

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: UNITED WATER RHODE ISLAND :
GENERAL RATE FILING : **DOCKET NO. 4434**

REPORT AND ORDER

I. Background

On August 13, 2013, United Water Rhode Island, Inc. (United Water RI or Company) submitted an application with the Rhode Island Public Utilities Commission (PUC or Commission) pursuant to R.I. Gen. Laws §39-3-11 for authority to increase its rates and charges for water service rendered within its service area. United Water RI is a wholly-owned subsidiary of United Waterworks, Inc. (sometimes UWW) which in turn is a wholly owned subsidiary of United Water Resources (sometimes UWR). UWR is owned by Suez Environment. The Company requested an overall increase in annual revenues of \$1,563,153, or 42.59%, to be effective September 13, 2013 for a total cost of service of \$5,233,419. At an open meeting on August 29, 2013, the Commission suspended the effective date of United Water RI's requested rate increase in order to conduct a full investigation and to hold public hearings. On August 23, 2013 and September 2, 2013, the Towns of Narragansett and South Kingstown, respectively, municipalities within the Company's service area, moved to intervene. On September 9, 2013, the Union Fire District of South Kingstown, a Chartered Fire District that rents hydrants for public streets within South Kingstown from United Water RI, also moved to intervene in the proceedings.¹

¹ Rule 1.13 of the Commission's Rules of Practice and Procedure provides that "any person claiming a right to intervene of an interest of such nature that intervention is necessary or appropriate may intervene in

Just two years prior on June 3, 2011, United Water RI had filed a general rate case requesting an overall increase in annual revenues of \$1,218,702, or 43%, for a total cost of service of \$4,077,004. After conducting a full investigation, the Commission in that case authorized United Water RI to collect additional revenues of \$941,834 for a total cost of service of \$3,817,598 for usage on and after January 12, 2012.²

In support of this filing, United Water RI submitted pre-filed testimony³ addressing United Water RI's revenue requirement for the twelve-month period ending December 31, 2014 as the proposed rate year and using the twelve-month period ending December 31, 2012 as the test year.

II. United Water Rhode Island: Direct Testimony

In support of its request for increased revenues, United Water RI submitted the pre-filed direct testimony of Stanley J. Knox, General Manager of United Water RI; Gary S. Prettyman, Senior Director Regulatory Business for United Water Management and Services, Inc. (UWMS);⁴ Obioma N. Ugboaja, Rate Analyst with UWMS; Elda Gil, Regulatory Specialist with UWMS; Timothy J. Michaelson, Director of Regulatory Business for UWMS; Paula L. McEvoy, Director of Engineering for the New York Division of United Water; and Pauline M. Ahern, CRRA, a Principal with AUS Consultants.

Mr. Knox provided testimony on the Company's history, its cost-cutting control measures, current initiatives and improvements, affiliate relationships, and why the rate

any proceeding before the Commission. Such right or interest may be...[a]n interest which may be directly affected and which is not adequately represented by existing parties and as to which movants may be bound by the Commission's action in the proceeding...[or] any other interest of such nature that movant's participation may be in the public interest."

² Docket No. 4255, Order No. 20782 ; <http://www.ripuc.org/eventsactions/docket/4255page.html>.

³ Prefiled testimony is available at the Commission offices located at 89 Jefferson Boulevard, Warwick, Rhode Island or at www.ripuc.org/eventsactions/4431page.html.

⁴ United Water Management Services, Inc. or UWMS is a subsidiary of United Water Resources.

increase is necessary. In describing United Water RI, Mr. Knox noted that it employs 10 full time employees to serve the 7,399 metered residential customers, 717 commercial customers, 10 industrial customer, 88 municipal customers, 2 wholesale customers, and 185 private fire customers as well as to provide private and public fire service in South Kingstown and Narragansett.⁵

Mr. Knox described the Company's water treatment process, noting that it is currently in compliance with all state and federal regulations. He identified the major additions made to plant in-service since the Company's last rate case, including the replacement of pipe, mains, and a tank. He expressed that the Company is committed to water conservation and education and obtains grants to research various drinking water-related issues.⁶

Gary S. Prettyman sponsored testimony setting forth the overall revenue requirement, revenue conversion factor, and federal income taxes. He related that operating expenses, rate base, capitalization, and the current rate of return evidence a need for \$1,563,153 of additional revenues resulting from increases in operating expenses and the addition of improvements to the Company's existing facilities. He identified the test year as the year ending December 31, 2012 and the rate year as the year ending December 31, 2014. After explaining the exhibits attached to his testimony, Mr. Prettyman concluded his testimony by representing that United Water RI needs to recover

⁵ Knox Direct at 1-3 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-KNOX.pdf>.

⁶ *Id.* at 4-18.

the amounts included in operating expenses and rate base in order to allow it to earn a fair rate of return while providing safe, adequate, and proper service to its customer.⁷

Obioma N. Ugboaja's testimony provided normalized operating revenues and presented the proposed tariffs for the rate year. He noted that with the exception of the public and private fire classes, United Water RI used a simple trend analysis to project customer growth, with a five-year historical period as its data sample. For the fire classes, Mr. Ugboaja used the number of hydrants in the test year as the projected number of hydrants for the rate year. He related that customer growth projections showed a modest growth in the residential, 1.5%, and commercial, 0.6%, classes and no growth in the industrial, public authority, or resale customer bases. He described how he projected water usage for all classes and explained that the Company used a four-year average for all customers except for residential customers to balance unusually high consumption for these classes in 2008. Because residential customers account for approximately 90% of the Company's customer base, a more detailed approach and longer time period --seven years-- was used to project consumption for the residential class. The seven-year period recognizes that actual billed consumption has historically trended downwards even with a modest increase in residential customer growth.⁸

Mr. Ugboaja asserted that the modest increase in customer growth is tempered by the lower consumption volumes. Additionally, since no construction of new developments was planned for the rate year, Mr. Ugboaja explained, the number of fire service lines (192) and the public fire hydrants (658) included under the Company's fire

⁷ Prettyman Direct at 1-5 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-PRETTYMAM.pdf>.

⁸ Ugboaja Direct at 1-6 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-UGBOAJA.pdf>.

protection services for the test year would be the same for the rate year. Finally, he noted that since a complete cost-of-service study was performed two years ago and the structure of United Water RI's customer base has not changed, it was not reasonable to conduct another one, particularly given the cost.⁹

Elda Gil provided support for operation and maintenance expenses and taxes other than income taxes, and developed adjustments reflecting known and measurable changes. She also made normalizing calculations to develop costs that United Water RI will incur as it continues operations. She made adjustments to wages and salaries to reflect pay increases that became effective prior to the filing and normalized fringe benefits costs. She calculated power expense to reflect projected power costs. She adjusted chemical expense by averaging usage over the past three years and, based on projected prices, determined the cost.¹⁰

Ms. Gil noted that pension and post-employment benefits other than pension amounts for the rate year were determined by the Company's actuary and pointed out that those benefits are no longer provided for new hires. She projected a 12% increase in health and medical expense based on the actual increase from 2012 to 2013. She amortized tank painting expense over a 10-year period and made inflationary adjustments to transportation and vehicle expenses that included lease, fuel, maintenance and repair, insurance, and other miscellaneous costs. The Company's insurance costs, customer information, and billing were also adjusted to account for inflation.¹¹

To determine rate case expense, Ms. Gil added the total estimated cost of the current rate case expense to the unamortized amount from the previous rate case and

⁹ *Id.* at 6-8.

¹⁰ Gil Direct at 2-7 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-GIL.pdf>.

¹¹ *Id.* at 8-10.

amortized that total expense over two years. Rent expense was reduced due to the satisfaction of a loan for a transmission line that is now included in utility plant. Ms. Gil determined the expense amount for outside services, which includes professional and technical services, by evaluating the need for professional and technical support that will arise during the rate year. The PUC Assessment Fee was calculated based on the statutory requirement. Other Operation and Maintenance expenses were adjusted to reflect the removal of non-recoverable items, such as the lobbying expense portion of the National Association of Water Companies dues. Ms. Gil developed three inflationary rates to forecast certain expenses from the test year to the rate year. Property taxes were adjusted using a four year average percentage change. Payroll tax expense was calculated using the current statutory rates. Finally, she applied a 1.25% gross receipts tax to the rate year operating revenues.¹²

Timothy Michaelson, Director of Regulatory Business, provided the Company's rate base and depreciation expense. He related that actual rate base for the test year as of December 31, 2012 averaged \$10,767,870 and that the projected rate base for the rate year averaged \$15,859,818.¹³

Paula McEvoy provided testimony regarding the capital needs of the Company. Ms. McEvoy is responsible for the development and implementation of the Company's capital plan. She described the significant projects in which United Water RI has engaged, including storage tank construction, infrastructure improvements, and

¹² *Id.* at 10-14.

¹³ Michaelson Direct at 1-7 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-MICHAELSON.pdf>.

operations improvements. She also identified other capital projects required to maintain asset conditions to meet customer service standards and regulatory requirements.¹⁴

Pauline M. Ahern, a principal with AUS Consultants, provided testimony regarding the rate of return, the cost of equity, the cost long-term debt, and the capital structure. She recommended a rate of return of 8.75% based on the consolidated capital structure of UWW on March 31, 2013 which consists of 46.55% long-term debt and 53.45% common equity at a long term debt cost of 6.05% and her recommended cost of equity of 11.10%. Ms. Ahern used a proxy group to arrive at her recommended cost of equity. Because United Water RI is not publicly traded, a market-based cost of common equity could not be determined directly for the Company. Noting that no proxy group identical to United Water RI could be assembled, she asserted that the proxy group results could be adjusted to reflect the unique financial and/or business risk of the Company. After evaluating three market-based, cost of common equity models, each of which she discussed individually, she arrived at an 11.10 percent cost of common equity. Ms. Ahern noted that her recommended common equity cost was based on a proxy group of nine water companies that was adjusted upward by 55 basis points to account for United Water RI's small size relative to the nine companies in the proxy group.¹⁵

Prior to beginning her discussion on each of the cost methods she utilized to reach her conclusion, Ms. Ahern asserted that use of multiple models adds reliability when a cost rate is set for a particular company. She also reviewed business risk, explaining that the water industry is much more capital intensive than other utilities, requiring much

¹⁴ McEvoy Direct at 1-8 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-MCEVOY.pdf>.

¹⁵ Ahern Direct at 1-5 (Aug. 13, 2013); <http://www.ripuc.org/eventsactions/docket/4434-UWRI-AHERN.pdf>.

greater investment to produce revenue. In support of her assertion that United Water RI faces an additional, extraordinary business risk because of its small size, Ms. Ahern explained that smaller companies are less able to cope with significant events that affect sales, revenues, and earnings such as the loss of a large customer or extreme weather conditions. Because of the risk associated with the smallness of a company, she noted, investors demand a greater return to compensate for the lack of liquidity and marketability of their investment.¹⁶

Ms. Ahern also discussed financial risk, the additional risk created by the introduction of more capital, debt, and preferred stock into the capital structure. She described how she selected the nine companies in her proxy group. Emphasizing that no specific common equity model should be relied on exclusively to emulate investor behavior, she considered three models in determining an appropriate cost of equity: 1) the Discounted Cash Flow model; 2) the Risk Premium Model; and 3) the Capital Asset Pricing Model. For each of these models, Ms. Ahern explained the theory and how she arrived at her results. Her Discounted Cash Flow model results revealed a median result of 8.91% for the nine companies in the proxy group. She relied on two Risk Premium Model methods, the Predictive Risk Premium Model and the Risk Premium Model, using a total market approach which yielded a Risk Premium Model result of 11.46%. Lastly, she applied both the traditional Capital Asset Pricing Model and the Empirical Capital Asset Pricing Model to the proxy companies, resulting in a cost rate of 10.52%, based on the average of the results under both models.¹⁷

¹⁶ *Id.* at 6-15.

¹⁷ *Id.* at 16-38.

Considering the results of all the models she employed, Ms. Ahern's concluded that a cost of equity of 10.55% was reasonable. She noted that she made an upward adjustment of 00.55% to account for the small size of the Company resulting in an 11.10% cost of equity for an overall rate of return of 8.75%.¹⁸

III. Division of Public Utilities and Carriers: Direct Testimony

The Division presented the pre-filed testimony of Thomas S. Catlin, a principal with Exeter Associates, Inc., and Matthew I. Kahal, an independent consultant specializing in the areas of energy, utility, and telecommunications.

Mr. Catlin provided testimony evaluating United Water RI's rate year rate base and net operating income at present rates. He determined the overall revenue increase he believes necessary to generate the return on rate base recommended by Mr. Kahal. For determining the revenue requirement, Mr. Catlin accepted United Water RI's test year as the year ending December 31, 2012 and its rate year as the year ending December 31, 2014. He recommended a revenue increase of \$1,006,902 as opposed to the \$1,563,153 requested by the Company, which he found adequate to generate the 7.72% rate of return recommended by Mr. Kahal.¹⁹

Mr. Catlin made \$1,122,445 in downward adjustments to United Water RI's rate base, specifically to Cash Working Capital²⁰, Deferred Rate Case Expense²¹, and

¹⁸ *Id.* at 39-43.

¹⁹ Catlin Direct at 1-5 (Feb. 3, 2014); http://www.ripuc.org/eventsactions/docket/4434-DPU-Catlin_2-3-14.pdf.

²⁰ Because the Company records the balance of the deferred costs of tank painting as a regulatory asset, it should not be included as an O&M expense, the base of which Mr. Catlin adjusted to reflect this elimination. This adjustment was made prior to calculating Cash Working Capital.

²¹ In *Providence Gas Company v. Malachowski*, 656 A.2d 949 at 953 (R.I. 1995), the Rhode Island Supreme Court upheld and found sound the PUC's long-standing policy prohibiting deferred rate case expense from being included in rate base and which provides for "ratepayers to pay the actual, prudently incurred rate case expenses over a period of time, while stockholders pay the carrying costs on the unamortized balance. Such a policy is based upon a sharing of costs between ratepayers and stockholders."

Accumulated Deferred Income Taxes. Mr. Catlin criticized the Company's use of a trending analysis to determine the number of customers, finding it was not supported by the existence of a discernable trend. He proposed using the actual number of customers by rate class for 2013, adjusting them by the change in the number of customers from 2012 to 2013, to determine the number of customers by rate class for 2014. Regarding consumption, he recommended utilizing a four-year average --2010 through 2013-- for the Company's residential and non-residential customers and adjusting the number of units for fire service for the addition of one private fire service and one public hydrant. The adjustments increased the Company's revenues by \$80,673.²²

Mr. Catlin made a slight adjustment to the percentage of wages charged to expense and eliminated the portion of incentive compensation directly associated with meeting financial performance goals. He updated chemical expense to reflect average quantities and to include the revised rate year consumption and actual chemical prices for 2014. United Water RI's cost of power was adjusted to reflect production and non-production related power and to recognize additional costs due to Hurricane Sandy. Mr. Catlin amortized remaining retiree medical costs over two years, resulting in a minor reduction to rate year expense. He also made three adjustments to transportation expense: 1) reflecting updated inflationary factors, 2) eliminating abnormally high costs for vehicle repairs, and 3) reflecting the update to wages capitalized. Additionally, he adjusted the Company's outside service expense to reflect updated inflationary factors and to eliminate \$5,000 of the \$10,000 requested for hydrant painting. This account was

In re Block Island Power Co., Report and Order No. 13769, Docket No. 1998, at 20 (1991). The Court recognized the PUC's allowance of an exception to this policy in unusual circumstances. However there, as here, no unusual circumstances were established by the utility.

²² Catlin Direct at 6-13.

also adjusted to reflect a correction that the Company made to its test year expense, for efficiency testing of seven wells and to normalize well rehabilitation expense.²³

Mr. Catlin revised the inflation factors the Company had used to reflect an updated projection of inflation. Noting that consistency should be used from case to case, he modified the growth rate used in calculating property expense to the three-year growth rate that United Water RI used in its last rate case. He noted that since the Company had performed a cost-of-service study in its prior rate case, he was accepting the proposed uniform percentage increases in the service and commodity charges for all customers. Mr. Catlin's adjustments resulted in an overall percentage increase of 27.10% necessary to generate required rates.²⁴

Mr. Kahal presented testimony addressing the Company's proposed rate of return and cost of common equity. He concurred with the Company's use of United Waterworks' capital structure which the Commission approved of in the last rate case. He recommended a rate of return of 7.72% that includes a return on equity of 9.25% and a capital structure of 46.9% debt and 53.1% equity. He utilized the same cost of debt, 6.05%, as the Company. After reviewing how Ms. Ahern developed her 11.10% return on equity recommendation, Mr. Kahal explained that he relied primarily on the Discounted Cash Flow model to determine his own recommendation of 9.25%. He voiced no objection to United Water RI's requested increase in the equity ratio from approximately 50% to 53% which he equated to a diminishment in financial risk.²⁵

²³ *Id.* at 13-23.

²⁴ *Id.* at 23-26.

²⁵ Kahal Direct at 1-7 (Feb.3, 2014); http://www.ripuc.org/eventsactions/docket/4434-DPU-Kahal_2-3-14.pdf.

Mr. Kahal noted declining trends in capital costs in recent years and the Federal Reserve Board of Governors (Fed) policy to ensure price stability and promote full employment by keeping interest rates low during this time of high unemployment. He observed that in addition to this Fed policy, a sluggish economy has kept interest rates low, something he expects to continue. He incorporated utility stock market data from the six months ending December 2013 into his Discounted Cash Flow analysis. He asserted that was reasonable for assessing United Water RI's current cost of capital as it reflects recent market and economic trends.²⁶

In discussing the capital structure, Mr. Kahal noted that the parent company at times utilizes short-term debt to fund operations, something that United Water RI omitted from its proposed capital structure. He noted it also omitted a negative balance sheet entry, causing the parent's actual common equity balance to be overstated. Mr. Kahal added 0.64% of short-term debt into the Company's capital structure, along with 46.24% of long-term debt, and 53.13% common equity. He accepted the Company's cost of debt of 6.05%, but found that Ms. Ahern's 0.55% size adjustment for risk was not justified.²⁷

Mr. Kahal discussed his Discounted Cash Flow analysis in great detail. He used a proxy group that was nearly identical to Ms. Ahern's proxy group, eliminating one company that lacked projections data and which had no material effect on his analysis. He recommended a return on equity of 9.25%, which did not include a risk adjustment for size and was the midpoint of his proxy group's Discounted Cash Flow range, which

²⁶ *Id.* at 7-13.

²⁷ *Id.* at 13-20.

he discussed in great detail. In addition to his Discounted Cash Flow analysis, Mr. Kahal performed a Capital Asset Pricing Model analysis as a verification check.²⁸

IV. Intervenors: Direct Testimony

The Intervenors, the Towns of Narragansett and South Kingstown and the Union Fire District, filed the direct testimony of David Bebyn, CPA, to address United Water RI's request. Mr. Bebyn asserted that United Water RI's current request, coupled with the 32.8% increase approved by the Commission approximately two years ago, is concerning to the intervenors. He relied primarily on Mr. Kahal's testimony regarding rate of return and supported for the recommended 7.72% rate of return presented by Mr. Kahal. Mr. Bebyn agreed with Mr. Catlin's adjustments to Outside Services. Regarding Rate Case Expense, Mr. Bebyn recommended amortizing this expense over three years as opposed to the two years proposed and agreed to by United Water RI and the Division.²⁹

Mr. Bebyn accepted Mr. Catlin's calculation of customer counts and water consumption for the rate year. He supported Mr. Catlin's position regarding wages and benefits capitalized, as well as the adjustments he made to O&M expense. He agreed with Mr. Catlin's rational that tank painting amortization should not be included in the calculation for working capital and supported the Division's adjustment to the Company's proposal. Mr. Bebyn agreed with Mr. Catlin's elimination of deferred rate case expense from rate base and his reduction of rate base to reflect the balance of accumulated deferred income taxes in the rate year.³⁰

²⁸ *Id.* at 20-35.

²⁹ Bebyn Direct at 1-6 (Feb. 7, 2014); [http://www.ripuc.org/eventsactions/docket/4434-Intervenors-Bebyn\(2-8-13\).pdf](http://www.ripuc.org/eventsactions/docket/4434-Intervenors-Bebyn(2-8-13).pdf).

³⁰ *Id.* at 6-9.

Regarding rate design, Mr. Bebyn objected to United Water RI's proposed across-the-board increase. He asserted that to avoid rate shock to fire and customer service rates, it is necessary to maintain the fire adjustment and customer service adjustment when allocating general water to each customer. He pointed out that when the Cost of Service Study was prepared two years ago, class demand factors were not updated and indeed had not been updated since 1991. He explained that increases to fire service have been extraordinarily large and much higher than any other regulated water utility in the state. Finally, Mr. Bebyn recommended that United prepare a full cost-of-service study updating the calculation for customer demand factors and identifying the individual asset by asset basis for all assets valued over \$100,000.³¹

IV. United Water Rhode Island: Rebuttal Testimony

United Water RI presented the rebuttal testimony of Mr. Prettyman, Ms. Gil, and Ms. Ahern. Mr. Prettyman responded to Mr. Catlin's and Mr. Bebyn's direct testimony. Regarding Mr. Catlin's testimony concerning customer numbers, Mr. Prettyman noted that while he did not agree with the method used by Mr. Catlin, he would agree with the result, as it was only one customer different than his projection. He asserted that the Company's consumption figures for residential usage should be used because they accurately depict the declining residential use. When discussing consumption for other classes, Mr. Prettyman stressed that 2009 was an abnormal year, so any averaging should take that year into account. He explained that the Company didn't take into account bonus depreciation when calculating deferred income tax. The benefit of that only

³¹ *Id.* at 10-12.

applies when the Company has positive taxable income, which in 2012 was offset by a greater loss in 2011.³²

Mr. Prettyman disagreed with Mr. Bebyn's recommendation that rate case expense be amortized over three years. He said it is likely the Company will file another case in two years to fund new tank construction. Mr. Prettyman also addressed Mr. Bebyn's testimony regarding rate design, opining that the adjustment he made to fire rates was neither justified nor explained and that his testimony regarding demand factors was unsubstantiated. He asserted that requiring the Company to prepare another cost-of-service study, when one was completed approximately two years ago, would be unwarranted and an unnecessary expense.³³

Mr. Prettyman contended that Mr. Bebyn's testimony failed to include a proof of revenues to prove his recommended rates will produce the total level of revenues. He averred that a balancing must take place when implementing cost of service based rates and that the balancing was achieved through the Company's last cost-of-service study.³⁴

Ms. Gil's rebuttal testimony similarly reviewed a number of Mr. Catlin's adjustments. Specifically, she noted that United Water RI agreed with Mr. Catlin's adjustments to percentage of wages and benefits charged to expense, fringe benefits transferred out, chemicals, post-retirement benefits, testing wells, well rehabilitation, and inflation. However, she contended that incentive compensation should not be adjusted, because it is necessary to attract and retain competent employees, can reduce costs and

³² Prettyman Rebuttal at 1-5 (March 3, 2014); [http://www.ripuc.org/eventsactions/docket/4434-UWRI-Prettyman\(3-3-14\).pdf](http://www.ripuc.org/eventsactions/docket/4434-UWRI-Prettyman(3-3-14).pdf).

³³ *Id.* at 6-10.

³⁴ *Id.* at 10-12.

improve productivity, allows the Company to award high performance, and aligns the interests of employees, shareholders, and customers.³⁵

Regarding power expense, Ms. Gil disagreed with Mr. Catlin's adjustment updating rates for Constellation Energy and National Grid, noting that the Company provided the most recent actual prices paid which were higher than what the Division proposed. Additionally, she stated that Mr. Catlin's adjustment to non-production related power did not add back the component related to distribution. Finally, Ms. Gil related that while the Company agrees to a three year cost averaging of power data, it does not agree with the exclusion of either the 2011 storm costs or the inflation adjustment.³⁶

Ms. Gil also addressed Mr. Catlin's three adjustments to transportation expense. She agreed with the adjustments to update the inflation factors and to reflect the new percentage of wages capitalized, but did not agree with the adjustment that eliminated the trailer and truck repairs. She pointed out that the Division accepted a three-year normalization of backhoe repairs and should also accept a three-year normalization of the truck and trailer repair expense. Ms. Gil represented that the Company's purpose in including hydrant painting in its maintenance program is to enhance the appearance and improve the visibility of the Company's faded and weathered hydrants. She contended the Company should be allowed the full \$10,000 requested for hydrant painting.³⁷

Finally, Ms. Gil disagreed with Mr. Catlin's adjustment to property tax expense. She asserted that using a four year average to project this expense produces a more comparable result than a three-year average, noting that the Company's average was less

³⁵ Gil Rebuttal at 1-3 (March 3, 2014); [http://www.ripuc.org/eventsactions/docket/4434-UWRI-Gil\(3-2-14\).pdf](http://www.ripuc.org/eventsactions/docket/4434-UWRI-Gil(3-2-14).pdf).

³⁶ *Id.* at 4-5.

³⁷ *Id.* at 6-7.

than the previous year's actual expense and that Mr. Catlin's average was significantly lower than that. She proposed a modified operation and maintenance expense budget of \$2,266,440, which accounts for the adjustments made by Mr. Catlin that were agreeable to the Company.³⁸

Ms. Ahern asserted that Mr. Kahal's common cost of equity analysis was inadequate because it relied primarily upon the Discounted Cash Flow analysis. She reiterated the point made in her direct testimony that academic literature substantially supports using more than one model. She explained that while a number of regulatory commissions rely upon the Discounted Cash Flow model, many of those commissions also consider other cost equity models. She criticized Mr. Kahal's use of the Capital Asset Pricing Model as a check on his Discounted Cash Flow analysis and alleged that his failure to make a size adjustment ignored the fact that the use of funds and not the source of funds is what gives rise to risk and the appropriate rate of return. Finally, she updated her recommended cost of common equity to 10.55%, noting that she relied exclusively upon forecasted interest rates in her risk premium and Capital Asset Pricing Model analyses.³⁹

V. Settlement Agreement

Prior to the commencement of the hearing, the Company and the Division presented a Settlement Agreement (Agreement). The Agreement provided for an across-the-board increase of 32.83% for all customer classes designed to generate a total cost of service of \$4,923,600 or an additional \$1,207,267 of operating revenue. The Company and the Division agreed to a capital structure of 46.9% total debt and 53.1% equity with a

³⁸ *Id.* at 7-8.

³⁹ Ahern Rebuttal at 1-20 (March 3, 2014); [http://www.ripuc.org/eventsactions/docket/4434-UWRI-Ahern\(2-26-14\).pdf](http://www.ripuc.org/eventsactions/docket/4434-UWRI-Ahern(2-26-14).pdf).

9.65% return on equity, and an overall rate of return of 7.94%. The Agreement resolved the issues that the Division and the Company had disagreed on at the time the rebuttal testimony was filed.⁴⁰

Specifically, the Company and the Division agreed to a \$46,067 increase in revenues, which recognized both the Company's concern with the downward trend in residential sales and the Division's position regarding non-residential sales. The Division agreed with United Water RI's position regarding that because the increase in the balance of Accumulated Deferred Income Taxes will not be recognized in the near term, it should not be deducted from rate base. United Water RI agreed to eliminate the portion of incentive compensation associated with meeting financial goals. Regarding power expense, the Company and the Division agreed to include storm-related diesel and other power costs incurred during 2011 when calculating the three-year average for this account of power costs. The Company accepted the Division's adjustment to transportation expense which eliminated certain 2012 truck and trailer repairs prior to the three year averaging of this expense. The Agreement also allowed the Company the full amount originally requested for hydrant painting foregoing the Division's initial objection. Additionally, the Company accepted the Division's reduction in property tax to reflect a three year average.⁴¹

VI. Hearing

⁴⁰ Settlement Agreement, March 28, 2014; [http://www.ripuc.org/eventsactions/docket/4434-DPU-SettlementAgreement\(3-28-14\).pdf](http://www.ripuc.org/eventsactions/docket/4434-DPU-SettlementAgreement(3-28-14).pdf). Although not signatories to the Settlement Agreement, the three intervenors agreed with the terms that the Company and the Division negotiated. The Settlement Agreement is attached hereto as Appendix A.

⁴¹ *Id.*; Division Statement in Support of Settlement Agreement, http://www.ripuc.org/eventsactions/docket/4434-DPU-Statement-Settlement_4-4-14.pdf; United Statement in Support of Settlement Agreement, http://www.ripuc.org/eventsactions/docket/4434-UWRI-Statement-Settlement_4-9-14.pdf.

The Commission conducted an evidentiary hearing on the terms of the Settlement Agreement and certain other issues that it wanted to further explore. United Water RI presented a panel of Mr. Prettyman, Ms. Gil, Mr. Michaelson, Mr. Knox, and Ms. McEvoy to address the Commission's inquiries. Mr. Prettyman reiterated that the main driver of the increase in rate base was the addition of new facilities that the Company had invested in since its last rate case, specifically a new water storage tank and replacement of mains, hydrants, and other facilities. Increased operations and maintenance expense and a decrease in consumption made up the remainder of the increase. He explained how after negotiation, the Company and the Division were able to arrive at a settlement that they considered fair and reasonable and which avoids expensive litigation.⁴²

Mr. Prettyman explained each of the pertinent points of the settlement issues including how the Company willingly adjusted its projections for residential consumption, how it agreed to capitalize a greater portion of salaries and wages, and how it agreed to eliminate its request for an incentive based on financial considerations. He discussed the five components of the Company's power expense, noting that the upward adjustment was the result of the segregation between purchased power and non-operating power. He explained that the Company agreed to lengthen the amortization period for the well maintenance and it was amenable to using a three-year average to project property tax expense. Additionally, he noted the Company agreed to eliminate deferred rate case expense, which had been included in the initial filing prior to the Company learning of the Rhode Island Supreme Court decision prohibiting inclusion of that expense in rate base.⁴³

⁴² Hr'g, Tr. at 27-32 April 14, 2014.

⁴³ *Id.* at 34-41.

Regarding the Company's capital structure, Mr. Prettyman testified that the Division's recommendation that included short-term debt and provided for a 9.65% return on equity was fair and in the best interest of all parties. He represented that it is the position of United Water RI that the terms of the Agreement are fair and reasonable and that the rates are necessary. He noted that the terms of the Agreement will allow United Water RI to continue to provide high quality water and high quality customer service to its ratepayers.⁴⁴

Lastly, Mr. Prettyman discussed the difference in rates between private fire service and the tariffs for public hydrants. He noted that neither the private fire service nor the public hydrant charge is in the cost of service. He described a private fire service connection, which is based upon the size of the connection to the main and allows customers to connect as many things as they wish, such as hydrants or sprinkler systems, as long as the main will allow the volume needed through the service connection. He testified that the Town or the Union Fire District will not pay a hydrant rental charge for a hydrant that is not on a public street. Mr. Knox offered that United Water RI has no input into what the Town or the Union Fire District chooses to pay for. Mr. Prettyman explained that to keep the fire rate at a reasonable level, a portion of the fire charges are shifted to or cross-subsidized by the general metered service customers.⁴⁵

In response to the Commission's inquiry about the \$10,000 United Water RI requested for hydrant painting, Ms. Gil acknowledged that her pre-filed testimony stated that the reason for the requested expense amount was to enhance the appearance and improve the visibility of faded and weathered hydrants. She testified during the hearing

⁴⁴ *Id.* at 42-43.

⁴⁵ *Id.* at 44-62.

that structural integrity was not an issue. However, Mr. Knox contended that the primary reason for painting the hydrants was corrosion. He noted that controlling corrosion helps ensure that hydrants operate properly when needed. He claimed that deferring the painting could risk public safety. Additionally, he related that although painting had previously been done in-house, it was now necessary to hire summer help, specifically college students, because the Company's employees could no longer effectively maintain the schedule.⁴⁶

When questioned about the percentage of the requested increase, Mr. Knox acknowledged concern with customers' ability to pay. But he stated that the increase was justified because the Company needed to earn a return on the capital improvements it had made. Mr. Prettyman supported Mr. Knox's views, noting that over the last two years, the Company had invested almost \$7 million in facility improvements. He expressed that the requested increase amounted to less than a penny a gallon. He further asserted that the Company intends to build another replacement tank in the next two years, which will necessitate a new filing.⁴⁷

Mr. Knox also described the Company's short-term incentive program, which affords employees a bonus based on performance in addition to any salary increase that employees may receive. Finally, Mr. Prettyman related that all residential customers are billed quarterly, and that the approximate increase for a residential customer pursuant to the terms of the Agreement would be \$20 per quarter.⁴⁸

Mr. Catlin testified on behalf of the Division. He addressed the public hydrant and private fire connection issue. He also explained that because the Company's rates

⁴⁶ *Id.* at 62-68.

⁴⁷ *Id.* at 69-71.

⁴⁸ *Id.* at 72-92.

are too low relative to costs, raising them suddenly closer to the cost of service would result in significant increases in the quarterly customer charge for residential customers and for the municipal fire charges. He stated that if the public fire rate were to be moved to cost, the result would be about a 200% increase. He noted that volumetric rates paid by all those customers who take volumetric service subsidize most of the other rates for the Company. Mr. Catlin also expressed concern about the overall amount of percentage increase, but stated that if expenses are legitimate, they have to be accepted. He also explained that while he had originally recommended that the expense for hydrant painting expense be limited to \$5,000 he had agreed to the full \$10,000 amount as part of the compromise to reach agreement.⁴⁹

Finally, Mr. Bebyn testified that he had participated in the settlement discussions. He provided that the reason that the public hydrant fee and the private fire service are different is because of additional billing charges that are included in the rate which is a fixed charge. He testified that the billing charge included a cost to create the bill, the labor to generate the bill, and the collection of the bill.⁵⁰

The Commission made a number of data requests during the course of the hearing, all of which were responded to by United Water RI prior to the Commission's decision.

Decision

At its open meeting on May 7, 2014, the Commission deliberated on the evidence presented and the terms of the Settlement Agreement. The Commission thoroughly reviewed, analyzed, and evaluated all the evidence, documentary and oral, presented by

⁴⁹ *Id.* at 95-111.

⁵⁰ *Id.* at 136-150.

the parties and considered the public comment presented. This process began as soon as the initial application was filed in August 2013.

This Commission is statutorily bound to ensure that rates are just and reasonable and that any approved rate increases are otherwise necessary for the utility to obtain reasonable compensation for services rendered to the public. R.I. Gen. Laws §§ 39-3-11 and 39-3-12. Specifically, the Settlement Agreement represents a significant reduction in the additional operating revenue originally requested by United Water RI. The Commission unanimously approved the terms of the Settlement Agreement with two modifications: 1) elimination of \$2,500 expended for a holiday party and 2) reduction of the \$10,000 requested hydrant painting expense to \$5,000. United Water RI presented no evidence that a holiday party is an expense necessary to maintain water quality or to provide safe and reliable service. The Commission finds no justification in requiring ratepayers to assume the cost of such.

Regarding the decision to reduce the hydrant painting request by half, the Commission noted that in Ms. Gil's pre-filed testimony, she identified enhancing the appearance of the hydrants as the Company's reason for seeking the money to fund the expense. It wasn't until the evidentiary hearing that Mr. Knox raised the corrosion issue. At no time did United Water RI articulate why it had fallen behind in their hydrant painting. Furthermore, any sense of urgency on the corrosion issue was belied by the fact that United Water RI presented no evidence that it did anything to address those corrosion concerns from the time that it filed the case in August 2013 until the date of the hearing. In the future, the Company would be better served by presenting evidence of corrosion, such as photos or a detailed description of the existence and the extent of the

corrosion. The Commission believes that after months of thorough and probing review, the Settlement Agreement, presented by United Water RI and the Division and agreed to by the Intervenors with the two modifications, set forth above, is supported by the considerable evidence presented and is fair, reasonable, and in the best interest of the utility and its ratepayers.

The Rhode Island Supreme Court has stated that “the proper rate of return ‘is a matter of judgment, not an immutable number.’” *Blackstone Valley Electric Company*, Docket No. 1605, Order No. 10695 (issued May 12, 1982) *citing Providence Gas v. Burman*, 376 A.2d 687 (R.I. 1977). A public utility is not entitled to earn a return that may be earned by a highly profitable enterprise; however, the return should be sufficient to permit the utility to maintain financial integrity, attract necessary capital, and fairly compensate investors for the risks they have assumed while at the same time providing appropriate protection to the relevant public interests, both existing and foreseeable. *Bristol County Water Company*, Docket No. 1502, Order No. 10355 (issued January 15, 1981). The Company’s original filing proposed a return on equity of 11.1%. The Division filed testimony supporting a return on equity of 9.25%. Both parties presented extensive testimony in support of their own positions and challenged the positions of the other before agreeing to settle their differences. The Commission believes that the 9.65% return on equity agreed to by the parties in the Settlement Agreement is a fair and reasonable amount and is representative of the proxy group used by the parties.

Because United Water RI is capitalized at 100% equity, its capital structure would not be appropriate for ratemaking purposes. Nor is the capital structure of Suez Environment appropriate, because only a small portion of its operations are water utility

operations. When faced with an inappropriate capital structure from which to set rates, the Commission may either rely on the capital structure of the parent, in this case UWW, or a proxy group. See *The Narragansett Electric Company v. Rhode Island Public Utilities Commission*, 35 A.3d 925 (R.I. 2012); *In Re: New England Gas Company's Distribution Adjustment Clause*, Docket No. 3459, Order No. 17524 (issued August 1, 2003); *Public Service Commission of State of New York v. FERC*, 813 F.2d 448 (1987). In the past, this Commission has utilized the actual capital structure at the holding company level when the subsidiary utility's capital structure is either non-existent or otherwise deemed not reasonable for rate setting purposes.

Both Ms. Ahern and Mr. Kahal recommended using the capital structure of the parent UWW, as UWW is the ultimate source of United Water RI's capital base. The Commission finds this to be an appropriate capital structure. United Water RI proposed a capital structure of 53.45% common equity with an actual cost rate of 11.1% and 46.55% long-term debt with an actual cost rate of 6.05%. The Division proposed 53.13% common equity at 9.65%, 46.24% long term debt at 6.05%, and included 0.64% short term debt at a cost rate of 1.00%. The Commission is satisfied that United Water RI's agreement to use the capital structure proposed by the Division resulting in a 7.94% rate of return is fair and reasonable and will be sufficient to permit United Water RI to maintain financial integrity, attract necessary capital, and fairly compensate investors for the risks they have assumed, while at the same time providing appropriate protection to the relevant existing and foreseeable public interests.

During its open meeting, the Commission expressed concern that this was United Water RI's second request for a significant rate increase in a short period of time. It

further questioned the Company's practice of awarding bonuses or incentive payments in addition to salary increases and overtime expenses adding to the overall percentage increase imposed on customers. The Commission observed that such inflated increases are particularly difficult for customers to absorb during these troubled economic times. The Commission understands and appreciates the Company's attempts to maximize the amount of time between rate cases and thereby insulate customers from frequent increases. However, because the Company waited so long, when it finally did file, the requested rate increase was significant. In the future, United Water RI ought to consider alternatives to mitigate large rate increases, such as filing a multi-year rate plan, especially if the Company anticipates the frequency of its filings that have occurred during the past couple of years to continue. Moreover, raising rates cannot fully alleviate losses attributable to continued declining consumption. It is, therefore, incumbent upon the utility to explore alternatives to address declining consumption that will not continue to financially stress its ratepayers.

The Commission applauds the parties for the compromises they made throughout the course of this rate case, especially with regard to United Water RI's agreement to reduce incentive compensation for its top management. This agreement is a clear indication to the Commission that United Water RI understands how the increase requested will impact its customers and is willing to work to minimize that impact. United Water RI is to be commended for its obvious concern for its ratepayers as well as its continued and successful efforts to provide high quality and exceptional service to its customers.

ACCORDINGLY, it is

(21593) ORDERED:

1. United Water Rhode Island, Inc.'s request to collect an additional \$1,563,153 is denied. United Water Rhode Island, Inc. is authorized to collect an additional \$1,200,706 in revenues on usage on and after May 13, 2014.
2. The terms of the Settlement Agreement between United Water Rhode Island, Inc. and the Division of Public Utilities and Carriers, with the modifications made by the Commission to eliminate \$5000 of hydrant painting expense and \$2500 of miscellaneous expense, are approved.
3. United Water Rhode Island is allowed a rate year rate base of \$15,644,693.
4. United Water Rhode Island, Inc. is allowed an overall rate of return of 7.94%.
5. United Water Rhode Island, Inc.'s proposed capital structure is denied. The capital structure approved for ratemaking purposes shall be comprised of 53.13% equity, 46.24% long-term debt, and 0.64% short-term debt.
6. United Water Rhode Island, Inc.'s proposed cost of capital is denied. The cost of common equity shall be 9.65%, the cost of long-term debt shall be 6.05%, and the cost of short-term debt shall be 1.00%.

7. The Parties shall act in accordance with all other findings and instructions contained in this Order.

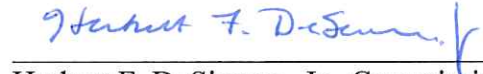
EFFECTIVE AT WARWICK, RHODE ISLAND ON MAY 13, 2014,
PURSUANT TO AN OPEN MEETING DECISION ON MAY 7, 2014. WRITTEN
ORDER ISSUED SEPTEMBER 2, 2014.

PUBLIC UTILITIES COMMISSION




Margaret E. Curran, Chairperson


Paul J. Roberti, Commissioner


Herbert F. DeSimone, Jr., Commissioner

APPENDIX A

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: UNITED WATER RHODE ISLAND, INC.

DOCKET NO.: 4434

SETTLEMENT AGREEMENT

I. INTRODUCTION

United Water Rhode Island, Inc. (hereinafter "United Water") and the Division of Public Utilities and Carriers (hereinafter "Division") have reached an agreement on United Water's rate application filed on August 12, 2013. Thus, the Division and United Water jointly request that the State of Rhode Island Public Utilities Commission (hereinafter "Commission") approve this Settlement Agreement.

II. RECITALS

1. On August 12, 2013, United Water filed a rate application pursuant to R.I.G.L. § 39-3-11 and Part II of the Commission's Rules of Practice and Procedure.
2. United Water's proposed rates were designed to collect \$1,563,153 of additional operating revenue to support a total cost of service of \$5,233,419. The impact of this request would have resulted in a 42.59 % increase in total cost of service. The proposed increase for all classes of customers would have been 43%. For a typical residential customer, the impact of this request would have resulted in an increase of \$10.30 per month.
3. United Water filed direct and rebuttal testimony and schedules from the following witnesses in support of its application:

- a. Gary S. Prettyman, Senior Director, Regulatory Business, United Water Management & Services, Inc.;
 - b. Timothy J. Michaelson, Director, United Water Management & Services, Inc.;
 - c. Elda Gil, Regulatory Specialist, United Water Management & Services, Inc.;
 - d. Obioma (Obie) N. Ugboaja, Rate Analyst, United Water Management & Services, Inc.;
 - e. Paula L. McEvoy, Director of Engineering, United Water New York.
 - f. Stanley J. Knox, General Manager, United Water Rhode Island, Inc.;
 - g. Pauline M. Ahern, Principal, AUS Consultants; and,
4. The Town of South Kingstown filed a Motion to Intervene in this Docket on August 21, 2013. United Water did not object.
5. The Town of Narragansett filed a Motion to Intervene in this Docket on August 30, 2013. United Water did not object.
6. The Union Fire District of South Kingstown filed a Motion to Intervene in this Docket on September 6, 2013. United Water did not object.
7. The Division investigated United Water's requested rate increase with assistance from its staff and outside expert consultants. The Division issued data requests and filed direct testimony from the following witnesses on February 3, 2014:
 - a. Thomas S. Catlin, Principal, Exeter Associates, Inc.; and,
 - b. Matthew I. Kahal
8. The Town of South Kingstown, The Town of Narragansett and The Union Fire District of South Kingstown jointly filed the testimony of David G. Bebyn, CPA, of B&E Consulting, LLC.

9. The Division and United Water engaged in settlement discussions after United Water submitted its rebuttal testimony on March 3, 2014.
10. The Division and United Water gave due consideration to the testimony, exhibits, schedules, data requests, data responses, settlement discussions, and other documentation in this Docket and agreed to a comprehensive settlement that resolves all issues relating to United Water's application to increase rates.
11. The Division and United Water agree this Settlement Agreement is a just and reasonable resolution of the issues in this proceeding and jointly request its approval by the Commission.

III. TERMS OF SETTLEMENT

12. The Division and United Water agree that the Joint Settlement Schedules attached as Exhibit 1 (Schedules 1 – 19) are accurate and reflect the agreement reached in this Docket.
13. The agreed rates allow United Water to collect additional operating revenue in the amount of \$1,207,267 to support a total cost of service of \$4,923,600.
14. The proposed increase is an "across the board" increase of 32.83% for all classes of customers.
15. The agreed upon capital structure is 46.9% total debt and 53.1% equity; the return on equity is 9.65%; and, the overall rate of return is 7.94%.

IV. EFFECT OF SETTLEMENT

16. This Settlement Agreement is the result of a negotiated agreement. The Division and United Water conducted the discussions that produced this Settlement

Agreement with the explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or any other proceedings.

17. The terms of this Settlement Agreement shall not be construed as an agreement to any matter of fact or law beyond the terms hereof. By entering into this Settlement Agreement, matters or issues other than those explicitly identified in this agreement have not been settled upon or conceded by any party to this Settlement Agreement, and nothing in this Settlement Agreement shall preclude any party from taking any position in any future proceeding regarding settled or unsettled matters.

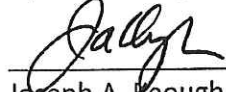
18. This Settlement Agreement is the product of negotiation and compromise. The making of this Settlement Agreement does not establish any principle or precedent. This Settlement Agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

19. If the Commission rejects this Settlement Agreement, or modifies any provision herein, this Settlement Agreement shall be deemed withdrawn and shall be null and void in all respects.

IN WITNESS WHEREOF, the Parties agree that this Settlement Agreement is reasonable, in the public interest, in accordance with applicable law and regulatory policy, and is executed by their respective representatives, each being authorized to do so.

Dated this 28th day of March, 2014.

UNITED WATER
RHODE ISLAND, INC.
By its Attorney,



Joseph A. Keough, Jr., #4925
KEOUGH & SWEENEY, LTD.
100 Armistice Boulevard
Pawtucket, RI 02860
Tel: (401)-724-3600

Dated this 28th day of March, 2014.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS,
By its Attorney,



Christy Hetherington, #6693
Special Assistant Attorney General
150 South Main Street
Providence, RI 02903
Tel: 401-274-4400, ext. 2425

UNITED WATER RHODE ISLAND, INC.

Summary of Operating Income
Rate Year Ended December 31, 2014

	Amount per Company at Present Rates	Settlement Adjustments	Amount per Settlement at Present Rates	Revenue Increase/ (Decrease)	Amounts After Revenue Incr. / (Decr.)
<u>Operating Revenues</u>					
Retail Sales	\$ 2,709,794	\$ 37,642	\$ 2,747,436	\$ 901,759	\$ 3,649,195
Sales for Resale	\$ 447,403	7,817	455,220	148,232	603,452
Fire Protection	477,732	608	478,340	157,276	635,616
Other Operating Revenues	35,337	-	35,337	-	35,337
Total Operating Revenues	\$ 3,670,266	\$ 46,067	\$ 3,716,333	\$ 1,207,267	\$ 4,923,600
<u>Operating Expenses</u>					
O&M Expense	\$ 2,301,468	(75,121)	\$ 2,226,347	3,781	\$ 2,230,128
Depreciation Expense	600,370	-	600,370	-	600,370
Property Tax	315,024	(8,192)	306,832	-	306,832
Payroll Rax	59,265	(499)	58,766	-	58,766
Gross Receipts Tax	45,878	576	46,454	15,091	61,545
Income before Income Taxes	\$ 348,261	\$ 129,303	\$ 477,564	\$ 1,188,395	\$ 1,665,959
Current Income Taxes	(152,784)	47,918	(104,866)	416,398	311,532
Deferred Federal Income Taxes	118,139	-	118,139	-	118,139
Amortization of ITCs	(4,662)	-	(4,662)	-	(4,662)
Total Operating Expenses	\$ 3,282,698	\$ (35,318)	\$ 3,247,380	\$ 435,270	\$ 3,682,650
Utility Operating Income	\$ 387,568	\$ 81,385	\$ 468,953	\$ 771,997	\$ 1,240,951
Rate Base	\$ 15,859,819		\$ 15,645,640		\$ 15,645,640
Rate of Return	2.44%		3.00%		7.93%

UNITED WATER RHODE ISLAND, INC.

Determination of Revenue Increase
Rate Year Ended December 31, 2014

	Amount per Company (1)	Amount Per Settlement	Source
Proposed Rate Base	15,859,819	\$ 15,645,640	Schedule 2
Required Rate of Return	8.75%	7.94%	
Net Operating Income Required	\$ 1,387,734	\$ 1,242,264	
Net Operating Income at Present Rates	387,568	468,953	Schedule 1, page 1
Net Income Surplus/(Deficiency)	\$ (1,000,166)	\$ (773,311)	
Revenue Multiplier (2)	1.5628923	1.5628923	
Base Rate Revenue Increase	\$ 1,563,152	\$ 1,208,601	
Variance due to Rate Rounding		\$ (1,334)	Schedule 19, page 2
Net Increase in Revenue		\$ 1,207,267	
Verification			
Revenue Increase/(Decrease)	\$ 1,563,152	\$ 1,208,601	
PUC Assessment	0.31317% \$ 4,895	\$ 3,785	
Gross Receipts Tax	1.25% 19,539	15,108	
Federal Taxable Income	\$ 1,538,717	\$ 1,189,708	
Federal Income Tax	35.00% 538,551	416,398	
Net Income	\$ (1,000,166)	\$ (773,310)	

Notes:

(1) Per Exhibit 1 (Prettyman), Schedule 1.

(2) Calculation of Conversion Factor

	Tax Rates	
Revenues		1.000000
PUC Assessment	0.31317%	0.003132
Gross Receipts Tax	1.25%	0.012500
Net Federal Taxable Income		0.984368
Federal Income Tax	35.00%	0.344529
Revenue Conversion Factor		0.6398394
Revenue Multiplier		1.5628923

UNITED WATER RHODE ISLAND, INC.

Summary of Rate Base
Rate Year Ended December 31, 2014

<u>Description</u>	<u>Amount per Company (1)</u>	<u>Settlement Adjustments (2)</u>	<u>Adjusted Per Settlement</u>
Utility Plant in Service	\$ 28,149,420		\$ 28,149,420
Less: Accumulated Depreciation and Amortization	(7,003,970)		(7,003,970)
Net Utility Plant in Service	\$ 21,145,450	\$ -	\$ 21,145,450
Materials and Supplies	86,062		86,062
Cash Working Capital	287,684	(14,813)	272,871
Deferred Tank Painting (net of Deferred Income Tax)	168,165		168,165
Deferred Rate Case Expense	199,366	(199,366)	-
Total Additions	\$ 741,277	\$ (214,179)	\$ 527,098
	-	-	-
Contributions in Aid of Construction	(3,533,455)	-	(3,533,455)
Accumulated Deferred Income Taxes	(1,842,541)	-	(1,842,541)
Unamortized ITCs	(89,099)		(89,099)
Unfunded FAS 106 (net of Deferred Income Tax)	(561,813)	-	(561,813)
Total Deductions	\$ (6,026,908)	\$ -	\$ (6,026,908)
Total Rate Base	\$ 15,859,819	\$ (214,179)	\$ 15,645,640

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 1, page 4 of 4.

(2) Refer to page 2 of this Schedule.

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Rate Base
Rate Year Ended December 31, 2014

	<u>Amount</u>	<u>Source</u>
Rate Base per Company Filing	\$ 15,859,819	Per Exhibit 3, Schedule 1, page 4
<u>Settlement Adjustments</u>		
Cash Working Capital	(14,813)	Schedule 5
Deferred Rate Case	(199,366)	Refer to Catlin Testimony
Accumulated Deferred Income Taxes	<u>-</u>	Schedule 6
Total Settlement Adjustments	<u>\$ (214,179)</u>	
Adjusted Rate Base	<u><u>\$ 15,645,640</u></u>	

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Net Income
Rate Year Ended December 31, 2014

	Amount	Source
Net Income per Company	\$ 387,568	Exhibit 3 (Michaelson), Schedule 10
<u>Settlement Adjustments</u>		
Rate Year Revenue	29,476	Schedule-7
Wages and Benefits Charged to Expense	16,957	Schedule-8
Incentive Compensation-Company Employees	7,442	Schedule-9
Incentive Compensation-UWM&S Fees	10,377	Schedule-10
Chemicals Expense	5,879	Schedule-11
Power Expense	(14,640)	Schedule-12
PEPOB Transition Obligation	1,662	Schedule-13
Transportation Expense	3,158	Schedule-14
Outside Services Expense	17,106	Schedule-15
Inflation	1,306	Schedule-16
Property Taxes	5,325	Schedule-17
Interest Synchronization	(2,662)	Schedule-4
Total Adjustments	\$ 81,385	
Net Income Per Settlement	<u>\$ 468,954</u>	

UNITED WATER RHODE ISLAND, INC.

Summary of Adjustments to Net Income
Rate Year Ended December 31, 2014

	Revenues	O&M Expenses	Depreciation Expense	Taxes Other Than Income	Current Federal Income Taxes	Deferred Federal Income Taxes	ITC Amortization	Net Operating Income
Net Income per Company	\$ 3,670,266	\$ 2,301,468	\$ 600,370	\$ 420,167	\$ (152,784)	\$ 118,139	\$ (4,662)	\$ 387,568
<u>Settlement Adjustments</u>								
Rate Year Revenue	46,067	144	-	576	15,871	-	-	29,476
Wages and Benefits Charged to Expense		(26,088)			9,131	-	-	16,957
Incentive Compensation-Company Employees		(10,951)		(499)	4,007	-	-	7,442
Incentive Compensation-UWM&S Fees		(15,965)			5,888	-	-	10,377
Chemicals Expense		(9,044)			3,165	-	-	5,879
Power Expense		22,523			(7,883)	-	-	(14,640)
PEPOB Transition Obligation		(2,557)			895	-	-	1,662
Transportation Expense		(4,858)			1,700	-	-	3,158
Outside Services Expense		(26,317)			9,211	-	-	17,106
Inflation		(2,010)			703	-	-	1,306
Property Taxes				(8,192)	2,867	-	-	5,325
Interest Synchronization					2,662	-	-	(2,662)
Total Settlement Adjustments	\$ 46,067	\$ (75,121)	\$ -	\$ (8,116)	\$ 47,918	\$ -	\$ -	\$ 81,385
Adjusted Net Income per Settlement	\$ 3,716,333	\$ 2,226,347	\$ 600,370	\$ 412,051	\$ (104,866)	\$ 118,139	\$ (4,662)	\$ 468,954

UNITED WATER RHODE ISLAND, INC.

Calculation of Current Income Tax
Rate Year Ended December 31, 2014

	Amount per Company at Present Rates (A)	Settlement Adjustments (B)	Adjusted per Settlement at Present Rates (C)	Revenue Increase/ (Decrease) (D)	Amounts After Revenue Increase (E)
Operating Revenue	\$ 3,670,266	\$ 46,067	\$ 3,716,333	\$ 1,208,601	\$ 4,924,934
O&M Expense	2,301,468	(75,121)	2,226,347	3,785	2,230,132
Depreciation Expense	600,370	-	600,370	-	600,370
Property Tax	315,024	(8,192)	306,832	-	306,832
Payroll Tax	59,265	(499)	58,766	-	58,766
Gross Receipts Tax	45,878	576	46,454	15,108	61,561
Operating Income Before Income Taxes	\$ 348,261	\$ 129,303	\$ 477,564	\$ 1,189,708	\$ 1,667,273
Interest Expense	447,247	(7,605)	439,642	-	439,642
Excess Tax Depreciation	337,539	-	337,539	-	337,539
Current Federal Taxable Income	(436,525)	136,908	(299,617)	1,189,708	890,092
Federal Income Tax at 35%	\$ (152,784)	\$ 47,918	\$ (104,866)	\$ 416,398	\$ 311,532
Deferred Federal Income Tax	118,139	-	118,139	-	118,139
Investment Tax Credit Amortization	(4,662)	-	(4,662)	-	(4,662)
Total Federal Income Tax	\$ (39,307)	\$ 47,918	\$ 8,611	\$ 416,398	\$ 425,009

Notes:

(1) Calculation of Interest Deduction

Rate Base	\$ 15,859,819		\$ 15,645,640	\$ 15,645,640
Weighted Cost of Debt	2.82%		2.81%	2.81%
Interest Deduction	\$ 447,247	\$ (7,605)	\$ 439,642	\$ 439,642

Federal Income Tax Effect at 35%	2,662
Interest Synchronization Adjustment	\$ 2,662

UNITED WATER RHODE ISLAND, INC.

Cash Working Capital Analysis
Rate Year Ended December 31, 2014

	Expense Amount	Working Capital
O&M Expense per Company (1)	1,880,222	235,028
<u>Settlement Adjustments (2)</u>		
Exclude Tank Painting Amortization	(43,383)	(5,423)
Adjustment to Salaries and Wages	(15,931)	(1,991)
Adjustment to Benefits Transferred	(10,157)	(1,270)
Incentive Compensation-Company Employees	(10,951)	(1,369)
Incentive Compensation-UWM&S Fees	(15,965)	(1,996)
Chemicals Expense	(9,044)	(1,131)
Power Expense	22,523	2,815
PEPOB Transition Obligation	(2,557)	(320)
Transportation Expense	(4,858)	(607)
Outside Services Expense	(26,317)	(3,290)
Inflation	(2,010)	(251)
Regulatory Commission Assessment	144	18
		<u>(14,813)</u>
Adjustment to Cash Working Capital		
Cash Working Capital Per Settlement		<u>\$ 220,215</u>

Notes:

(1) Per Exhibit 3 (Michaelson), Schedule 1, page 4 of 4.

(2) Reflects exclusion of tank painting amortization and Division adjustments as summarized on Schedule TSC-3.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Accumulated Deferred Income Taxes to
Reflect Federal Bonus Depreciation
Rate Year Ended December 31, 2014

	<u>Balance of ADIT Due to Tax Depreciation</u>	
	<u>Per Settlement (1)</u>	<u>Per Company (2)</u>
December 2013	\$ 1,662,459	\$ 1,662,459
January 2014	1,672,538	1,672,538
February	1,682,611	1,682,611
March	1,692,678	1,692,678
April	1,702,732	1,702,732
May	1,712,671	1,712,671
June	1,722,386	1,722,386
July	1,731,972	1,731,972
August	1,741,540	1,741,540
September	1,751,115	1,751,115
October	1,760,652	1,760,652
November	1,770,160	1,770,160
December 14	<u>1,780,598</u>	<u>1,780,598</u>
13 Month Average (3)	<u>\$ 1,721,855</u>	<u>1,721,855</u>
Adjustment to ADIT	<u>\$ -</u>	

Notes:

- (1) Per response to Div. 2-49.
- (2) Per Exhibit 4 (Michaelson), Schedule 5A, page 2 of 2.
- (3) Amounts do not include ADIT related to AFUDC Equity or Cost of Removal.

UNITED WATER RHODE ISLAND, INC.

Determination of Water and Fire Service Revenues at Present Rates
Based on Settlement Units of Service
Rate Year Ended December 31, 2014

Quarterly Fixed Meter Revenue			
Meter Size	Pro Forma Year Normalized Bills	Service Charge	Fixed Meter Revenue
5/8"	29,627	24.01	\$ 711,344
3/4"	15	25.72	386
1"	1,093	37.73	41,239
1 1/2"	293	63.45	18,591
2"	588	85.75	50,421
3"	39	114.91	4,481
4"	4	171.51	686
6"	25	296.72	7,418
8"	4	514.55	2,058
Total	31,688		\$ 836,625

Monthly Fixed Meter Revenue			
Meter Size	Pro Forma Year Normalized Bills	Service Charge	Fixed Meter Revenue
5/8"	42	12.57	\$ 528
3/4"	-	13.14	-
1"	48	17.14	823
1 1/2"	12	25.72	309
2"	111	33.15	3,680
3"	35	42.87	1,500
4"	12	61.74	741
6"	-	103.48	-
8"	-	176.09	-
Total	260		\$ 7,580

Consumption Revenue			
	Consumption (CCF)	Rate (\$/CCF)	Consumption Revenue
Residential			
0-24 CCF	410,230	2.276	\$ 933,684
Over 24 CCF	124,770	2.853	355,968
Commercial	242,912	2.173	527,848
Industrial	2,857	2.173	6,208
Public Auth.	36,596	2.173	79,523
Total	817,365		\$ 1,903,231

UNITED WATER RHODE ISLAND, INC.

Determination of Water and Fire Service Revenues at Present Rates
Based on Settlement Units of Service
Rate Year Ended December 31, 2014

Resale Revenue				
Usage gallons	('000)	Current Rate (Per '000 gallons)	Current Fixed Monthly Charge	Revenue
404,341		\$ 1.124	\$ 61.74	\$ 455,220

Fire Service Revenue			
Connection Size	Pro Forma Units	Quarterly Rate	Annual Revenue
2 1/2"	6	22.00	\$ 528
3"	-	32.00	-
4"	20	60.00	4,800
6"	139	162.00	90,072
8"	27	337.00	36,396
10"	-	601.00	-
12"	1	966.00	3,864
16"	-	2,050.00	-
Total Private Fire	193		\$ 135,660
Fire Hydrants	Pro Forma Units	Rate	Annual Revenue
Public Hydrants-Quarterly	352	130.00	183,040
Public Hydrants-Semi-Annual	307	260.00	159,640
Total Public Fire	659		\$ 342,680
Total Fire Service			\$ 478,340

Adjustment Summary			
	Amount per Company	Amount per Division	Adjustment
Retail Sales	\$ 2,709,794	\$ 2,747,436	\$ 37,642
Sales for Resale	447,403	455,220	7,817
Fire Protection	477,732	\$ 478,340	608
Other Operating Revenues	35,337	35,337	-
Total Revenue	\$ 3,670,266	\$ 3,716,333	\$ 46,067
Increase in Regulatory Commission Assessment at 0.31317%			144
Increase in Gross Receipts Tax at 1.25%			576
Net Adjustment to Income before Taxes			\$ 45,347

UNITED WATER RHODE ISLAND, INC.

Adjustment to Salaries and Wages and Benefits Expense
to Reflect Updated Percentage Charged to Expense
Rate Year Ended December 31, 2014

Wages		
Rate Year Salaries and Wages per Company (1)	\$	711,022
Net Percentage Charged to O&M per Division (2)		82.08%
Wages Charged to O&M per Division	\$	583,627
Amount per Company (1)		599,558
Adjustment to Rate Year Wage Expense	\$	(15,931)

Benefits Transferred		
Rate Year Benefits per Company (3)	\$	453,306
Net Percentage Capitalized/Transferred Out per Division (2)		17.92%
Benefits Transferred Out per Division	\$	(81,220)
Amount per Company		(71,063)
Adjustment to Rate Year Benefits Expense	\$	(10,157)

Notes:

- (1) Per Exhibit 3 (Gil), Schedule 2.
- (2) Refer to Page 2 of this Schedule.
- (3) Per Exhibit 3 (Gil), Schedule 3.

UNITED WATER RHODE ISLAND, INC.

Calculation of Normalized Percentage of Labor Costs Expensed and Capitalized
Based on 3-Year Average for 2011 through 2013

Rate Year Ended December 31, 2014

		2011 (1)	2012 (1)	2013 (2)	3 Yr Avg
Gross Payroll	(a)	\$ 668,290	\$ 692,066	\$ 675,743	\$ 678,700
Capitalized	(b)	(126,307)	(132,479)	(146,804)	(135,197)
Transferred to Other BU's	(c)	-	-	-	-
Net Payroll	(d)	\$ 541,983	\$ 559,587	\$ 528,939	\$ 543,503
Expense Rate	(d) / (a)	81.10%	80.86%	78.28%	80.08%
Capitalized/Transferred Out	(b)+(c)	\$ (126,307)	\$ (132,479)	\$ (146,804)	\$ (135,197)
Capitalized/Transferred Out Rate	(b)+(c)/(a)	18.90%	19.14%	21.72%	19.92%
Transferred in	(c)	\$ 9,923	\$ 11,618	\$ 19,237	\$ 13,593
Transferred in Rate	(c)/(a)	1.48%	1.68%	2.85%	2.00%

Notes:

(1) Per Exhibit 3 (Gil), Schedule 2A, page 4.

(2) Amounts per response to Div. 4-5.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Company Incentive Compensation Expense
Rate Year Ended December 31, 2014

Employee	2012 Base Salary (1)	Incentive Payment % (1)	Non Financial Percentage (2)	Recoverable Incentive Compensation
Manager Rhode Island	\$ 104,653	15.00%	50.00%	\$ 7,849
Superintendent	82,856	10.00%	50.00%	4,143
Supervisor Office	67,443	5.00%	60.00%	2,023
Total				\$ 14,015
Amount per Company (1)				27,356
Reduction in Total Eligible Incentive Compensation				\$ (13,341)
Amount Charged to Capital at 17.92% (3)				(2,390)
Adjustment to O&M Expense				\$ (10,951)
Adjustment to FICA Taxes (4)				(499)
Total Adjustment to Rate Year Expense				\$ (11,450)

Notes:

- (1) Amounts per Exhibit 3 (Gil), Schedule 2A.
- (2) Per response to Div. 2-17.
- (3) Per Schedule TSC-7, page 2 of 2.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Incentive Compensation included in UWM&S Fees
Rate Year Ended December 31, 2014

	Amount
<u>Financial Based Incentive Plan Costs in UWM&S Fees</u>	
Short-Term Incentive Plan-Total (1)	\$ 16,260
Percent Attributable to Financial Goals (1)	40%
STIP Costs Attributable to Financial Goals in Test Year	\$ 6,504
Long-Term Incentive Plan for Test Year (1)	7,612
Total Incentive Compensation Attributable to Financial Goals	\$ 14,116
Increase to Rate Year at 5.06% (2)	714
Rate Year Incentive Compensation Attributable to Financial Goals	\$ 14,830
FICA Taxes at 7.65%	1,135
Adjustment to Rate Year UWM&S Fees	\$ (15,965)

Notes:

(1) Per response to Div. 4-7.

(2) Per Exhibit 3 (Gil), Schedule 15A

UNITED WATER RHODE ISLAND, INC.

Adjustment to Chemical Expense
Rate Year Ended December 31, 2014

Chemical Usage (1)				
Chemical Name	2011	2012	2013	Average (2)
Lime (pounds)	110,650	117,600	108,250	112,167
Sodium Hypochlorite (gallons)	8,101	8,849	8,270	8,407
Nalco C-9 (pounds)	20,309	20,868	12,949	12,949

Production(MG) (Subject to Chemical Treatment) (1)				
	2011	2012	2013	Average
Production(MG) (Subject to Chemical Treatment)	1,082.74	1,144.40	1,044.90	1,090.68

Determination of Rate Year Expense				
Chemical Name	Average Usage Per MG (2)	Rate Year Production (3)	Rate Year Unit Cost (4)	Rate Year Costs
Lime (pounds)	102.84	1,065.30	\$ 0.1730	\$ 18,953
Sodium Hypochlorite (gallons)	7.71	1,065.30	1.6300	13,384
Nalco C-9 (pounds)	12.39	1,065.30	0.8600	11,354
Total Rate Year Chemicals Expense per Division				\$ 43,691
Amount per Company (Exhibit 3 (Gil) Schedule 5A				52,735
Adjustment to Rate Year Expense				\$ (9,044)

Notes:

- (1) Per Exhibit 3 (Gil) Schedule 5A, except 2013 per response to Div. 4-13.
- (2) Amounts reflect 3 year average of 2011 through 2013 except Nalco C-9, which is based on 2013 only to reflect reduced usage due to modified treatment program.
- (3) Calculated based on projected rate year consumption per Schedule TSC-7 and average level of non revenue producing water for 2011 through 2013 as shown below.

Rate Year Billed Consumption (MG) Per Schedule TSC-7	1,026.47
Non-revenue water %	3.65%
Total Production Subject to Chemical Treatment (MG)	1,065.30

Non-Revenue Water %:

2011	3.76%
2012	6.17%
2013	1.01%
Three Year Average	3.65%

UNITED WATER RHODE ISLAND, INC.

Adjustment to Power Supply Expense
Rate Year Ended December 31, 2014

Power - Account 50610					
Rate Year 2014	kWh Avg Usage (1)	Projected Water Production (MG) (2)	kWh	kWh Avg Cost (3)	Total Cost
Commodity (Constellation New Energy)	1,514.21	1,065.30	1,613,092	\$ 0.09245	149,130
Distribution (National Grid)	1,514.21	1,065.30	1,613,092	\$ 0.04918	79,329
Total Test Year Power Cost-Production Related					\$ 228,460
Non-Production Related (4)					8,175
Rate Year Power Costs per Division					\$ 236,635
Amount per Company (5)					\$ 210,429
Adjustment to Power Costs--Account 50610					\$ 26,206

Other Utilities-Power - Account 50620	
2011 (4)(5)	40,347
2012 (4)	24,416
2013 (6)	20,781
Rate Year (3 year average)	\$ 28,515
Amount per Company (4)	\$ 32,197
Adjustment to Power Costs--Account 50620	\$ (3,682)

Notes:

- (1) Calculated based on 2013 kWh for production of 1,582,200 divided by 2013 production of 1,044.9 million gallons. per Div. 4-9 and 4-13.

	(a) kWh Use	(b) MG produced	(c)=(a)/(b) kWh/MG
kWh Average Usage per MG	1,582,200	1,044.90	1,514.21

- (2) Reflects projected rate year consumption grossed up for average Non-Revenue Water. Refer to Schedule TSC-11 for calculation.
- (3) Based on contract price for supply with Constellation Energy including taxes and on average cost per kWh in 2013 for delivery service from National Grid per Div. 4-9 and 4-10.
- (4) Per Exhibit 3 (Gil) Schedule 4A.
- (5) Adjusted to exclude additional fuel and diesel costs resulting from the storm Irene per Div. 4-11.
- (6) Per response to Div. 4-11.

UNITED WATER RHODE ISLAND, INC.

Adjustment to PEBOP Transition Obligation
Rate Year Ended December 31, 2014

	<u>Amount</u>
Unamortized Balance of Initial Transition Obligation as of January 1, 2014 (1)	\$ 5,113
Division Recommended Amortization Period (Years)	<u>2</u>
Annual Amortization Expense per Division	\$ 2,557
Amortization Expense per Company (1)	<u>5,113</u>
Adjustment to Amortization Expense	<u><u>\$ (2,557)</u></u>

Note:

(1) Per Exhibit 3 (Gil), Schedule 7 and response to Div 2-25.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Transportation Expense
Rate Year Ended December 31, 2014

	Company Rate Year Amount (1)	Settlement Rate Year Amount
Leases	\$ 32,902	\$ 32,902
Fuel (2)	36,104	35,794
Maintenance & Repair (2)	11,974	9,178
Insurance (2)	5,963	5,912
Depreciation	1,655	1,655
Other-Registration, plates, tolls, mileage, etc. (2)	2,580	2,558
Total Costs	\$ 91,178	\$ 88,000
Capitalized/Transferred Out (3)	(15,850)	(17,530)
Net Transportation Expense	\$ 75,328	\$ 70,471
Adjustment to Transportation expense		\$ (4,858)

Notes:

- (1) Per Exhibit 3 (Gil) Schedule 10A
(2) Amounts are based upon three year average adjusted for inflation as follows:

Fuel:		
3 Year Average	\$ 34,150	\$ 34,150
Apply inflation rate	5.722%	4.817%
Rate Year Amount	\$ 36,104	\$ 35,794
Maintenance & Repair:		
2010	4,732	4,732
2011	5,414	5,414
2012 (4)	13,427	5,629
3 Year Average	7,858	\$ 5,258
Apply inflation rate	5.722%	4.817%
Rate Year Amount	\$ 8,307	\$ 5,512
Extraordinary repairs to back-hoe--3yr. amortization	3,667	3,667
Total Maintenance and Repair	\$ 11,974	\$ 9,178
Insurance		
3 Year Average	5,641	\$ 5,641
Apply inflation rate	5.722%	4.817%
Rate Year Amount	\$ 5,963	\$ 5,912
Other Misc:		
3 Year Average	2,441	\$ 2,441
Apply inflation rate	5.722%	4.817%
Rate Year Amount	\$ 2,580	\$ 2,558

- (3) Capitalized amount based on 17.38% per Company and 19.92% per Division.
(4) 2012 expense adjusted to exclude abnormal costs of \$7,798 per response to Div. 2-28.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Outside Services Expense
Rate Year Ended December 31, 2014

	Company Rate Year Amount (1)	Settlement Rate Year Amount
Accounting & Auditing (2)	4,220	\$ 4,184
Legal (2)	2,088	2,070
Information Systems (2)	14,558	14,433
Temporary Help (3)	10,000	10,000
Other (2)	11,945	11,843
Management Fee (R&I Alliance) (2)	15,801	15,666
Efficiency Well Testing (4)	3,325	1,425
Well Rehabilitation (5)	40,000	16,000
Total	<u>\$ 101,937</u>	<u>\$ 75,620</u>
Adjustment to Outside Services Expense		<u>\$ (26,317)</u>

Notes:

(1) Company amounts per Exhibit 3 (Gil) Schedule 15A.

(2) Division amounts based on updated inflation rate of 2.997% as follows:

	Test Year	Rate Year
Accounting & Auditing	4,062	4,184
Legal	2,010	2,070
Information Systems	14,013	14,433
Other	11,498	11,843
Management Fee (R&I Alliance)	15,210	15,666

(3) Reflects inclusion of 50% of proposed allowance for summer help for hydrant painting.

(4) Division amount reflects corrected amount per response to Div. 4-17.

(5) Reflects normalization of costs based on frequency of every 2 to 3 years per response to Div. 4-18.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Reflect Updated Inflation Factors
Rate Year Ended December 31, 2014

	Company Rate Year Amount (1)	Division Rate Year Amount (2)
Other Benefits Expense	\$ 7,024	\$ 6,965
Insurance	51,714	51,511
Customer Information/Billing	58,556	58,065
Other O&M	227,343	226,076
	<u>\$ 344,637</u>	<u>\$ 342,617</u>
Adjustment to Rate Year Expense		\$ (2,020)
Less: Other Benefits reduction Allocated to Capital		(11)
Net Reduction in Rate Year Expense (4)		<u>\$ (2,010)</u>

Notes:

(1) Company amounts per Exhibit 3 (Gil) Schedule 15A.

(2) Settlement amounts reflect updated inflation rates as follows:

	Inflation Base	Inflation Amount (3)	Division Expense
Other Benefits Expense	\$ 6,762	2.997%	\$ 6,965
Insurance	50,700	1.600%	51,511
Customer Information/Billing	56,375	2.997%	58,065
Other O&M	219,498	2.997%	226,076

(3) Refer to page 2 of this schedule.

(4) The adjustment to Benefits Charged Out on Schedule TSC-7 was calculated based on UNWI's claimed benefits. This adjustment recognized that any reduction in benefits costs must be split between expense and capital.

UNITED WATER RHODE ISLAND, INC.

Adjustment to Reflect Updated Inflation Factors
Rate Year Ended December 31, 2014

Description	Inflation Factor
Inflation Rate for 2012 to 2014	<u>2.997%</u>
Inflation rate for 2013 to 2014	<u>1.600%</u>
Inflation rate for 3-yr average to 2014	<u>4.817%</u>

	Increase in GDP Price Index (1)	Compound Rate from 2012 to 2014
2013	1.375%	1.375%
2014	1.600%	1.622%
		2.997%

	Increase in GDP Price Index (1)	Compound Rate from 3 yr. avg to 2014
2010	1.575%	
2011	2.000%	
2012 (2)	1.725%	1.767%
2013 (3)	1.375%	3.166%
2014 (4)	1.600%	4.817%

Notes:

- (1) Amounts per Blue Chip Financial Forecasts December 1, 2011 (Volume 30, No. 12) and Blue Chip Financial Forecasts January 10, 2013 (Volume 33, No. 1)
2010-2013 amounts are an average of the 4 quarters and 2014 is consensus forecast.
- (2) Amount in compound rate column is average GDP price index for 2010, 2011, 2012.
- (3) Compound rate from 3 year average GDP to 2013.
- (4) Compound rate from 3 year average GDP to 2014.

Docket No. 4434
Exhibit 1 (Joint Settlement) Schedule 17

UNITED WATER RHODE ISLAND, INC.

Adjustment to Property Tax Expense
Rate Year Ended December 31, 2014

	Amount
Rate Year Property Taxes per Division (1)	\$ 306,832
Rate Year Property Taxes per Company (2)	315,024
Adjustment to Rate Year Property Tax Expense	<u>\$ (8,192)</u>

Notes:

(1) Calculated based on 3-year historical average increase applied to 2013 property tax expense as follows:

<u>Property Taxes</u>	<u>Amount</u>	<u>% Change</u>
2010	257,385	
2011	263,652	2.43%
2012	270,476	2.59%
2013	293,644	8.57%
Average Annual Increase		4.49%
2014 Projected	<u>\$ 306,832</u>	

Docket No. 4434
Exhibit 1 (Joint Settlement) Schedule 18

UNITED WATER RHODE ISLAND, INC.

Determination of Overall Percentage Increase
Rate Year Ended December 31, 2014

<u>Current Service Revenues per Division (1)</u>	<u>Amount</u>
Retail Sales	\$ 2,747,436
Sales for Resale	455,220
Fire Protection	<u>478,340</u>
Revenue at Present Rates	\$ 3,680,996
Revenue Deficiency (2)	<u>1,208,601</u>
Revenues at Proposed Rates	4,889,597
Overall Percentage Increase	<u><u>32.83%</u></u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule TSC-2.

UNITED WATER RHODE ISLAND, INC.

Determination of Water and Fire Service Revenues at Proposed Rates
Based on Settlement Units of Service
Rate Year Ended December 31, 2014

Quarterly Fixed Meter Revenue				
Meter Size	Current Rate	Proposed Rate	Pro Forma Year Normalized Bills	Fixed Meter Revenue
5/8"	\$ 24.01	\$ 31.89	29,627	\$ 944,805
3/4"	25.72	34.16	15	512
1"	37.73	50.12	1,093	54,781
1 1/2"	63.45	84.28	293	24,694
2"	85.75	113.90	588	66,973
3"	114.91	152.64	39	5,953
4"	171.51	227.82	4	911
6"	296.72	394.14	25	9,854
8"	514.55	683.49	4	2,734
Total			31,688	\$ 1,111,218

Monthly Fixed Meter Revenue				
Meter Size	Current Rate	Proposed Rate	Pro Forma Year Normalized Bills	Fixed Meter Revenue
5/8"	12.57	\$ 16.70	42	\$ 701
3/4"	13.14	17.45	-	-
1"	17.14	22.77	48	1,093
1 1/2"	25.72	34.16	12	410
2"	33.15	44.03	111	4,887
3"	42.87	56.95	35	1,993
4"	61.74	82.01	12	984
6"	103.48	137.46	-	-
8"	176.09	233.91	-	-
Total			260	\$ 10,069

Retail Consumption Revenue				
	Current Rate (\$/CCF)	Proposed Rate (\$/CCF)	Consumption (CCF)	Consumption Revenue
Residential				
0-24 CCF	2.276	\$ 3.023	410,230	\$ 1,240,126
Over 24 CCF	2.853	3.790	124,770	472,877
Commercial	2.173	2.886	242,912	701,044
Industrial	2.173	2.886	2,857	8,245
Public Auth.	2.173	2.886	36,596	105,616
Total			817,365	\$ 2,527,909

Total Retail Sales Revenue **\$ 3,649,195**

UNITED WATER RHODE ISLAND, INC.

Determination of Water and Fire Service Revenues at Proposed Rates
Based on Settlement Units of Service
Rate Year Ended December 31, 2014

Resale Revenue				
	Current Rate	Proposed Rate	Thousand Gallons/ 4" Services	Annual Revenue
Consumption--1,000 Gallons	\$ 1.124	\$ 1.490	404,341	\$ 602,468
Service Charge	61.74	82.01	1	984
Total Resale				<u>\$ 603,452</u>

Private Fire Service Revenue				
Connection Size	Current Rate (Quarterly)	Proposed Rate (Quarterly)	Pro Forma Units	Annual Revenue
2 1/2"	22.00	29.22	6	\$ 701
3"	32.00	42.51	-	-
4"	60.00	79.70	20	6,376
6"	162.00	215.19	139	119,646
8"	337.00	447.65	27	48,346
10"	601.00	798.33	-	-
12"	966.00	1,283.17	1	5,133
16"	2,050.00	2,723.09	-	-
Total Private Fire			<u>193</u>	<u>\$ 180,202</u>

Public Fire Service Revenue				
Fire Hydrants	Current Rate	Proposed Rate	Pro Forma Units	Annual Revenue
Quarterly	130.00	173.00	352	\$ 243,584
Semi-Annual	260.00	345.00	307	211,830
Total Public Fire			<u>659</u>	<u>\$ 455,414</u>
Total Fire Service				<u>\$ 635,616</u>

Total Service Revenues	<u>\$ 4,888,263</u>
Target Revenue	4,889,597
Variance	\$ (1,334)