

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

**CITY OF NEWPORT                      )                      DOCKET NO. 4355**

**SUPPLEMENTAL SURREBUTTAL TESTIMONY  
OF  
JEROME D. MIERZWA**

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

**MARCH 26, 2013**

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**EXETER**

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

CITY OF NEWPORT ) DOCKET NO. 4355

## I. Introduction

A. The issues to be addressed in this testimony relate to the asset values to be included in Newport's cost of service study for: (1) service pipes; and (2) transmission and distribution ("T&D") pipes installed between 1976 and 2006.

1 Q. PLEASE SUMMARIZE THE POSITIONS OF PWFD AND NEWPORT  
2 WITH RESPECT TO THE ASSET VALUE FOR SERVICE PIPES.

3 A. In his supplemental testimony, witness Woodcock claims that Newport has  
4 improperly excluded the value of service pipes from the asset valuation  
5 included in its cost of service study and from the annual reports which  
6 Newport has filed with the Commission since 2006. Witness Woodcock  
7 recommends that the service pipe value reported in Newport's 2005 annual  
8 report be included in the asset valuation use in Newport's cost of service  
9 study.

10 In his supplemental rebuttal testimony, Newport witness Smith explains  
11 that since 2006, meters and services investment has been combined in one  
12 account-meters. He further claims that a large portion of the value previously  
13 assigned to meters and services has subsequently been shifted to billing. He  
14 claims that if these costs are shifted back to meters and services, the amount  
15 in this docket for meters and services investment would be comparable to  
16 historical amounts. He then revises his cost of service study for the shift in  
17 costs to billing back to meters and services.

18 Q. WHAT IS THE DIVISION'S ASSESSMENT OF THE POSITIONS OF  
19 NEWPORT AND PFWD WITH RESPECT TO THE SERVICE PIPE  
20 INVESTMENT REFLECTED IN NEWPORT'S ASSET VALUATION?

21 A. Both parties agree that in Newport's 2005 annual report service pipe (\$2.42  
22 million) and meters (\$0.32 million) were separately identified, and together  
23 totaled \$2.74 million. In the 2006 annual report service pipe and meter  
24 investment were combined into the meter investment account, and the

1 beginning balance of the meter investment account in the 2006 annual report  
2 reflected the end of 2005 total of the service pipe and meter accounts.

3 Based on Newport's 2011 annual report, it appears that in 2011 a  
4 number in older meters were replaced with new meters, with approximately  
5 \$2.65 million in both meter additions and retirements. The 2011 annual report  
6 shows a total end of year meter investment balance of \$3.00 million.

7 Removing the new meter investment amount of \$2.65 million from the total  
8 \$3.00 million meter investment account suggests that service investment of  
9 \$0.35 million remained in the meter investment account at the conclusion of  
10 FY 2011. This is a difference of \$2.07 million from the 2005/2006 service  
11 investment amount of \$2.42 million. Witness Smith claims that a portion  
12 service and meter investment was assigned to billing and that when  
13 combined, meter service and billing investment total \$3.53 million. Reducing  
14 this amount by the \$2.65 million in new meter additions suggest that even if  
15 billing investment were \$0, only \$0.88 million of services investment is  
16 included in Newport's asset valuation. It is the Division's position that  
17 Newport has not adequately demonstrated that it has reflected the  
18 appropriate level of services investment in its asset valuation.

19 Witness Woodcock claims that the full 2005/2006 service investment  
20 amount of \$2.42 should be reflected in Newport's asset evaluation. However,  
21 witness Woodcock has not demonstrated that no portion of the \$2.42 million  
22 in service investment is already included in Newport's asset valuation. Thus,  
23 witness Woodcock proposal may potentially double count some service  
24 investment and it is the Division's position that PFWD has not adequately

1 demonstrated that it has reflected the appropriate level of services investment  
2 in its asset valuation.

3 Q. PLEASE SUMMARIZE THE POSITIONS OF PWFD AND NEWPORT  
4 WITH RESPECT TO THE ASSET VALUE ASSIGNED TO  
5 TRANSMISSION AND DISTRIBUTION PIPES INSTALLED  
6 BETWEEN 1976 AND 2006.

7 A. Witness Woodcock initially observed that the asset list used by Newport in its  
8 cost of service study did not include T&D investment for pipes installed prior  
9 to 1976. According to witness Smith, there were no records of the actual  
10 original cost of pre-1976 pipe. Therefore, witness Smith subsequently  
11 estimated these costs using the Handy-Whitman Index, which is a historical  
12 index of water system equipment relative to the cost of the same equipment  
13 today. While developing an estimate for pre-1976 T&D pipe investment,  
14 witness Smith also developed an estimated cost for post-1976 T&D pipe  
15 investment and included both estimates in Newport's asset valuation.  
16 Witness Woodcock claims it is improper to use an estimate for post-1976  
17 T&D pipe investment when actual data is available.

18 Q. WHAT IS THE DIVISION'S POSITION WITH RESPECT TO THE  
19 ASSET VALUE WHICH SHOULD BE ASSIGNED TO POST-1976  
20 T&D PIPE INVESTMENT?

21 A. The Division concurs with PWFD that actual data should be used for post-  
22 1976 T&D pipe investment. The use of estimated data is not appropriate  
23 when actual data is available.

24 Q. WHAT IS PWFD'S OVERALL RECOMMENDATION WITH RESPECT  
25 TO THE COST OF SERVICE STUDY FILED BY NEWPORT?

1 A. PWFD recommends that the Commission delay implementation of the cost of  
2 service study results until Newport provides a complete and accurate asset  
3 listing. In the alternative, PWFD recommends that the service pipe  
4 investment value included in the 2005 annual report be included in the asset  
5 listing used in the cost of service study, and that Newport's actual cost of  
6 post-1976 T&D pipe investment be included in the cost of service study rather  
7 than the estimated cost.

8 Q. WHAT IS THE NAVY'S POSITION ON THE ASSET LISTING  
9 RELATED ISSUES?

10 A. It is the Navy's position that Newport's asset listing is not accurate, rendering  
11 the COS of service study invalid. The Navy recommends that the  
12 Commission should abandon the cost of service study and require Newport to  
13 refile its study after it has prepared a more complete and accurate asset  
14 listing.

15 Q. WHAT IS THE DIVISION'S POSITION WITH RESPECT TO  
16 NEWPORT'S ASSET VALUATION AND ITS COST OF SERVICE  
17 STUDY?

18 A. It appears that neither Newport nor PFWD has adequately addressed the  
19 asset value issue related to service pipe. With respect to pre-1976 T&D  
20 investment, unfortunately there are no records available which will allow a  
21 more complete and accurate asset listing. Despite these concerns, Newport's  
22 cost of service study should not be abandoned.

23 Cost allocation and rate design is an art, not an exact science. There  
24 are numerous estimates and assumptions which are relied upon to prepare a  
25 cost of service study. For example, the class maximum day and maximum

1 hour factors reflected in Newport's cost of service study are estimates based  
2 on a sampling of data. Regardless of whether Newport's or PWFD's position  
3 with respect to service pipe investment were to be adopted, the impact on  
4 rates would not be material. It may be reasonable to compromise on this  
5 issue and address this relatively minor issue in the future when more  
6 complete information is available. With respect to pre-1976 T&D investment,  
7 abandoning the cost of service study would serve no purpose as no additional  
8 information or records are expected to be available. The parties to this  
9 proceeding have already spent considerable resources addressing cost  
10 allocation and rate design for Newport and those efforts should not be  
11 dismissed and revisited in another proceeding. The Division recommends  
12 that Newport's asset valuation, adjusted to reflect 50 percent of PWFD's  
13 proposed adjustment to service pipe investment and actual post-1976 T&D  
14 investment be used to set rates in this proceeding. The rates resulting from  
15 adoption of the Division's recommendations in this proceeding will clearly be  
16 closer to cost based rates than Newport's current rates which have no cost of  
17 service study basis. The rates approved in this proceeding can be further  
18 reviewed in Newport's next rate case.

19 Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE RATES  
20 RESULTING FROM YOUR ASSET VALUE RECOMMENDATIONS?

21 A. Yes. JDM Schedule A-2 Supp. Surrebuttal presents the rates resulting from  
22 the Division's asset valuation recommendations as well as the Division's  
23 recommended allocation of treatment plant which has previously been  
24 addressed in testimony.

25 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

1 A. Yes it does at this time.



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

Newport Water  
 Cost Of Service Analysis  
 JDM Schedule A-2 Supp. Surrebbutal  
 Cost of Service Rates and Charges

(1)						
		Docket 4243				Projected
		Rates	Cost of Service	Proposed Rates	% Change	Revenues
Base Charge (per bill)						
Monthly						
5/8	\$	18.75	\$ 7.9310	\$ 7.94	-58%	\$10,481
3/4	\$	18.75	8.0387	8.04	-57%	6,175
1	\$	18.75	8.9540	8.96	-52%	17,741
1.5	\$	18.75	11.2921	11.30	-40%	24,137
2	\$	18.75	13.5238	13.53	-28%	34,907
3	\$	18.75	25.6321	25.64	37%	15,384
4	\$	18.75	28.8647	28.87	54%	4,157
5	\$	18.75	33.1749	33.18	77%	398
6	\$	18.75	36.4075	36.41	94%	8,738
8	\$	18.75	45.0277	45.03	140%	540
10	\$	18.75	60.6520	60.66	224%	728
Quarterly						
5/8	\$	18.75	\$ 11.4629	\$ 11.47	-39%	488,851
3/4	\$	18.75	11.7862	11.79	-37%	113,844
1	\$	18.75	14.5322	14.54	-22%	22,741
1.5	\$	18.75	21.5462	21.55	15%	16,033
2	\$	18.75	28.2414	28.25	51%	6,667
3	\$	18.75	64.5664	64.57	244%	4,391
4	\$	18.75	74.2642	74.27	296%	891
5	\$	18.75	87.1946	87.20	365%	0
6	\$	18.75	96.8924	96.90	417%	1,550
8	\$	18.75	122.7532	122.76	555%	0
10	\$	18.75	169.6259	169.63	805%	0
						\$ 778,355
Volume Charge (per 1,000 gallons)						
Retail						
Residential	\$	6.43	\$ 8.2348	\$ 8.24	28%	5,189,305
Non-Residential	\$	6.43	\$ 9.1847	\$ 9.19	43%	4,479,721
						\$ 9,669,026
Wholesale						
Navy	\$	3.9540	\$ 5.4115	\$ 5.4115	37%	975,662
Portsmouth Water & Fire District	\$	3.152	\$ 4.3135	\$ 4.3135	37%	1,739,772
						\$ 2,715,434
Fire Protection						
Public (per hydrant)	\$	1,065.00	\$ 752.64	\$ 752.65	-29%	\$ 779,745
Private (by Connection Size) (2)						
Connection Size		Existing Charge				
Differential						
<2		\$21.00	\$ 22.42	\$ 22.43	7%	
2	6.19	\$88.00	\$ 93.97	\$ 93.97	7%	376
4	38.32	\$541.00	\$ 326.53	\$ 326.54	-40%	19,919
6	111.31	\$1,083.00	\$ 762.73	\$ 762.74	-30%	186,871
8	237.21	\$2,478.00	\$ 1,515.09	\$ 1,515.09	-39%	93,936
10	426.58	\$4,091.00	\$ 2,646.79	\$ 2,646.79	-35%	-
12	689.04	\$6,568.00	\$ 4,215.28	\$ 4,215.28	-36%	8,431
						\$ 309,532

Total Projected Rate Revenues \$ 14,252,093

(1) From JDM Schedule B-2 Supp. Surr., 'Allocation of Costs to Water Rate Classes'.

(2) From JDM Schedule D-2 Supp. Surr., 'Fire Protection Accounts'.