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April 10, 2014

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

**Re: *United Water Rhode Island, Inc. – Docket 4434***

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of the following document:

1. United Water Rhode Island, Inc.'s Statement In Support of Settlement Agreement.

This document is being provided to the Commission to assist it in its review of the proposed Settlement Agreement in this Docket.

Thank you for your attention to this matter.

Sincerely,



Joseph A. Keough, Jr.

JAK/kf  
Enclosures

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

**IN RE: UNITED WATER RHODE ISLAND, INC.**

**DOCKET NO.: 4434**

**UNITED WATER RHODE ISLAND, INC.  
STATEMENT IN SUPPORT OF SETTLEMENT AGREEMENT**

**I. Introduction**

On August 13, 2014, United Water Rhode Island, Inc. (“United Water”) filed an application to increase rates with the Rhode Island Public Utilities Commission (“Commission”). On March 28, 2014, United Water and the Division of Public Utilities and Carriers (“Division”) submitted a proposed Settlement Agreement to the Commission for its review and approval.

United Water believes its original proposed increase (including the requested Rate of Return and Return On Equity) was justified, documented and supported by its direct testimony and schedules. However, United Water is also mindful of the impact that *any* increase has on its customers. In fact, until 2011, United Water had not filed a rate increase in twelve years, and the rate filing in this Docket is only its second in fifteen years. As such, United Water worked diligently with the Division to reach a compromise that would allow it to continue providing high quality water and customer service, without the attendant expense of a fully litigated rate case. United Water believes the Settlement Agreement achieves this goal.

On April 3, 2014, United Water submitted a Settlement Summary Schedule that documented the various changes in the positions (including the final settlement position) taken by United and the Division (the “Parties”) throughout this Docket. A copy of this summary is attached hereto as Exhibit A. United Water now submits this Statement In Support of Settlement Agreement to further assist the Commission, and its staff, in reviewing the Settlement Agreement.

**II. Procedural History**

United Water’s rate application in Docket 4344 was only the second rate increase sought by United Water in fifteen years.<sup>1</sup> United Water sought to collect \$1,563,153 of additional operating revenue to support a total cost of service of \$5,233,419. (Exhibit A). This increase was

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<sup>1</sup> United Water filed Docket 2873 in 1999 and Docket 4255 in 2011.

designed to generate an 8.75 % overall rate of return and an 11.1 % return on equity. (Exhibit A) The impact of this request would have resulted in a 42.59% total cost of service increase, and a 43.0% increase for all classes of customers. The proposed increase was due to (1) a projected consumption decrease; (2) increased Operation and Maintenance (“O&M”) expenses; (3) a revised rate base calculation; and, (4) a revised rate of return calculation.

United Water documented the basis for its request through the direct testimony and schedules of the following witnesses:<sup>2</sup>

- a. Stanley J. Knox, General Manager, United Water Rhode Island, Inc. (General Overview of the Company);
- b. Gary S. Prettyman, Senior Director, Regulatory Business, United Water Management & Services, Inc. (Overall Revenue Requirement and Federal Income Taxes);
- c. Timothy J. Michaelson, Director, United Water Management & Services, Inc. (Calculation of Rate Base);
- d. Elda Gil, Regulatory Specialist, United Water Management & Services, Inc. (O&M Expenses);
- e. Obioma (Obie) N. Ugboaja, Rate Analyst, United Water Management & Services, Inc. (Revenue and Consumption);
- f. Paula L. McEvoy, Director of Engineering, United Water New York ( Capital Projects); and,
- g. Pauline M. Ahern, Principal, AUS Consultants (Rate of Return).

In its direct testimony, the Division suggested a number of revisions to United Water’s rate application. The Division recommended an overall revenue increase of \$1,007,902, which would generate a 7.72 % overall rate of return and a 9.25 % return on equity. (Exhibit A) Thus, when the Division filed its direct testimony, the Parties were \$556,251 apart in their respective positions. (Exhibit A)

In its rebuttal testimony, United Water accepted some of the Division’s adjustments, and continued to contest others, which resulted in a \$158,150 reduction and an overall revised revenue increase of \$1,405,003. Thus, the Parties were still \$397,929 apart in their positions.

Given that United Water and the Division made progress in bridging the gap in their respective positions, the Parties began settlement discussions after United Water filed its rebuttal testimony. United Water believed its ratepayers would benefit if it could further narrow the areas of disagreement with the Division. Furthermore, if the Parties could achieve a settlement,

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<sup>2</sup> Mr. Prettyman, Ms. Gil and Ms. Ahern also filed rebuttal testimony.

the Division could save the expense of filing surrebuttal testimony, and the Parties could potentially avoid a fully contested hearing. These cost savings would directly benefit United Water's ratepayers.

After engaging in settlement discussions, United Water and the Division reached a settlement whereby United Water reduced its overall revenue increase to \$1,207,267, which was a \$355,886 reduction from its original request.

The manner in which United Water and the Division reached this settlement is outlined herein below.

### **III. Settlement**

#### **1. Consumption/Water Sales Revenue**

Exhibit A sets forth the Parties' respective positions. In short, the Division believed United Water would sell more water in the rate year than United Water forecasted. Originally, the Division maintained that United Water would realize \$80,673 more than projected. In its rebuttal testimony, United Water accepted some of the Division's adjustments but argued it would only realize \$31,695 more than originally forecasted.

Certainly, the projection of consumption can be one of the most difficult aspects of any rate filing. If the utility does not realize the projected consumption, it will not collect the revenue allowed by the Commission. Throughout the litigation of this Docket, United Water and the Division disagreed on the proper methodology to calculate water sales in the rate year. Ultimately, United Water agreed to the Division's calculation of non-residential usage. For residential usage, the Parties agreed on a downward trend, but it was not as steep as United Water initially recommended. Thus, United Water agreed it will collect \$46,067 more than originally projected. (Exhibit A)

#### **2. O&M Expenses**

United Water originally proposed a total of \$2,306,365 in O&M Expenses, which represented a \$267,636 increase over the unadjusted test year. The Division originally recommended a reduction of \$94,149, which would limit United Water's increase to \$173,487. The Parties ultimately settled on an overall increase of \$191,401 over the unadjusted test year expenses. The adjustments exceeding \$10,000 in Exhibit A are as follows:

- a. Wages and Salaries (\$15,931) – The Division recommended that United Water reduce the percentage of salaries and wages charged to expense from 82.08% to 80.80%. United Water accepted this reduction.
- b. Incentive Compensation (\$27,851) – While United Water believes incentive compensation is an integral part of its employee’s total compensation, for settlement purposes it agreed with Division’s adjustment that allowed the non-financial portion and disallowed the financial portion of incentive compensation.
- c. Fringe Benefits Transferred (\$10,157) – This reduction was related to the Division’s adjustment to the percentage of salaries and wages charged to expense, which United Water accepted.
- d. Power (\$22,523 increase) – The Division’s direct testimony proposed several adjustments that resulted in an increase of \$10,129 to United Water’s power expense. In its rebuttal, United Water provided updated information regarding power costs and also disagreed with some of the Division’s adjustments. United Water argued that power costs should increase by another \$23,687 for a total increase of \$33,816. During settlement negotiations, United Water agreed to reduce this increase and the Parties agreed that power expenses would increase by \$22,523 over the original amount requested.
- e. Management and Services (M&S) (\$15,965) – The reduction in M&S expense stems from the elimination of incentive compensation related to financial goals.
- f. Outside Service Expense (\$26,677) – The Division adjusted inflation and amortization related to United Water’s original request, and also recommended a reduction to hydrant painting expenses. The Division’s total adjustment was \$30,317. United Water ultimately accepted most of the Division’s adjustments and agreed to an overall reduction of \$26,677.

**3. Total Taxes Other Than Income** – The overall reduction \$12,564 incorporated United Water’s agreement to use the Division’s three year average for property tax expense.

**4. Rate Base** – The adjustments made to rate base reflect the Division’s recommended elimination of deferred rate case expense, and a flow through adjustment to cash working capital.

**5. Rate of Return** – United Water and the Division both employed experienced experts to calculate rate of return. As Ms. Ahern testified, a regulated utility must assure it can fulfill its obligations to the public by providing safe and reliable service at all times. To do so, utility must achieve a level of earnings sufficient to maintain the integrity of presently invested capital as well as permitting the attraction of new capital at a reasonable cost in competition with other firms of comparable risk. In any exercise of this nature – be it a cost of service study, a property valuation or calculations of capital structure and rate of return – experienced experts can differ on methodology and results. United Water was mindful of this during negotiations. While United Water believes that Ms. Ahern’s calculations were well supported, documented and justified, it also appreciated the need to lower its overall increase if possible.

United Water originally proposed a return on equity of 11.01% and overall rate of return of 8.75%. The Division originally proposed a return on equity of 9.25% and an overall rate of return of 7.72%. In rebuttal, United Water requested a revised return on equity of 10.55% and an overall rate of return of 8.46%. The Parties ultimately agreed to use the Division’s capital structure, a return on Equity of 9.65% and an overall rate of return of 7.94%. This reduced United Water’s original request by \$71,883.

#### **IV. CONCLUSION**

United Water believes the Settlement Agreement presented to the Commission is fair and reasonable and the revenues and rates incorporated therein are necessary, reasonable and will allow United Water to continue providing high quality water and exceptional customer service to its ratepayers. As such, United Water requests that the Commission approve the Settlement Agreement as presented.

United Water Rhode Island, Inc.  
By its attorney,

  
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**CERTIFICATION**

I hereby certify that I sent by electronic mail a copy of the within to all parties set forth on the attached Service List on April 10, 2014, and one original and nine copies to Luly Massaro, Clerk, Rhode Island Public Utilities Commission.

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United Water Rhode Island  
Comparison of As-Filed Proposed to Joint Settlement  
Income Statement

	Proposed 2013 Rate Case RY - 12/31/14	Division Staff		Company Rebuttal Adjustments to Staff		Joint Settlement Schedules	
		Adjustment	Proposed	Adjustment	Proposed	Adjustment	Proposed
Operating Revenues	\$3,670,266	\$80,673	\$3,750,939	(\$48,978)	\$3,701,961	\$14,372	\$3,716,333
Projected increase	<u>1,563,153</u>		<u>1,007,074</u>		<u>1,405,003</u>		<u>1,207,267</u>
Total operating revenues	<u>\$5,233,419</u>	<u>\$80,673</u>	<u>\$4,758,013</u>	<u>(\$48,978)</u>	<u>\$5,106,964</u>	<u>\$14,372</u>	<u>\$4,923,600</u>
	42.59%		26.85%		37.95%		32.49%
Operating Expenses							
Operating & maintenance expenses	2,306,364	(94,149)	2,212,215	58,624	2,270,839	(40,711)	2,230,128
Depreciation and Amortization	600,370		600,370		600,370		600,370
Taxes other than income	439,707	(14,634)	425,073	12,157	437,230	(10,087)	427,143
Federal income tax	<u>499,244</u>	<u>(116,782)</u>	<u>382,462</u>	<u>93,039</u>	<u>475,501</u>	<u>(50,492)</u>	<u>425,009</u>
Total Operating Expenses	<u>3,845,685</u>	<u>(225,565)</u>	<u>3,620,120</u>	<u>163,820</u>	<u>3,783,940</u>	<u>(101,290)</u>	<u>3,682,650</u>
Operating Income	<u>\$1,387,734</u>	<u>\$306,238</u>	<u>\$1,137,893</u>	<u>(\$212,798)</u>	<u>\$1,323,024</u>	<u>\$115,662</u>	<u>\$1,240,950</u>
Rate Base (Average)	<u>\$15,859,818</u>	<u>(\$1,122,445)</u>	<u>\$14,737,373</u>	<u>\$906,105</u>	<u>\$15,643,478</u>	<u>\$2,161</u>	<u>\$15,645,639</u>
Rate of Return	<u>8.75%</u>		<u>7.72%</u>		<u>8.46%</u>		<u>7.93%</u>

<u>United Water Rhode Island</u>		<u>Division Staff</u>		<u>Company Rebuttal</u>		<u>Joint Settlement</u>	
<u>Comparison of As-Filed Proposed to Joint Settlement</u>				<u>Adjustments to Staff</u>		<u>Schedules</u>	
<u>Operation and Maintenance Expenses</u>		<u>Adjustment</u>	<u>Proposed</u>	<u>Adjustment</u>	<u>Proposed</u>	<u>Adjustment</u>	<u>Proposed</u>
Wages and Salaries	\$561,813	(\$15,931)	545,882		545,882		545,882
Incentive Comp.	37,745	(11,450)	26,295	11,450	37,745	(11,450)	26,295
Fringe Benefits Transferred	(71,063)	(10,157)	(81,220)		(81,220)		(81,220)
Power Expense	242,627	10,129	252,756	23,687	276,443	(11,293)	265,150
Chemical Expense	52,735	(9,044)	43,691		43,691		43,691
Pension Expense	135,135		135,135		135,135		135,135
PEBOP Expense	58,300	(2,556)	55,744		55,744		55,744
Employee Health and Welfare Expense	188,130	(59)	188,071		188,071		188,071
Tank Painting Amortization	43,383		43,383		43,383		43,383
Transportation/Vehicle Expense	75,329	(4,857)	70,472	2,081	72,553		72,553
Insurance Expense	51,714	(203)	51,511		51,511		51,511
Customer Information/Billing Expense	58,566	(491)	58,075		58,075		58,075
Rate Case Expense	226,979		226,979		226,979		226,979
Rent Expense	25,800		25,800		25,800		25,800
M&S	273,503	(15,965)	257,538		257,538		257,538
Outside Services Expense	101,937	(31,266)	70,671	20,915	91,586	(15,966)	75,620
Regulatory Commission Expense	16,390	(1,032)	15,358	491	15,849	(2,002)	13,847
Other Operation and Maintenance Expense	<u>227,343</u>	<u>(1,267)</u>	<u>226,076</u>		<u>226,076</u>		<u>226,076</u>
<b>Total Operation and Maintenance Expenses</b>	<b><u>\$2,306,365</u></b>	<b><u>(\$94,149)</u></b>	<b><u>\$2,212,216</u></b>	<b><u>\$58,624</u></b>	<b><u>\$2,270,840</u></b>	<b><u>(\$40,711)</u></b>	<b><u>\$2,230,129</u></b>
<b>Taxes Other Than Income:</b>							
Property Tax Expense	315,024	(8,192)	306,832	8,192	315,024	(8,192)	306,832
Payroll Tax Expense	59,265	(499)	58,766	0	58,766		58,766
Gross Receipts Tax Expense	<u>65,418</u>	<u>(5,943)</u>	<u>59,475</u>	<u>3,965</u>	<u>63,440</u>	<u>(1,895)</u>	<u>61,545</u>
<b>Total Taxes Other Than Income</b>	<b><u>\$439,707</u></b>	<b><u>(\$14,634)</u></b>	<b><u>\$425,073</u></b>	<b><u>\$12,157</u></b>	<b><u>\$437,230</u></b>	<b><u>(\$10,087)</u></b>	<b><u>\$427,143</u></b>

United Water Rhode Island  
Comparison of As-Filed Proposed to Joint Settlement  
Rate Base (Average)

	Proposed 2013 Rate Case RY - 12/31/14	Division Staff		Company Rebuttal Adjustments to Staff		Joint Settlement Schedules	
		Adjustment	Proposed	Adjustment	Proposed	Adjustment	Proposed
Utility Plant In Service	\$28,149,420		\$28,149,420		\$28,149,420		\$28,149,420
Accumulated Depreciation	(7,003,970)		(7,003,970)		(7,003,970)		(7,003,970)
Net Utility Plant in Service	21,145,450	-	21,145,450	-	21,145,450	-	21,145,450
Materials and Supplies	86,062		86,062		86,062		86,062
Cash Working Capital (CWC)	287,684	(16,974)	270,710		270,710	2,161	272,871
Def'd Tank Painting (net of Def'd Tax)	168,165		168,165		168,165		168,165
Def'd Rate Case (net of Def'd Tax)	199,366	(199,366)	0		0		0
	741,276	(216,340)	524,936	-	524,936	2,161	527,097
CIAC	(3,533,455)		(3,533,455)		(3,533,455)		(3,533,455)
Def'd Income Tax	(1,842,541)	(906,105)	(2,748,646)	906,105	(1,842,541)		(1,842,541)
Unamortized ITC	(89,099)		(89,099)		(89,099)		(89,099)
Unfunded FAS 106 (net of Def'd Tax)	(561,813)		(561,813)		(561,813)		(561,813)
	(6,026,908)	(906,105)	(6,933,013)	906,105	(6,026,908)	-	(6,026,908)
<b>Total Rate Base</b>	<b>\$15,859,819</b>	<b>(\$1,122,445)</b>	<b>\$14,737,374</b>	<b>\$906,105</b>	<b>\$15,643,479</b>	<b>\$2,161</b>	<b>\$15,645,640</b>

United Water Rhode Island  
Comparison of As-Filed Proposed to Joint Settlement  
Capital Structure and Rate of Return

<u>Current rate case</u>	<u>Rate Case Pro-Forma as-filed</u>			<u>Division Staff</u>			<u>Company Rebuttal Schedules</u>			<u>Joint Settlement Schedules</u>		
	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>	<u>Percent to Total</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
Long term debt	46.55%	6.05%	2.82%	46.24%	6.05%	2.80%	46.55%	6.05%	2.82%	46.24%	6.05%	2.80%
Short term debt				0.64%	1.00%	0.01%			0.00%	0.64%	1.00%	0.01%
Stockholder's equity	53.45%	11.10%	<u>5.93%</u>	53.13%	9.25%	<u>4.91%</u>	53.45%	10.55%	5.64%	53.13%	9.65%	5.13%
Total Capital	<u>100.00%</u>		<u>8.75%</u>	<u>100.01%</u>		<u>7.72%</u>	<u>100.00%</u>		<u>8.46%</u>	<u>100.01%</u>		<u>7.94%</u>