

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

**CITY OF WOONSOCKET )  
WATER DIVISION )**

**DOCKET NO. 4320**

**DIRECT TESTIMONY  
OF  
JEROME D. MIERZWA**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**July 13, 2012**

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**EXETER**

**ASSOCIATES, INC.  
10480 Little Patuxent Parkway  
Suite 300  
Columbia, Maryland 21044**



1 utility cost of service and rate design analysis, expense and revenue requirement  
2 forecasting and activities related to federal regulation. I was also responsible for  
3 preparing NFG Supply's Purchase Gas Adjustment ("PGA") filings and developing  
4 interstate pipeline and spot market supply gas price projections. These forecasts were  
5 utilized for internal planning purposes as well as in NFG Distribution's purchased gas  
6 cost proceedings.

7 In April 1990, I accepted a position as a Utility Analyst with Exeter  
8 Associates, Inc. In December 1992, I was promoted to Senior Regulatory Analyst.  
9 Effective April 1, 1996, I became a principal of Exeter Associates. Since joining  
10 Exeter Associates, my assignments have included water utility class cost of service  
11 and rate design analysis, evaluating the gas purchasing practices and policies of  
12 natural gas utilities, sales and rate forecasting, performance-based incentive  
13 regulation, revenue requirement analysis, the unbundling of utility services and the  
14 evaluation of customer choice natural gas transportation programs.

15 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
16 PROCEEDINGS ON UTILITY RATES?

17 A. Yes. I have provided testimony on more than 100 occasions in proceedings before  
18 the Federal Energy Regulatory Commission ("FERC"), utility regulatory  
19 commissions in Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Montana,  
20 Nevada, New Jersey, Ohio, Pennsylvania, Texas and Virginia, as well as before this  
21 Commission.

22 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

23 A. On March 15, 2012, the City of Woonsocket Water Division ("WWD" or "the City")  
24 filed an application with the Commission to increase its rates by \$813,326, or  
25 11.58 percent. Exeter Associates, Inc. ("Exeter") was retained by the Division of

1 Public Utilities and Carriers (“Division”) to review the cost of service study and rate  
2 design proposals included in WWD’s application. My testimony addresses WWD’s  
3 cost of service study and rate design proposals.

4 Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES  
5 BEFORE THIS COMMISSION?

6 A. Yes. I was asked by the Division to testify on cost allocation and rate design in City  
7 of Newport - Water Division (“Newport”) Docket Nos. 2985 and 4128; Pawtucket  
8 Water Supply Board Docket Nos. 2674 and 3945; Kent County Water Authority  
9 Docket Nos. 2555 and 3311; Providence Water Supply Board Docket Nos. 2048,  
10 3163 and 3832; and United Water Rhode Island, Inc., Docket No. 4255.

11 **II. WWD Cost of Service Study**

12 Q. WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY?

13 A. A cost of service study is conducted to assist a utility or commission in determining  
14 the level of costs properly recoverable from each of the various classes to which the  
15 utility provides service. Allocation of recoverable costs to each class of service is  
16 generally based on cost causation principles.

17 Q. BRIEFLY DESCRIBE WWD’S COST OF SERVICE STUDY.

18 A. In WWD’s cost of service study, test year costs are initially allocated to the following  
19 functional categories: supply and treatment; transmission and distribution; pumping  
20 and storage; meters and services; billing and collection; direct fire; and general and  
21 administration. These costs are subsequently allocated to the following service  
22 components: wholesale/base; retail only; fire protection; meter and services and  
23 billing. The allocated costs to each service component are then used to design rates  
24 based on the applicable units of service (e.g., consumption, meter equivalents, bills,  
25 etc.).

1 Q. ARE YOU PROPOSING ANY CHANGES TO WWD'S COST OF  
2 SERVICE STUDY AT THIS TIME?

3 A. No, I am not.

4 Q. DO YOU HAVE ANY RECOMMENDATIONS CONCERNING FUTURE  
5 COST OF SERVICE STUDIES PREPARED BY WWD?

6 A. Yes. Many of the allocation factors utilized in WWD's cost of service study are the  
7 same factors used in WWD's last cost of service study which was approved in Docket  
8 No. 3800. These same historical allocation factors were also used in Docket Nos.  
9 3626, 3512 and 2904. Docket No. 2904 was filed in 1999, and WWD has no  
10 information on how these historical allocation factors were determined in Docket  
11 No. 2904. It appears that many of these historical allocation factors date back to  
12 1993.<sup>1</sup>

13 The historical allocation factors used in WWD's cost of service study appear  
14 reasonable, and updating those factors at this time would likely have an immaterial  
15 affect on the cost of service study results. However, WWD's next rate case will  
16 include the costs associated with a new water treatment facility, and the new  
17 treatment facility may have a significant impact on the historical allocation factors  
18 used by WWD. I recommend that WWD re-examine and document the  
19 reasonableness of its historical allocation factors in its next rate case as appropriate.

20 **III. Rate Design**

21 Q. IS WWD PROPOSING ANY MAJOR CHANGES TO ITS GENERAL  
22 RATE STRUCTURE?

23 A. No.

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<sup>1</sup> Schedule DGB-3A indicates that certain allocation factors are from Docket No. 2099 which was filed in 1993.

1 Q. ARE YOU PROPOSING ANY CHANGES TO WWD'S GENERAL RATE  
2 STRUCTURE?

3 A. No, I am not.

4 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

5 A. Yes it does.