



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Peter F. Kilmartin, Attorney General

June 19, 2017

Ms. Luly Massaro
Commission Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02889

**Re: The Pawtucket Water Supply Board, Multi-Year Rate Plan Compliance Filing,
Notice of Proposed Tariff Change and Change in Rate Schedules
DOCKET NO. 4550**

Dear Luly,

Enclosed for Commission consideration and filing, please find an original and nine (9) copies of the Division's Position Statement as prepared by consultants Jerry Mierzwa and Lafayette Morgan of Exeter Associates, Inc., regarding Pawtucket Water Supply Board's Multi-Year Filing in RIPUC Docket No. 4550. Please note that an electronic copy of this document has been sent to the service list.

Thank you for your attention to this matter. If you have any questions, please feel free to contact me.

Sincerely,

Christy Hetherington, Esq.
Special Assistant Attorney General
Regulatory Unit
Extension 2425

Enclosure

cc: Service List (via electronic mail)

EXETER

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Memorandum

To: Luly Massaro, Clerk
Rhode Island Public Utilities Commission

From: Jerry Mierzwa and Lafayette Morgan,
Exeter Associates, Inc.
Consultants to the Division of Public Utilities and Carriers

Date: June 19, 2017

Subject: The Pawtucket Water Supply Board, Multi-Year Rate Plan Compliance Filing,
Notice of Proposed Tariff Change and Change in Rate Schedules
Docket No. 4550

Introduction

On May 9, 2017, The Pawtucket Water Supply Board (PWSB) filed its Multi-Year Rate Plan Compliance Filing and Notice of Change in Rates pursuant to R.I.G.L. § 39-15.1-4 with the Rhode Island Public Utilities Commission (Commission). The filing sought to implement the third phase of the Multi-Year Rate Plan approved by the Commission in Docket No. 4550. Accordingly, PWSB's filing is seeking to increase its rates to derive additional revenues of \$485,574 which would result in total operating revenue of \$21,526,507. If granted, the impact of this request would be an across-the-board rate increase of 2.3 percent on all rate classes. For a typical residential customer that uses 800 cubic feet of water per month, the impact of this request would result in an increase of \$13.56 per year. PWSB has proposed for the increase in rates to become effective July 9, 2017.

Findings

We have reviewed PWSB's Compliance Filing to ensure PWSB's proposed rate increase complies with the Settlement Agreement (Settlement) reached between the parties in Docket No. 4550, and approved by the Commission. During our review, we examined the reasonableness of each of the elements (or line items) of the Step 3 increase. There are two line items where we

find the Step 3 increase to be overstated. These two line items are somewhat inter-related as we discuss below.

The first line item is the Rate Case Expense claim of \$13,016. When Docket No. 4550 was settled, \$76,667 was included in the cost of service for the amortization of rate case expenses. The \$76,667 was based upon a 3-year amortization of an estimated rate case expense of \$230,000. The terms of the Settlement in Docket No. 4550 provided for a recovery of rate case expenses to reflect actual expenses as near as possible. When the actual rate case expenses were tallied, the total cost incurred was \$209,049, instead of the \$230,000 that was included in the settlement. This means that the amortization of rate case expenses in the Settlement rates was over-collected by \$6,984¹. Also in the Settlement, the parties agreed to allow an additional \$20,000 per step increase for compliance costs related to each step increase.

Accordingly, in the first step increase filing, PWSB included \$20,000² to recover costs related to the compliance filings for each step increase. Therefore, it is important to recognize that the \$20,000 is an annual cost that has been included as part of base rates. In the current filing, PWSB has included an additional \$13,016 in this step increase again. The inclusion of the \$13,016 would increase rates as if PWSB has incurred an additional \$13,016 above the \$20,000 already included in rates for compliance costs. Based upon PWSB responses to the Division's data requests, it is clear that PWSB has not incurred the additional costs. As a result, the Division's position is the \$13,016 should be removed from the proposed step increase to avoid the collection of costs that will not be incurred.

The second issue relates to the Rate Stabilization line item. The Rate Stabilization amount is calculated as a percentage of the cost of service. Hence, any adjustment made to the cost of service has a corresponding effect on the Rate Stabilization amount. Because we have removed the \$13,016 of rate case expense, there is a small resulting decrease in the Rate Stabilization amount. There are no other differences in the Rate Stabilization beyond this mathematical interdependency.

Attached are the tables summarizing the Division's Step 3 increase elements and FY2018 rates.

¹ $(\$230,000 - \$209,049) / 3$ years.

² On Step 1 Sch. 1.0 of the testimony of PWSB witness Christopher P.N. Woodcock, only \$13,016 was shown instead of \$20,000. \$13,016 was included to recognize the overcollection of \$6,984 included in base rates.

Pawtucket Water Supply Board Proposed Step Increase YEAR 3 – FY2018			
	<u>Per PWSB</u>	<u>Per DPUC</u>	<u>Difference</u>
Rate Year (FY2017) Revenue Requirements	\$21,040,933	\$21,040,933	\$-
<u>Step Increases for 2018:</u>			
New Debt	-	-	-
Property Tax Change	-	-	-
Labor Increase	32,244	32,244	-
Inflation: Non-labor @ 2.00%	90,619	90,619	-
DBO O&M Contract	14,565	14,565	-
Rate Case Expense	13,016	-	(13,016)
Revenue Stabilization @ 3.0%	<u>335,130</u>	<u>334,739</u>	<u>(391)</u>
Subtotal	485,574	472,167	(13,407)
 FY2018 Revenue Requirements	 <u>\$21,526,507</u>	 <u>\$21,513,100</u>	 <u>\$(13,407)</u>
 Proposed Step Increase for FY2018	 2.31%	 2.24%	

Pawtucket Water Supply Board Proposed Step Increase Rates YEAR 3 – FY2018			
		FY 2017 Step Increase Rates	FY 2018 Step Increase Rates
Metered Rates			
Small (5/8 - 1")		\$4.161	\$4.254
Large (> 1")		3.912	4.000
Wholesale		3.401	3.477
Service Charges			
Monthly	5/8	\$10.778	\$11.020
	3/4	14.048	14.363
	1	19.252	19.684
	1 1/2	36.797	37.623
	2	47.092	48.149
	3	53.139	54.331
	4	120.913	123.626
	6	180.223	184.267
	8	256.471	262.226
Fire Service			
Public	Hydrant/Mo.	\$56.862	\$58.138
Fire Service (Monthly Bill)	\$/Bill	4.947	5.058
Private			
	2	17.410	17.801
	4	37.587	38.430
	6	94.394	96.512
	8	171.766	175.620
	10	256.231	261.981
	12	373.297	381.674