



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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*Peter F. Kilmartin, Attorney General*

April 4, 2014

Luly E. Massaro, Commission Clerk  
Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**RE: United Water Rhode Island  
Docket No. 4434**

Dear Ms. Massaro:

Enclosed for filing, please find the original plus nine (9) copies of the enclosed Division Statement in Support of the Settlement Agreement pertaining to the above-referenced docket.

Please note that an electronic copy of this filing has been sent to the service list. No hard copies will be mailed to service list members unless otherwise requested.

If you have any questions, please do not hesitate to call. Thank you.

Very truly yours,

Christy Hetherington  
Special Assistant Attorney General  
Extension 2425

Enclosure

UNITED WATER RHODE ISLAND  
Docket No. 4434

DIVISION OF PUBLIC UTILITIES AND CARRIERS  
STATEMENT IN SUPPORT OF  
SETTLEMENT AGREEMENT

April 4, 2014

**I. Introduction**

Subsequent to the filing of rebuttal testimony by United Water Rhode Island (UWRI), the Division of Public Utilities and Carriers (the Division) and UWRI discussed the possibility of settlement and those discussions resulted in the Settlement Agreement (the Settlement) that was submitted to the Commission on March 28, 2014. In response to a request from Commission Counsel, the Division submits this explanation regarding its support for the Settlement and why it regards the agreed upon revenue requirement to be reasonable.

**II. Discussion**

The Division filed its litigation position in its Direct Testimony dated February 3, 2014. In that testimony, the Division's witnesses, Thomas S. Catlin and Matthew I. Kahal, presented their position regarding the appropriate rate base, revenues, operating expenses and rate of return and determined the necessary increase to allow UWRI to earn the Division's recommended return on rate base. Based on its analysis, the Division recommended a rate increase of \$1,006,902, which was \$556,251 less than the increase requested by UWRI in its direct filing of \$1,563,153. This recommended increase was designed to generate an overall rate of return of 7.72 percent including a 9.25 percent return on equity.

After reviewing UWRI's rebuttal testimony in which UWRI adopted a number of the Division's recommendations, the Division concluded that it would be reasonable and appropriate to make certain changes to its initial litigation position for settlement purposes. The changes to the Division's position as set forth in its Direct Testimony and the Settlement are set forth below along with an explanation of the Division's rationale for agreeing to those changes.

- Water Sale Revenue. The Division agreed to reduce its original projection of water sales based on a 4-year average to reflect a small decline in residential sales to reflect a downward trend in residential sales that is occurring in UWRI and Rhode Island, in general. The Settlement reflects a reduction in revenues of \$34,606 compared to the Division's original position, but still reflects an increase of \$46,067 compared to UWRI's initial filing.
- Accumulated Deferred Income Taxes (ADIT). In direct, the Division adjusted rate base downward by \$906,105 to reflect a higher balance of ADIT due to federal bonus depreciation. In rebuttal, UWRI pointed out that it was in a loss carry-forward position for federal income taxes and would not be able to use the bonus depreciation deductions. The Settlement Agreement reflects the Division's agreement that the increase in the balance of ADIT will not be recognized in the near term and should not be deducted from rate base. The increase in revenue requirements resulting from this change is \$98,513 at the Settlement rate of return.
- Power Supply Costs. The Settlement reflects a correction to a cell error in Division Schedule TSC-12 that increased power supply expenses by \$8,175, as well an increase of \$4,220 due to the inclusion of the storm related diesel and other power costs incurred in 2011 in calculating the three year average of other Utilities Power costs. The net effect on revenue requirements after accounting for the secondary effects (working capital effect and gross receipts taxes) of these changes is an increase of \$12,759.
- Outside Services. The Settlement agrees to include \$10,000 for summer help for hydrant painting as initially requested by UWRI. The Division agreed to accept this amount instead of the \$5,000 allowance included in its direct case based on the additional information provided in UWRI's rebuttal regarding the need for this work. Including secondary effects, this change increases revenue requirements by \$5,148.
- Rate of Return. For settlement purposes, UWRI accepted the Division's adjustment to capital structure to reflect short term cost of debt and the Division and UWRI agreed upon a 9.65 percent return on equity (ROE). Compared to the Division's litigation position of 9.25 percent, using 9.65 percent increases revenue requirements by \$50,674.

### III. Summary

The Division conducted a complete review of UWRI's filing to evaluate the need for rate relief and presented its analysis in direct testimony. Subsequent to completing that review, the Division made very limited compromises and agreed to five changes to its litigation position for settlement.<sup>1</sup> Those five changes agreed to by the Division as part of the Settlement result in a

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<sup>1</sup> Approximately \$107,000 of the difference is due to corrections to the ADIT balance and power supply costs as described above.

required revenue increase of \$1,208,601.<sup>2</sup> This represents an increase of \$201,699 compared to the Division's position in direct testimony and a reduction of \$354,552 compared to UWRI's filed request.

In conclusion, the Division has remained ever mindful of the interests of ratepayers throughout the discovery and settlement process. The terms of the Settlement represent a position that is close to what the Division's final litigation position would be after making the change to ADIT, correcting for purchased power costs and eliminating further litigation costs. Ultimately, the Division considers the Settlement to be in the best interest of ratepayers.

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<sup>2</sup> The settlement increase is slightly below this at \$1,207,267 due to rounding of the rates.