

GENERAL RATE FILING

DIRECT TESTIMONY
OF ELDA GIL

August 2013

Submitted to:
State of Rhode Island and Providence
Plantations Public Utilities Commission

RIPUC Docket No.

Submitted by:

United Water Rhode Island Inc.

UNITED WATER RHODE ISLAND INC.
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1 **Q. Please state your name and business address.**

2 A. Elda Gil, 200 Old Hook Road, Harrington Park, New Jersey 07640.

3

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

5 A. In May 2007 I joined United Water Management and Services Inc. (UWM&S) as
6 an Associate Rate Analyst. In August 2010 I was promoted to the position of
7 Regulatory Specialist.

8

9 **Q. Please summarize your educational background and other qualifications.**

10 A. I graduated from Central University of Bogota, Colombia in 1996 with a Bachelor
11 of Business Administration degree in Accounting, and earned my Master of
12 Science degree in Taxation from Los Andes University of Bogota in 1999.
13 Additionally, I completed Saint Peter's College MBA program in Finance in 2008.
14 I am also a Certified Public Accountant licensed in Colombia and Certified Public
15 Accountant license in progress in New Jersey.

16

17 **Q. Please describe your work experience.**

18 A. Prior to joining United Water, I was employed by Ballet Makers Inc., a
19 manufacturer and retail company, where I was responsible for Cost Accounting.
20 From 2000 to 2005, I was employed by Federal Direct Inc., a securities printing
21 company, as a Staff Accountant responsible for billing. Prior to that, I held the
22 position of Financial Analyst in Granahorrar Bank of Colombia from 1992 to

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1 1999, where I was responsible for financial analysis and preparation of
2 consolidated company budgets and financial reports.

3
4 **Q. What regulatory agencies have you previously appeared and presented
5 expert witness testimony?**

6 A. I have testified, on numerous occasions, before the New Jersey Board of Public
7 Utilities (NJBPU), the New York State Public Service Commission (NYPSC), the
8 Delaware Public Service Commission (DPSC), and the Pennsylvania Public
9 Utility Commission (PPUC). I have also testified before the Connecticut
10 Department of Public Utility Control (DPUC).

11
12 **Q. What is the purpose and nature of your testimony in this proceeding?**

13 A. The purpose of my testimony is to support the computation of Operation and
14 Maintenance expenses and Taxes Other Than Income Taxes for United Water
15 Rhode Island (UWRI) and developed adjustments reflecting known and
16 measurable changes. In addition, I made normalizing calculations to develop
17 costs that are indicative of the continuing operations of UWRI.

18
19 **Q. What adjustments are you presenting in support of the filing?**

20 A. I am presenting the Company's proposed adjustments to Operating Expenses
21 and Taxes Other Than Income Taxes, which are summarized in Exhibit 3
22 Schedule 1 and the detail of each adjustment is also summarize in Schedules

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1 1A, 1B and 1C. The supporting calculations for all of the adjustments can be
2 found in Exhibit 3 Schedule 2 through Schedule 20.

3
4 **Q. Describe generally the approach you have taken in preparing the**
5 **adjustments.**

6 A. My schedules cover the operating results of the historic test year, consisting of
7 the twelve months ending December 31, 2012 through the end of the rate year
8 ending December 31, 2014. I made normalizing and annualizing adjustments to
9 operating expenses to conform expenses to the level used for revenues and rate
10 base.

11 For expenses that can be independently analyzed, such as labor, power
12 and chemicals, I made adjustments to normalize the expenses based upon
13 known and measurable changes. For the purpose of projecting other expenses
14 where such information is not available, I used the Blue Chip Financial Forecast's
15 estimated increases to the GDP Price Index to reflect inflationary trends. See
16 Exhibit 3 Schedule 17B for the computation of that index.

17
18 **Q. Please list the Schedules that you are sponsoring in this rate case.**

19 A. Schedule 2, Wages and Salaries;
20 Schedule 3, Fringe Benefits Transferred;
21 Schedule 4, Power Expense;
22 Schedule 5, Chemical Expense;
23 Schedule 6, Pension Expense;

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- 1 Schedule 7, PEBOP Expense;
- 2 Schedule 8, Employee Health and Welfare Expense;
- 3 Schedule 9, Tank Painting Amortization;
- 4 Schedule 10, Transportation/Vehicle Expense;
- 5 Schedule 11, Insurance Expense;
- 6 Schedule 12, Customer Information/Billing Expense;
- 7 Schedule 13, Rate Case Expense;
- 8 Schedule 14, Rent Expense;
- 9 Schedule 15, Outside Services Expense;
- 10 Schedule 16, Regulatory Commission Expense;
- 11 Schedule 17, Other Operation and Maintenance Expense;
- 12 Schedule 18, Property Tax Expense;
- 13 Schedule 19, Payroll Tax Expense;
- 14 Schedule 20, Gross Receipts Tax Expense;

15
16 The adjustments to O&M and taxes are summarized on Exhibit 3 Schedule 1 by
17 each category of expense. The schedules following Exhibit 3 Schedule 1,
18 namely Exhibit 3 Schedule 2 through Exhibit 3 Schedule 20, show the
19 computation of the individual adjustments.

20
21 **Q. Please describe the adjustments to Operating Expenses that you are**
22 **sponsoring.**

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1 A. **Exhibit 3 Schedule 2 Wages and Salaries**, The Adjustment to Wages and
2 Salaries sets out the normalized calculation of labor expense for the Rate Year.
3 Since the test year is the twelve months ending December 31, 2012, an
4 adjustment was made for pay increases that became effective April 1, 2013.
5 Additionally, a projected salary increase of 2.5% was applied to the April 2013
6 hourly rates to properly reflect salaries and wages in the rate year.

7 To compute total annual wages and salaries, amounts related to overtime pay
8 and incentive compensation were also added. The normalization adjustment for
9 overtime pay is based upon a three year historical hours average times the 2012
10 rate and increased by the compound wage increase of 5.06% for the rate year
11 costs. The amount of incentive compensation was determined by applying to
12 employees' base pay a target percentage determined by each employee's
13 eligibility in accordance with the Company's Short Term Incentive Plan (STIP)
14 guidelines.

15 Normalization adjustments for labor charges billed to UWRI from other
16 business (labor transferred in) and conversely, labor charges billed (transferred
17 out) for work performed by UWRI employees for other business units, and for
18 capitalized labor, was based upon a three year historical average percentage
19 utilizing the calendar years 2010, 2011 and 2012.

20 Exhibit 3 Schedule 2A provides support for the wages and salaries
21 adjustments.

22

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1 **Exhibit 3 Schedule 3 Fringe Benefits,** Reflects an adjustment for fringe
2 benefits transferred in and either transferred out to other business units or
3 capitalized. Fringe benefits transferred was normalized based upon the same
4 three year historical average percentage utilizing the calendar years 2010, 2011
5 and 2012 as used for wages and salaries. The percentage of 17.38%
6 representing labor either transferred out or capitalized was netted with the labor
7 transferred in percentage of 1.71%, resulting in a net fringe benefits transferred
8 or capitalized of 15.68%. This percentage, 15.68%, was applied to the
9 normalized fringe benefits costs, including payroll taxes, health and welfare
10 costs, worker's compensation, pension, PEBOP, 401k and other employee
11 benefits costs. Exhibit 3 Schedule 3A provides the computation for this
12 adjustment.

13
14 **Exhibit 3 Schedule 4 Power Expense,** Per Mr. Knox testimony, the Company
15 considers that the average kilowatt per hour (kWh) usage per million gallons
16 (mg) for the year 2012 represents the way that is expected to operate the system
17 going forward. In order to calculate total power cost, I calculated the average
18 kWh per mg using the historical test year kWh divided by total water production
19 for the calendar year 2012. This kWh average was applied to total rate year
20 water produced to determine rate year kWh usage. Total rate year water
21 produced was computed by using the billed volume determined by the adjusted
22 level of volumetric sales provided by Company Witness Ugboaja and adjusted for
23 a non-revenue water percentage.

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1 The non-revenue water percentage was determined using historical non-
2 revenue percentages utilizing the calendar years 2010, 2011 and 2012,
3 respectively. The power costs were calculated by applying the projected
4 commodity unit prices per kWh provided by the Company's procurement
5 department to total rate year kWh usage. The projected price for transmission
6 and distribution for the rate year was calculated applying the inflation rate of
7 3.887% per the GDP to the average unit rates from test year. For the Other
8 Utilities- Power the adjustment was based on a three year average adjusted by
9 5.722% inflation rate. Exhibit 3 Schedule 4A provides support for the computation
10 of the power adjustment and the calculation of the inflation factor is explained in
11 detail in Exhibit 3 Schedule 17B.

12
13 **Exhibit 3 Schedule 5 Chemicals,** To compute the chemical adjustment, I
14 projected the chemical expense in the Rate Year by computing the chemical
15 usage per million gallons of water treated by averaging the chemical usage
16 during the most recent three year periods, namely calendar years 2010, 2011
17 and 2012. I then applied this average chemical usage to the projected water
18 production to determine the quantity of chemicals to be used in the Rate Year
19 and finally priced out this quantity using the projected chemical prices provided
20 by the Company's Procurement Department. Exhibit 3 Schedule 5A provides
21 support for the computation of this adjustment.

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1 **Exhibit 3 Schedule 6 Pension Expense and Exhibit 3 Schedule 7 PEBOP**
2 **Expense**, The rate year amounts for both pension and PEBOP reflect the level of
3 costs determined for 2013 by the Company's actuary, Tower Watson, based on
4 the current employee complement. The Company will provide an update of the
5 cost as soon the actuary report is received which is expected in late August
6 2013. In an effort to contain costs for these benefits, the Company no longer
7 provides pension and PEBOP benefits for new hires.

8
9 **Exhibit 3 Schedule 8 Employee Health and Welfare expenses**, Employee
10 health and medical expense is the cost incurred by the Company to provide
11 medical, dental and vision care along with group term life insurance coverage to
12 employees. It is computed based on actual costs for 2013 and applied to the
13 existing employee plan participants and projecting a twelve percent increase for
14 new rates effective January 2014. The twelve percent increase is based on the
15 actual increase from 2012 to 2013. Exhibit 3 Schedule 8A provides support for
16 the computation of this adjustment.

17 Rate year life insurance was adjusted by applying the base wage increase
18 effective April 2013 of 2.49% and the projected wage increase effective April
19 2014 of 2.50% to the test year amounts. The Rate Year adjustment for the 401K
20 is the gross salary projected for 2014 times the annual average company
21 contribution of 3.98%. Other employee benefits were adjusted by applying the
22 inflationary rate per the GDP to the three year average of each of these individual

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1 expense amounts. Exhibit 3 Schedule 8 provides support for the computation of
2 these adjustments.

3
4 **Exhibit 3 Schedule 9, Tank Painting Amortization,** The Company painted the
5 interior and exterior of the Sherman and Howland Clearwell Tanks in 2008. Per
6 previous rate case the Company is amortizing these costs over a period of 10
7 years. Since nothing was amortized previously, in the year 2012 the Company
8 amortized the amount equivalent to four years (2008-2012) or \$110,400. Also in
9 December 2012 UWRI finished painting the Boston Neck Tank for the amount of
10 \$ 198,093, the Company began amortizing this cost over a 10 year period
11 beginning January 2013. The tank painting adjustment includes the annual
12 amortization of these three tanks for \$43,383 generating a negative adjustment
13 of \$66,657. Exhibit 3 Schedule 9A provides details regarding the painting of both
14 of these tanks.

15
16 **Exhibit 3 Schedule 10 Transportation/Vehicle expenses,** Transportation
17 adjustment includes lease costs based on current leasing agreements and
18 projected costs for replacement leases. Fuel cost was projected utilizing a three
19 year average actual costs for the calendar years 2010, 2011 and 2012 adjusted
20 by the inflationary rate of 5.722%. Lastly, Maintenance and repair costs,
21 insurance and miscellaneous expenses in the Rate Year were computed by
22 obtaining three year historical average cost adjusted by the inflationary rate of
23 5.722%, also the amortization over 3 years of extraordinary repairs to back-hoe

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1 that were incurred in April 2013, is included in the maintenance and repairs
2 costs. The depreciation expense is the same at that in the Test Year. Costs
3 capitalized and billed out represents a reduction to the total transportation
4 expense for costs that are capitalized or billed to other business units. The
5 percentage is based on last three year average costs capitalized and billed out.
6 Exhibit 3 Schedule 10A provides the computation and support for these
7 adjustments.

8
9 **Exhibit 3 Schedule 11 Insurance,** Insurance expense is composed of the costs
10 of property, general liability, and worker's compensation. The adjustment for
11 insurance was computed using the 2013 Company's budget and adjusted by the
12 inflationary rate of 2%.

13
14 **Exhibit 3 Schedule 12, Customer Information/Billing.** Billing expense is
15 composed of the costs of billing and postage. The adjustment was computed
16 using the actual cost for 2012 and adjusted by the inflationary rate of 3.887%.

17
18 **Exhibit 3 Schedule 13, Rate Case expense.** This adjustment represents the
19 normalization of the Company's rate case expense. The proforma amount was
20 calculated based on the total estimated cost of the current rate case expense
21 plus the unamortized amount from the previous rate case at 12/31/2013. This
22 total expense was then amortized over 2 years.

23

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1 **Exhibit 3 Schedule 14, Rent expense**, UWRI leases a property at 17 Arnold
2 Street, Wakefield, Rhode Island. This property is the site of the Company's office
3 and operations center. The current lease commenced in January 2012 and
4 terminates in December 2015. Per lease agreement the rent for the Rate Year is
5 \$25,800.

6 The Company leased a transmission line that provided water to the Indian
7 Lake Shore Development which was experiencing water quality issues. The
8 Development received a loan from Farmer's Home Association in order to tie into
9 UWRI's water system. The line was subsequently turned over to UWRI who in
10 turn paid this annual loan payment to the Indian Lake Shore Development who in
11 turn paid Farmers Home Administration. The last installment on the loan was in
12 the test year 2012. This line is now recorded on the books of UWRI in utility
13 plant. The loan payment was recorded in the test year amount however no
14 amount is reflected in the rate year lease expense. As a result, there is a \$4,139
15 reduction to rate year lease expense as shown on Exhibit 3 Schedule 14.

16
17 **Exhibit 3 Schedule 15 Outside Services expense**, the Company does procure
18 additional professional and technical support in areas where this may be required
19 such as accounting associated with external audit functions, legal, engineering
20 and information technology (software and hardware maintenance). The rate year
21 amounts were determined taking into consideration the needed professional and
22 technical support to meet anticipated requirements for the period. Outside
23 Services is composed of the cost of:

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- 1 a) The Management and Services (M&S) Fees adjustment represents the
2 increase in the M&S expense for services provided by United Water
3 Management and Services (“UWM&S”) employees. These services include
4 administration, accounting, tax, communications, customer service oversight,
5 finance, human resources, information systems, legal, procurement, technical
6 services and other general services necessary in the proper conduct of
7 business. The total rate year M&S expense was determined by applying the
8 projected compound wage increase of 5.06% to the test year amount.
- 9 b) The accounting and auditing, legal, information systems and management fee
10 components of outside services were adjusted by applying an inflationary
11 factor of 3.887% per the GDP to the test year amounts.
- 12 c) The management fee represents the Research and Innovation Alliance
13 described in detail in the testimony of Company Witness Knox.
- 14 d) The other component of outside services was adjusted by an inflationary rate
15 of 3.887% per the GDP and increase by the amount expected for the
16 efficiency testing wells cost.
- 17 e) Temporary help was adjusted by the amount expected for hydrant painting.
- 18 f) Well Rehabilitation, an annual expense of \$40,000 discussed in Mr. Knox
19 testimony.

20
21 Total rate year cost is reflected on Exhibit 3 Schedule 15. Exhibit 3 Schedule
22 15A shows the computation of each of these adjustments.

23

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1 **Exhibit 3 Schedule 16 Regulatory Commission expense,** The PUC
2 Assessment Fee was calculated based on the most current Assessment in
3 accordance with Section 39-1-23 of the general Laws of the State of Rhode
4 Island. This assessment rate was applied to the total rate year revenues
5 provided by Company Witness Ugboaja.

6 **Exhibit 3 Schedule 17 Other Operation and Maintenance expenses,** For
7 other operation and maintenance expenses not specifically adjusted and not
8 noted in the above testimony, a 3.887% inflation factor per the GDP was applied
9 to the test year of these costs. Prior to applying the GDP factor, an adjustment
10 was made to reduce other operations and maintenance expenses per books for
11 non-recoverable items. The adjustment reflects a reduction for the lobbying
12 portion of the National Association of Water Company dues or \$661. The
13 computation of the O&M expense adjustment is shown on Exhibit 3 Schedule
14 17A.

15
16 **Exhibit 3 Schedule 17B Inflationary Factor,** The amounts were based on the
17 Blue Chip Financial Forecast's estimate of increases to the GDP Price Index per
18 the March 1, 2013 (Volume 32, No. 3) and December 1, 2011 (Volume 30,
19 No.12). I developed three rates, the first is compound rate of 3.887% which
20 covers the periods 2013 and 2014, the second is the inflationary rate expected
21 for 2014 of 2% and the third compound rate is the average from 2010 to 2012
22 plus the compound rate of 3.887% for 2013 and 2014 or 5.722%. These rates

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1 were utilized to forecast certain expenses from the test year to the rate year as
2 noted in the above testimony.

3
4 **Exhibit 3 Schedule 18 Property Tax**, Property Taxes, were adjusted by
5 calculating a four year historical average percentage change in actual property
6 taxes paid from the 2009 through 2013 periods. This average annual increase,
7 7.28%, was applied to the test year property tax amount resulting in a \$40,256
8 adjustment.

9
10 **Exhibit 3 Schedule 19 Payroll Tax expense**, Payroll taxes were calculated
11 using the current statutory Federal and State tax rates which were applied to the
12 taxable rate year payroll base. Exhibit 3 Schedule 19A provides the computation
13 of the rate year payroll tax amount.

14
15 **Exhibit 3 Schedule 20 Gross Receipts Tax**, The current gross receipts tax rate
16 of 1.25% was applied to the rate year operating revenues at present and
17 proposed rates, provided by Company Witness Ugboaja.

18

19 **Q. Does this conclude your direct testimony?**

20 **A.** Yes it does.