



DEPARTMENT OF THE NAVY  
OFFICE OF THE GENERAL COUNSEL  
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February 7, 2013

Sent Federal Express w/electronic copy to:

Luly Massaro, Commission Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

In Re: City of Newport, Utilities Department, Water Division  
Docket No. 4355

Dear Ms. Massaro:

Enclosed please find the original and nine copies of the Surrebuttal Testimony of Brian C. Collins on behalf of the Department of the Navy in the above-referenced case, Docket No. 4355. An electronic copy of this testimony has been sent to each individual on the service list.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ellen M. Evans", is written over a light blue horizontal line.

Ellen M. Evans  
Counsel for the Navy and FEA

cc: Electronic Service List

Certificate of Service

I hereby certify that I have caused to be sent by electronic mail, a copy of the surrebuttal testimony of Brian C. Collins on behalf of the Department of the Navy, to all on the attached Service List for Docket No. 4355, this 7<sup>th</sup> day of February, 2013.

A handwritten signature in black ink, appearing to read "Ellen M. Evans", written over a horizontal line.

Ellen M. Evans

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STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

BEFORE THE  
RHODE ISLAND PUBLIC UTILITIES COMMISSION

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Application to Change Rates )  
Based on Cost of Service Study )  
which reflects the Second Phase )  
of Multi-Year Rate Plan to collect )  
additional Debt Service Revenue )  
Requirement of approximately )  
\$1,986,710 or 15.5% )

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Docket No. 4355

Surrebuttal Testimony of

**Brian C. Collins**

On behalf of

**The United States Department of the Navy**

February 7, 2013



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Docket No. 4355

Surrebuttal Testimony of Brian C. Collins

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Brian C. Collins. My business address is 16690 Swingley Ridge Road, Suite 140,  
3 Chesterfield, MO 63017.

4 Q ARE YOU THE SAME BRIAN C. COLLINS WHO PREVIOUSLY FILED  
5 TESTIMONY IN THIS PROCEEDING?

6 A Yes, I am. On December 7, 2012 I filed direct testimony on behalf of the United  
7 States Department of the Navy ("Navy"). Naval Station Newport in Newport, Rhode  
8 Island purchases large volumes of water from the Water Division of the City of  
9 Newport ("Newport Water"). Thus, the Navy has a direct economic interest in how the  
10 cost of providing water service to it is determined.

11 Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of  
13 Newport Water witness Mr. Harold Smith with respect to the allocation of treatment

1 capital costs and the removal of usage associated with Navy's hydrant flushing  
2 program from Newport Water's 2012 demand study. My failure to respond to an  
3 issue does not indicate tacit approval of that issue.

4 **Q PLEASE SUMMARIZE YOUR SURREBUTTAL TESTIMONY.**

5 A I continue to recommend that the allocation of treatment capital costs to all classes be  
6 based on the allocation agreed to in the cost of service study in Docket No. 4128. I  
7 also continue to recommend that the usage associated with Navy's hydrant flushing  
8 program be removed from the 2012 demand study.

9 **Allocation of Treatment Capital Costs**

10 **Q WHAT WAS YOUR DIRECT TESTIMONY RECOMMENDATION WITH RESPECT**  
11 **TO THE ALLOCATION OF TREATMENT CAPITAL COSTS?**

12 A I recommended that the allocation of treatment capital costs to all classes be based  
13 on the allocation agreed to in the cost of service study in Docket No. 4128. This  
14 allocation used historical base and maximum day characteristics for each class to  
15 allocate treatment capital costs to the classes.

16 **Q HOW DOES MR. SMITH RESPOND TO YOUR RECOMMENDATION IN REGARD**  
17 **TO THE ALLOCATION OF TREATMENT CAPITAL COSTS?**

18 A He disagrees with my recommendation. He continues to recommend that the  
19 treatment capital costs be allocated based on the forecasted demands of each class.

1 Q HOW DO YOU RESPOND TO MR. SMITH?

2 A Mr. Smith's proposal to allocate treatment capital costs based on the forecasted  
3 demands of each class is inappropriate.

4 Q WHY IS IT INAPPROPRIATE TO ALLOCATE TREATMENT CAPITAL COSTS  
5 BASED ON THE FORECASTED DEMANDS OF EACH CLASS AS SUGGESTED  
6 BY MR. SMITH?

7 A Allocating costs based on forecasted demands will not reflect the appropriate cost to  
8 serve each class. As a result, using forecasted demands will result in rates that are  
9 not based on cost of service. As explained in my direct testimony, my proposal to  
10 allocate treatment capital costs based on historical usage will ensure that each class  
11 pays treatment capital costs based on how each class actually utilizes the assets.

12 Q IS THERE LIKELY TO BE EXCESS TREATMENT CAPACITY WHEN THE  
13 TREATMENT ASSETS ARE PLACED IN SERVICE?

14 A Yes. It is my understanding that Newport Water forecasted the demands of its rate  
15 classes for 20 years and used this forecast in designing the capacity of its treatment  
16 assets. As a result of designing the treatment capacity based on long-term  
17 forecasted demands, Newport Water will likely have treatment capacity in excess of  
18 its classes' current demands when the treatment assets are placed in service.

19 Q IS IT APPROPRIATE FOR ALL CLASSES TO SHARE IN THE COSTS OF ANY  
20 EXCESS TREATMENT CAPACITY?

21 A Yes. All classes utilize the treatment plant capacity and all classes have the same  
22 right to any excess treatment capacity. Newport Water has invested in the treatment

1 capacity to provide service to all customers. It is my understanding that no class has  
2 a contractual right to any amount of treatment capacity or a contractual obligation to  
3 pay for a certain amount of treatment capacity. As a result, all classes should be  
4 allocated the costs of any excess capacity, and pay for this excess capacity in  
5 Newport Water's rates. Utilizing each class's historical base and maximum day  
6 usage characteristics will appropriately allocate the costs of excess capacity to each  
7 class based on how they actually utilize the treatment assets.

8 **Q WOULD USING FORECASTED DEMANDS APPROPRIATELY ALLOCATE ANY**  
9 **EXCESS TREATMENT CAPACITY TO THE CLASSES?**

10 A No, it would not. To the extent forecasted demands do not reflect the actual  
11 utilization share of treatment capacity for each class, there would be inappropriate  
12 interclass subsidies with respect to the allocation of treatment capital costs  
13 associated with excess capacity. As a result, Mr. Smith's proposal is inappropriate.  
14 Using each class's historical base and maximum day usage characteristics will  
15 ensure that each class pays for its appropriate share of excess capacity.

16 **Q WHAT IS YOUR RECOMMENDATION?**

17 A I continue to recommend that the allocation of treatment capital costs to all classes be  
18 based on the allocation agreed to in the cost of service study in Docket No. 4128.



1 **Demand Study**

2 **Q WHAT WAS YOUR DIRECT TESTIMONY RECOMMENDATION WITH RESPECT**  
3 **TO USAGE ASSOCIATED WITH NAVY'S HYDRANT FLUSHING PROGRAM IN**  
4 **NEWPORT WATER'S 2012 DEMAND STUDY?**

5 A I recommended the removal of usage associated with Navy's hydrant flushing  
6 program from Newport Water's 2012 demand study.

7 **Q HOW DOES MR. SMITH RESPOND TO YOUR RECOMMENDATION IN REGARD**  
8 **TO THE USAGE ASSOCIATED WITH NAVY'S HYDRANT FLUSHING PROGRAM?**

9 A He disagrees with my recommendation. He recommends that usage associated with  
10 Navy's hydrant flushing program continue to be included in the 2012 demand study.

11 **Q IS IT APPROPRIATE TO INCLUDE USAGE ASSOCIATED WITH NAVY'S**  
12 **HYDRANT FLUSHING PROGRAM IN THE 2012 DEMAND STUDY?**

13 A No. As I indicated in my direct testimony, hydrant flushing is a controlled customer  
14 behavior and is not indicative of Navy's normal operations during the peak demand  
15 period. As a result, any Navy usage related to hydrant flushing used in Navy's  
16 demand factor calculations will not be indicative of Navy's cost of service during the  
17 peak demand period.

18 **Q WOULD REMOVING NAVY'S USAGE FOR HYDRANT FLUSHING BE**  
19 **CONSISTENT WITH HOW NEWPORT WATER TREATS USAGE ASSOCIATED**  
20 **WITH ITS OWN FLUSHING PROGRAM?**

21 A Yes. It is my understanding that Newport Water has a flushing program that occurs  
22 outside the demand study period. For example, in 2011, Newport Water announced

1 that its flushing program would occur in April, outside the 2011 demand study period  
2 of June through September. Since Newport Water's flushing occurs outside the peak  
3 period and its flushing usage is not included in the demand study period, it would be  
4 consistent to remove the Navy usage associated with hydrant flushing from the  
5 demand study period.

6 **Q DOES NAVY COMMIT TO CONDUCT FUTURE HYDRANT FLUSHING OUTSIDE**  
7 **THE DEMAND STUDY PERIOD?**

8 A Yes. Navy commits to conduct future hydrant flushing outside the demand study  
9 period of June through September. Navy's hydrant flushing would occur at times  
10 when there is excess capacity on Newport Water's system and would not contribute  
11 to the system peak of Newport Water. Since Newport Water's own flushing program  
12 occurs outside the demand study period of June through September, Navy should be  
13 afforded the same opportunity to move its hydrant flushing usage outside the demand  
14 study period.

15 **Q IF NAVY'S HYDRANT FLUSHING USAGE IS KEPT IN THE 2012 DEMAND STUDY**  
16 **FOR DETERMINING RATES, WILL NAVY OVERPAY ITS COST OF SERVICE?**

17 A Yes. Since Navy has committed to conduct future hydrant flushing outside the peak  
18 period, Navy will pay more than its cost of service if its rates are based on usage in  
19 the 2012 demand study that includes hydrant flushing. Removing Navy hydrant  
20 flushing from the 2012 demand study will ensure that the rate Navy pays for future  
21 water service is based on normalized usage and reflects cost of service.

1 Q WHAT IS YOUR RECOMMENDATION?

2 A I continue to recommend that the usage associated with Navy's hydrant flushing  
3 program be removed from the 2012 demand study.

4 Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

5 A Yes, it does.

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