserve, just as if a utility wants to sell  
21          water, there is some level of chemical expense that must be incurred regardless of the

1 balance in the Chemical Expense Reserve account.

2 In general, having multiple restricted accounts adds complexity to the accounting  
3 function and, by definition, somewhat restricts the ability of the utility to manage its  
4 operations. Therefore, regulatory commissions should utilize restricted accounts only when  
5 there is a compelling reason to do so. There is no compelling rationale at this time for  
6 restricting the funds utilized for chemical expenses or for rate case costs. For these reasons,  
7 I believe that the Chemical Expense Reserve and the Rate Case Expense Reserve should be  
8 terminated and instead the WWD's revenue requirement should include a normalized level  
9 of chemical expenses and rate case costs.

10  
11 **Q. Does your recommendation to terminate the Chemical Expense Reserve and the Rate**  
12 **Case Expense Reserve have any impact on WWD's revenue requirement in this case?**

13 A. No, it does not. In both cases, I believe that the annual amounts included in WWD's claim  
14 are reasonable. With regard to chemical costs, WWD incurred \$218,018 of such costs in the  
15 Test Year. While this is less than the annual amount of \$296,000 that WWD proposes to  
16 include in rates, utility rates should reflect some allowance for periodic carbon filter  
17 replacements, in addition to routine chemical costs. Given the historic level of carbon filter  
18 replacement costs and the frequency with which such filters are replaced, I believe that  
19 \$296,000 is a normalized, reasonable level of chemical expense to include in utility rates.

20 Similarly, while WWD will not have a rate case every year, a normalized level of rate  
21 case costs should be included in annual rates so that WWD will have sufficient funds to file a

base rate case when one is required. WWD is seeking to continue the recovery of \$69,864 annually that was authorized in Docket No. 3800. The WWD's claim is based on a two-year amortization of net rate case costs for the current case of \$163,743, which includes an offset of \$63,565 in funds collected during the Interim Year. This would result in annual costs of \$81,872 over the first two years of new rates, slightly more than the amount that WWD seeks to recover in rates. Therefore, while I am recommending that the Commission terminate the restrictions on amounts collected for chemical expenses and rate case costs, I am not recommending any adjustment to the annual expenses included in WWD's revenue requirement claim relating to these items.

**V. SUMMARY OF REVENUE REQUIREMENT RECOMMENDATIONS**

**Q. What is the result of the adjustments that you are recommending in this case?**

A. I am recommending that following adjustments to WWD's claim:

Light and Power Expense	(\$1,202)
Property and Fire Tax Expense	(\$3,516)
Insurance Expense	(\$81,425)
City Services Expense	(\$175,130)
Infrastructure Replacement Fund	(\$456,000)
Debt Service Reserve	(\$30,000)
Operating Reserve Allowance	(\$59,509)
Total Adjustments	(\$806,782)

1           My adjustments reduce WWD's revenue requirement from the \$8,301,954 reflected in Mr.  
2           Edge's testimony to \$7,495,172. Based on pro forma revenue at present rates of \$7,488,628,  
3           I recommend a rate increase of \$6,544 or 0.09% of total rate revenue.

4

5   **Q.    Does this conclude your testimony?**

6   A.    Yes, it does.

## **APPENDIX A**

### **List of Testimonies Filed Since January 2008**

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Atmos Energy Company	G	Kansas	12-MKEE-564-RTS	6/12	Revenue Requirements	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	110258	5/12	Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company (Western)	E	Kansas	12-MKEE-491-RTS	5/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atlantic City Electric Company	E	New Jersey	ER11080469	4/12	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company (Southern Pioneer)	E	Kansas	12-MKEE-380-RTS	4/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	11-381F	2/12	Gas Cost Rates	Division of the Public Advocate
Atlantic City Electric Company	E	New Jersey	EO11110650	2/12	Infrastructure Investment Program (IIP-2)	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	11-384F	2/12	Gas Service Rates	Division of the Public Advocate
New Jersey American Water Co.	W/WW	New Jersey	WR11070460	1/12	Consolidated Income Taxes Cash Working Capital	Division of Rate Counsel
Westar Energy, Inc.	E	Kansas	12-WSEE-112-RTS	1/12	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Puget Sound Energy, Inc.	E/G	Washington	UE-111048 UG-111049	12/11	Conservation Incentive Program and Others	Public Counsel
Puget Sound Energy, Inc.	G	Washington	UG-110723	10/11	Pipeline Replacement Tracker	Public Counsel
Empire District Electric Company	E	Kansas	11-EPDE-856-RTS	10/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Comcast Cable	C	New Jersey	CR11030116-117	9/11	Forms 1240 and 1205	Division of Rate Counsel
Artesian Water Company	W	Delaware	11-207	9/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS (Remand)	7/11	Rate Case Costs	Citizens' Utility Ratepayer Board
Midwest Energy, Inc.	G	Kansas	11-MDWE-609-RTS	7/11	Revenue Requirements	Citizens' Utility Ratepayer Board
Kansas City Power & Light Company	E	Kansas	11-KCPE-581-PRE	6/11	Pre-Determination of Ratemaking Principles	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	10-421	5/11	Revenue Requirements Cost of Capital	Division of the Public Advocate
Mid-Kansas Electric Company	E	Kansas	11-MKEE-439-RTS	4/11	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
South Jersey Gas Company	G	New Jersey	GR10060378-79	3/11	BGSS / CIP	Division of Rate Counsel
Chesapeake Utilities Corporation	G	Delaware	10-296F	3/11	Gas Service Rates	Division of the Public Advocate
Westar Energy, Inc.	E	Kansas	11-WSEE-377-PRE	2/11	Pre-Determination of Wind Investment	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	G	Delaware	10-295F	2/11	Gas Cost Rates	Attorney General



<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Delmarva Power and Light Company	G	Delaware	10-237	10/10	Revenue Requirements Cost of Capital	Division of the Public Advocate
Pawtucket Water Supply Board	W	Rhode Island	4171	7/10	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey Natural Gas Company	G	New Jersey	GR10030225	7/10	RGGI Programs and Cost Recovery	Division of Rate Counsel
Kansas City Power & Light Company	E	Kansas	10-KCPE-415-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Atmos Energy Corp.	G	Kansas	10-ATMG-495-RTS	6/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Empire District Electric Company	E	Kansas	10-EPDE-314-RTS	3/10	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Delmarva Power and Light Company	E	Delaware	09-414 and 09-276T	2/10	Cost of Capital Rate Design Policy Issues	Division of the Public Advocate
Delmarva Power and Light Company	G	Delaware	09-385F	2/10	Gas Cost Rates	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	09-398F	1/10	Gas Service Rates	Division of the Public Advocate
Public Service Electric and Gas Company	E	New Jersey	ER09020113	11/09	Societal Benefit Charge Non-Utility Generation Charge	Division of Rate Counsel
Delmarva Power and Light Company	G	Delaware	09-277T	11/09	Rate Design	Division of the Public Advocate
Public Service Electric and Gas Company	E/G	New Jersey	GR09050422	11/09	Revenue Requirements	Division of Rate Counsel
Mid-Kansas Electric Company	E	Kansas	09-MKEE-969-RTS	10/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy, Inc.	E	Kansas	09-WSEE-925-RTS	9/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08050326 EO08080542	8/09	Demand Response Programs	Division of Rate Counsel
Public Service Electric and Gas Company	E	New Jersey	EO09030249	7/09	Solar Loan II Program	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	09-MDWE-792-RTS	7/09	Revenue Requirements	Citizens' Utility Ratepayer Board
Westar Energy and KG&E	E	Kansas	09-WSEE-641-GIE	6/09	Rate Consolidation	Citizens' Utility Ratepayer Board
United Water Delaware, Inc.	W	Delaware	09-60	6/09	Cost of Capital	Division of the Public Advocate
Rockland Electric Company	E	New Jersey	GO09020097	6/09	SREC-Based Financing Program	Division of Rate Counsel
Tidewater Utilities, Inc.	W	Delaware	09-29	6/09	Revenue Requirements Cost of Capital	Division of the Public Advocate
Chesapeake Utilities Corporation	G	Delaware	08-269F	3/09	Gas Service Rates	Division of the Public Advocate

<u>Company</u>	<u>Utility</u>	<u>State</u>	<u>Docket</u>	<u>Date</u>	<u>Topic</u>	<u>On Behalf Of</u>
Delmarva Power and Light Company	G	Delaware	08-266F	2/09	Gas Cost Rates	Division of the Public Advocate
Kansas City Power & Light Company	E	Kansas	09-KCPE-246-RTS	2/09	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Jersey Central Power and Light Co.	E	New Jersey	EO08090840	1/09	Solar Financing Program	Division of Rate Counsel
Atlantic City Electric Company	E	New Jersey	EO06100744 EO08100875	1/09	Solar Financing Program	Division of Rate Counsel
West Virginia-American Water Company	W	West Virginia	08-0900-W-42T	11/08	Revenue Requirements	The Consumer Advocate Division of the PSC
Westar Energy, Inc.	E	Kansas	08-WSEE-1041-RTS	9/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Artesian Water Company	W	Delaware	08-96	9/08	Cost of Capital, Revenue, New Headquarters	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR08020113	9/08	Form 1205 Equipment & Installation Rates	Division of Rate Counsel
Pawtucket Water Supply Board	W	Rhode Island	3945	7/08	Revenue Requirements	Division of Public Utilities and Carriers
New Jersey American Water Co.	W/WW	New Jersey	WR08010020	7/08	Consolidated Income Taxes	Division of Rate Counsel
New Jersey Natural Gas Company	G	New Jersey	GR07110889	5/08	Revenue Requirements	Division of Rate Counsel
Kansas Electric Power Cooperative, Inc.	E	Kansas	08-KEPE-597-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Public Service Electric and Gas Company	E	New Jersey	EX02060363 EA02060366	5/08	Deferred Balances Audit	Division of Rate Counsel
Cablevision Systems Corporation	C	New Jersey	CR07110894, et al..	5/08	Forms 1240 and 1205	Division of Rate Counsel
Midwest Energy, Inc.	E	Kansas	08-MDWE-594-RTS	5/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board
Chesapeake Utilities Corporation	G	Delaware	07-246F	4/08	Gas Service Rates	Division of the Public Advocate
Comcast Cable	C	New Jersey	CR07100717-946	3/08	Form 1240	Division of Rate Counsel
Generic Commission Investigation	G	New Mexico	07-00340-UT	3/08	Weather Normalization	New Mexico Office of Attorney General
Southwestern Public Service Company	E	New Mexico	07-00319-UT	3/08	Revenue Requirements Cost of Capital	New Mexico Office of Attorney General
Delmarva Power and Light Company	G	Delaware	07-239F	2/08	Gas Cost Rates	Division of the Public Advocate
Atmos Energy Corp.	G	Kansas	08-ATMG-280-RTS	1/08	Revenue Requirements Cost of Capital	Citizens' Utility Ratepayer Board

## **APPENDIX B**

### **Supporting Schedules**

## Schedule ACC-1

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
REVENUE REQUIREMENT SUMMARY

	WWD Claim (A)	Recommended Adjustments		Recommended Position
1. Personnel Expenses	\$1,497,672	\$0		\$1,497,672
2. Maintenance & Servicing Expenses	898,518	(4,718)	(C)	893,800
3. Operating Supplies & Expenses	106,133	0		106,133
4. General Expenses	1,605,078	(256,555)	(D)	1,348,523
5. Chemical Expense Reserve	296,000	0		296,000
6. Renewal & Replacement Reserve	120,000	0		120,000
7. Infrastructure Replacement Fund	1,956,000	(456,000)	(E)	1,500,000
8. Rate Case Expense Reserve	69,864	0		69,864
9. Debt Service Reserve	1,630,000	(30,000)	(F)	1,600,000
10. Operating Reserve Allowance	<u>122,689</u>	<u>(59,509)</u>	(G)	<u>63,180</u>
11. Total Revenue Requirement	\$8,301,954	(\$806,782)		\$7,495,172
12. Operating Revenues @ Present Rates (B)	<u>7,488,628</u>	<u>0</u>		<u>7,488,628</u>
13. Revenue Deficiency	<u><b>\$ 813,326</b></u>			<u><b>\$6,544</b></u>
14. Increase over Present Rates	10.86%			0.09%

## Sources:

(A) Schedule WEE-3.

(B) Schedule WEE-1.

(C) Schedule ACC-2, ACC-3.

(D) Schedule ACC-4, ACC-5.

(E) Schedule ACC-6.

(F) Schedule ACC-7.

(G) Schedule ACC-8.

Schedule ACC-2

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
MAINTENANCE & SERVICING EXPENSES (LIGHT & POWER)

1. Late Charges	<u>\$1,202</u>	(A)
2. Recommended Adjustment	<u><u>(\$1,202)</u></u>	

Sources:

(A) Schedule WEE-6.

Schedule ACC-3

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
MAINTENANCE & SERVICING EXPENSES (PROPERTY AND FIRE TAXES)

1. Interim Year Expense	\$163,543	(A)
2. WWD Claim	<u>167,059</u>	(A)
3. Recommended Adjustment	<u><b>(\$3,516)</b></u>	

Sources:

(A) Schedule WEE-7.

Schedule ACC-4

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
GENERAL EXPENSES (INSURANCE)

1. Interim Year Expense	\$ 1,045,115	(A)
2. WWD Claim	<u>1,126,540</u>	(A)
3. Recommended Adjustment	<u><u>(\$81,425)</u></u>	

Sources:

(A) Schedule WEE-8.

Schedule ACC-5

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
GENERAL EXPENSES (CITY SERVICES CHARGES)

1. WWD Claim	\$320,453	(A)
2. City Property Allocation	(73,435)	(B)
3. Executive Allocation	<u>(10,718)</u>	(B)
4. Pro Forma Expense	\$236,300	
5. Hydrant Adjustment	<u>(90,977)</u>	(C)
6. Net Annual Expense	\$145,323	
7. WWD Claim	<u>320,453</u>	(A)
8. Recommended Adjustment	<u><u>(\$175,130)</u></u>	

Sources:

(A) Schedule WEE-3.

(B) Response to DIV 1-9.

(C) Reflects amortization of \$272,932 owed to the WWD, per page 5 of Commission Order in Docket No. 4309, amortized over 3 years.



Schedule ACC-6

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
INFRASTRUCTURE REPLACEMENT FUND

1. Recommended Annual Funding	\$1,500,000	(A)
2. WWD Claim	<u>1,956,000</u>	(B)
3. Recommended Adjustment	<u><u>(\$456,000)</u></u>	

Sources:

(a) Schedule WEE-10.

(B) Recommendation of Ms. Crane.

Schedule ACC-7

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
DEBT SERVICE RESERVE

1. Annual Debt Service Costs		\$1,703,112	(A)
2. Rate Year Beginning Balance	\$436,781		(A)
3. Amortization Period (Yrs.)	<u>3</u>		(B)
4. Annual Amortization		<u>(145,594)</u>	
5. Annual Debt Service Requirement		\$1,557,518	
6. Recommended Debt Service Allowance		1,600,000	(B)
7. WWD Claim		<u>1,630,000</u>	(A)
8. Recommended Adjustment		<u><u>(\$30,000)</u></u>	

Sources:

(A) Schedule WEE-12.

(B) Recommendation of Ms. Crane.

Schedule ACC-8

WOONSOCKET WATER DEPARTMENT  
RATE YEAR ENDING JUNE 30, 2012  
OPERATING RESERVE ALLOWANCE

1. Pro Forma Operating Expenses	\$ 3,846,128	(A)
2. Chemicals Reserve	296,000	(B)
3. Rate Case Reserve	<u>69,864</u>	(C)
4. Total Pro Forma Costs	\$ 4,211,992	
5. Operating Reserve Ratio	<u>1.50%</u>	(D)
6. Pro Forma Operating Reserve	\$63,180	
7. WWD Claim	<u>122,689</u>	(D)
8. Recommended Adjustment	<u><u>(\$59,509)</u></u>	

Sources:

(A) Schedule ACC-1, lines 1-4.

(B) Schedule ACC-1, line 5.

(C) Schedule ACC-1, line 8.

(D) Testimony of Mr. Edge, page 13, line 27.

## **APPENDIX C**

### **Referenced Data Requests**

**DIV 1-9**

**DIV 2-12**

**DIV 2-21**

**DIV 3-4**

**DIV 3-5**

**DIV 3-6**

**COMM 1-27**

**CLC-1**

**COMM 1-22 (Docket No. 3800)**

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF WOONSOCKET  
WATER DIVISION APPLICATION  
TO CHANGE RATES

DOCKET NO. 4320

THE CITY OF WOONSOCKET, WATER DIVISION'S RESPONSES  
TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
FIRST SET OF DATA REQUESTS  
(Issued April 4, 2012)

DIV 1-9.	Reference Schedule DGB-3, City Service Charges. Please explain the nature of the services provided to the Water Department by the City.
RESPONSE	Attached is a spreadsheet analysis concerning Water Fund charges paid to the City General Fund for services provided by the City to the Water Department.
RESPONDENTS	Thomas Bruce, City of Woonsocket, Finance Director David Bebyn, B & E Consulting
DATE	April 27, 2012



STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF WOONSOCKET  
WATER DIVISION APPLICATION  
TO CHANGE RATES

DOCKET NO. 4320

THE CITY OF WOONSOCKET, WATER DIVISION'S  
RESPONSES TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
SECOND SET OF DATA REQUESTS  
(Issued April 6, 2012)

DIV 2-12.	Please describe, by year, all infrastructure replacement projects that were undertaken since the last base rate case and provide the expenditures associated with each such project, by year.
RESPONSE	See attached.
RESPONDENT	David Bebyn
DATE	June 20, 2012

## Analysis of IFR Projects

Attachment to DIV 2-12

Page 1 of 2

2008

T&D Improvements	IFR Rehab study	\$	25,000
Mains - Logee st to WTP	rehab connection of new tank to main		52,577
Storage Tank Diamond Hill	Rehab of existing tank		307,357
			-
		\$	384,934

Expenses/Capitalized per financials

Expenditures expensed	\$	90,580
Expenditures Capitalized		294,354
Total Expenditure	\$	384,934

2009

Plant improvements	Plant PH system	\$	36,200
Mains - Cumb/Woon Interconnect	Eng. For emergency interconnection		19,900
Storage Tank Diamond Hill	Eng. For high service interconnection		35,100
Storage Tank Mount St Charles	Rehab tank and pump station		92,386
New WTP	Legal (environmental) & dbo (RFP planning)		176,745
			-
		\$	360,331

Expenses/Capitalized per financials

Expenditures expensed	\$	42,383
Expenditures Capitalized		317,948
Total Expenditure	\$	360,331

2010

Plant improvements	Plant PH system	\$	131,047
T&D Improvements	Hydrants		9,012
Mains - Cumb/Woon Interconnect	Eng. For emergency interconnection		446,771
Mains - Pawt/Woon Interconnect	Eng. To assess. Alt for WTP		129,934
Reservoir	emergency action plan		120
Storage Tank Mount St Charles	Rehab tank and pump station		152,549
New WTP	Legal (environmental) & engineering		412,126
Holly Lane	surveying		5,908
		\$	1,287,467

Expenses/Capitalized per financials

Expenditures expensed	\$	13,422
Expenditures Capitalized		1,274,045
Total Expenditure	\$	1,287,467



2011

T&D Improvements	Hydrants, Valves & Pipe	\$	11,256
Mains - Cumb/Woon Interconnect	Eng. For emergency interconnection		149,626
Mains - Pawt/Woon Interconnect	Eng. To assess. Alt for WTP		65,974
Manville Road	Major rehabilitation of service main		734,699
Cady Street	Const. to replace main		75,503
New WTP	Legal (environmental) & engineering		228,951
Holly Lane	surveying		2,014
		\$	<u>1,268,023</u>

Expenses/Capitalized per financials

Expenditures expensed	\$	5,791
Expenditures Capitalized		<u>1,262,232</u>
Total Expenditure	\$	<u>1,268,023</u>

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: CITY OF WOONSOCKET  
WATER DIVISION APPLICATION  
TO CHANGE RATES

DOCKET NO. 4320

THE CITY OF WOONSOCKET, WATER DIVISION'S  
RESPONSES TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
SECOND SET OF DATA REQUESTS  
(Issued April 6, 2012)

DIV 2-21	Regarding page 5, lines 23-26 of Mr. Edge's testimony, please identify and quantify all revenues requested in this filing that will be used for the new treatment plant project.
RESPONSE	The revenues requested are to cover the debt service for a short-term bridge loan requested by WWD with RICWFA. This loan is for the site acquisition and preliminary engineering costs for the new treatment plan. Attached is a copy of the WWD letter sent to RICWFA on April 12, 2012. Schedule WEE-12a lists this new debt which requires funding to cover interest expense in the amount of \$50,000.
RESPONDENT	Walter Edge
DATE	May 10, 2012

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

IN RE: CITY OF WOONSOCKET	:	
WATER DIVISION APPLICATION	:	DOCKET NO. 4320
TO CHANGE RATES	:	

**THE CITY OF WOONSOCKET, WATER DIVISION'S RESPONSES  
TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
THIRD SET OF DATA REQUESTS  
(Issued May 21, 2012)**

DIV 3-4	Do City employees use time sheets to record their time? If so, please provide the time sheets completed during the test year for the employees shown in the response to DIV 1-9.
RESPONSE	No. City employees do not use time sheets to record their time.
RESPONDENT	Sheila McGauvran
DATE	June 15, 2012

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

IN RE: CITY OF WOONSOCKET  
WATER DIVISION APPLICATION  
TO CHANGE RATES

:  
:  
:

DOCKET NO. 4320

**THE CITY OF WOONSOCKET, WATER DIVISION'S RESPONSES  
TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
THIRD SET OF DATA REQUESTS  
(Issued May 21, 2012)**

DIV 3-5

Regarding each of the expense categories shown on lines 4-9 of the response to DIV 1-9, for each category, please a) provide a brief description of the costs, b) identify the time period covered by the amounts shown, c) state if the amounts shown are actual amounts or budgeted amounts, and d) provide supporting documentation, assumptions, calculations, and workpapers for all allocations to the water division.

RESPONSE

A) The Finance Dept. Paper and supplies costs are associated with the department processing invoices, checks and mailing of checks. These costs also include the printing of periodic financial report as well as fiscal budget. The Finance Department allocation for Equipment Maintenance covers the computer hardware (Mainframe) in the finance department which holds the city's accounting program. The program is used for all departments, including water. In addition, invoices and checks are processed thru this hardware. The Tax sale and delinquent account allocation accounts for water's portion for costs related to collections (some of which is outsourced) and including some accounts in part of a tax sale when warranted. The Apex and Software allocation is to cover costs associated with an outsourced IT consultant. The Opal and A/R packages are used directly by the Water department to generate billings and track collections. The Water department also utilizes the accounting program. These software costs represent the annual maintenance contracts. Lastly, the property allocation covers the costs such as electrical, heating, security, etc. for the Town Hall Building. The accounting and customer service employees of the water department have office space in the City Hall.

B) Please see the response to DIV 3-2.

C) Please see the response to DIV 3-2.

D) Please see the response to DIV 3-3.

RESPONDENT

Thomas Bruce, City of Woonsocket, Finance Director  
David Bebyn, B&E Consulting

DATE

June 15, 2012

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

IN RE: CITY OF WOONSOCKET :  
WATER DIVISION APPLICATION : DOCKET NO. 4320  
TO CHANGE RATES :

**THE CITY OF WOONSOCKET, WATER DIVISION'S RESPONSES  
TO THE DIVISION OF PUBLIC UTILITIES AND CARRIERS'  
THIRD SET OF DATA REQUESTS  
(Issued May 21, 2012)**

DIV 3-6	Please provide all studies completed within the last five years showing the amount of city services and/or costs attributable to the water division.
RESPONSE	There are no studies.
RESPONDENT	Sheila McGauvran
DATE	June 15, 2012

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

<b>IN RE: CITY OF WOONSOCKET</b>	<b>:</b>	
<b>WATER DIVISION APPLICATION</b>	<b>:</b>	<b>DOCKET NO. 4320</b>
<b>TO CHANGE RATES</b>	<b>:</b>	

**WOONSOCKET WATER DIVISION'S RESPONSES TO  
COMMISSION'S FIRST SET OF DATA REQUESTS  
(Issued May 17, 2012)**

<b>COMM. 1-27</b>	Please indicate the steps Woonsocket Water has taken to comply with the Commission's Order in Docket No. 4309 regarding the netting of City Services and Hydrant Fees.
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<b>RESPONSE</b>	The City has booked the hydrant liability to the Water Department. The offset approach suggested by the Commission was impossible because given the City's very difficult financial position the City had already collected the City Services revenue. The City is now under financial review for all financial activity by a State appointed Budget Commission. The Budget Commission has control as to when bills get paid in the future.
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B&E recommended to the City that the offset provision (hydrant offset City services) be used for the FYE June 30, 2013 until the total hydrant liability has been paid by the City.

<b>RESPONDENT</b>	Walter E. Edge
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<b>DATE</b>	June 8, 2012
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**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

IN RE: CITY OF WOONSOCKET :  
WATER DIVISION APPLICATION : DOCKET NO. 4320  
TO CHANGE RATES :

**COMMISSION LEGAL COUNSEL'S QUESTIONS TO  
WOONSOCKET WATER DIVISION  
(Issued June 14, 2012)**

CLC-1                      Are WWD's expenditures subject to review by any financial overseer or committee prior to being paid?

RESPONSE                WWD understands the Public Utilities Commission's (PUC's) concerns (outlined in the Memorandum from RI PUC Counsel dated June 14, 2012) and totally agrees with the following facts that WWD is: 1) a standalone enterprise fund, 2) has its own revenue source and 3) should be excluded from the Budget Commission oversight. That said the WWD cannot speak on behalf of the Budget Commission and how the Budget Commission will interpret its broad oversight authority in the Budget Commission statute (R.I. Gen. Laws 45-9-6) to include oversight of the WWD.

Therefore, WWD has forwarded the PUC's requests for information to the Chairman of the Budget Commission, the State Department of Revenue, and the City's financial officer. WWD is aware that the Budget Commission staff and the Department of Revenue are reviewing this question as well as the other questions. WWD has suggested that the Chairman and Budget Staff (and soon to be hired legal counsel) consult with the Division of Public Utilities for further guidance regarding the special considerations that should be applied to "enterprise funds", especially those that are regulated by the RI PUC. As soon as WWD receives an official response from the Budget Commission WWD will forward it to the PUC immediately.

The WWD agrees with the PUC that the Budget Commission should clarify its role regarding oversight of this enterprise fund as soon as possible. The PUC and the DPUC are encouraged to advocate before the Budget Commission as well in order to assure that the appropriate State officials are heard on this matter. The Commission's meetings and agenda are posted on the City's Web site at:  
<http://www.ci.woonsocket.ri.us/budget.htm>. The Department of Revenue staff that is assigned to answer questions is David Eaton, at [David.Eaton@revenue.ri.gov](mailto:David.Eaton@revenue.ri.gov).

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

IN RE: CITY OF WOONSOCKET  
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DOCKET NO. 4320

**COMMISSION LEGAL COUNSEL'S QUESTIONS TO  
WOONSOCKET WATER DIVISION  
(Issued June 14, 2012)**

Clearly, WWD has conveyed its concerns to the Budget Commission staff regarding the continued ability to fund the Water Division's water utility expenses (and only the WWD expenses) without delay from WWD's available funds.

RESPONDENT      Walter E. Edge, Jr. MBA CPA  
                         Alan M. Shoer (as to legal questions)

DATE                June 27, 2012



WOONSOCKET WATER DIVISION'S RESPONSES TO  
DATA REQUESTS FROM THE PUBLIC UTILITIES COMMISSION  
DATED: January 17, 2007

FIRST SET

COMM. 22 In its last Order, the Commission limited WWD's Operating Reserve to 1.5% of Operating Expense. It appears that the Operating Reserve for the Rate Year in the current proceeding is 1.5% of all expenses. Please explain.

Response: This was an oversight on my part. I read that the Commission allowed the 1.5% on all operating expenses. Clearly, interest expense and depreciation (in the real world) are operating expenses. However, we are in the ratemaking world, therefore, to be consistent with the Commission order, I should have used the approach approved by the PUC in the last filing, unless I disagreed with the approach (which I did) and I believed that I could present a new argument that would sway the Commission (which I can not). I will use the Commission approved approach in my rebuttal testimony and make the necessary adjustments accordingly.

Respondent: Walter E. Edge.

Dated: February 2, 2007