

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**KENT COUNTY WATER)
AUTHORITY) Docket No. 4611**

**SURREBUTTAL TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

November 18, 2016

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Surrebuttal Testimony of Lafayette K. Morgan, Jr.

I. Introduction

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- Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?
- A. My name is Lafayette K. Morgan, Jr. My business address is 10480 Little Patuxent Parkway, Columbia, Maryland, 21044. I am a Public Utilities Consultant working with Exeter Associates, Inc. (“Exeter”). Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.
- Q. ARE YOU THE SAME LAFAYETTE MORGAN, JR. WHO PRESENTED DIRECT TESTIMONY IN THIS PROCEEDING?
- A. Yes, I am.
- Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY IN THIS PROCEEDING?
- A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of Kent County Water Authority’s (KCWA) witnesses Christopher P.N. Woodcock and Timothy J. Brown.
- Q. ARE YOU PRESENTING ANY SCHEDULES WITH YOUR SURREBUTTAL TESTIMONY?
- A. Yes. I have prepared Schedules LKM-1S through LKM-11S. Schedule LKM-1S provides a summary of revenues and expenses under present and proposed rates.

1 These schedules present the Division's updated position on KCWA's rate increase
2 after reflecting revisions that KCWA has made in its rebuttal filing. Based on these
3 changes, the Division is now recommending an increase in revenues of \$ 2,908,743.
4 This amount is \$863,971 less than the revised rate year increase of \$3,772,714 that
5 KCWA is seeking. For the step increases, I have determined an increase of \$243,943
6 for FY 2018 and \$839,931 for FY 2019. These amounts are \$770,604 (FY 2018) and
7 \$651,758 (FY 2019) less than the revised amounts sought by KCWA. My
8 adjustments to KCWA's claimed revenues and operating expenses are presented on
9 Schedules LKM-2S through LKM-11S.
10

11 **II. KCWA's Rebuttal Testimony**

12 Q. BEFORE RESPONDING TO KCWA'S DISAGREEMENTS WITH THE
13 ISSUES YOU RAISED IN YOUR DIRECT TESTIMONY, DO YOU HAVE
14 ANY GENERAL COMMENTS ON KCWA'S REBUTTAL TESTIMONY?

15 A. Yes. Multiple times in the rebuttal testimony of KCWA's witness Christopher P. N.
16 Woodcock, he has attempted to characterize some of the adjustments I have made as
17 if I am breaking new ground in utility regulation. He has described some of my
18 adjustments as inconsistent with the Division's positions in other rate proceedings;
19 inconsistent with other witnesses who presented testimony on behalf of the Division;
20 implying that some adjustments may be unreasonable because I simply did not repeat
21 what was done previously by other analysts or in other proceedings; and indicating
22 that through my testimony, the Division is holding KCWA to a higher standard than
23 other water utilities.

24 As far as I am aware, there is no Commission rule that exempts a utility,
25 whether municipal-owned or investor-own, from having to support its claims in a rate

1 case. In fact, the burden of proof is on the utility to justify its claims. Additionally,
2 there is no Commission rule or generally accepted ratemaking practice that states that
3 the analyst or the witness in a proceeding should simply follow what was done by the
4 prior analyst or witness. Each rate proceeding stands on its own merits.

5 As I present testimony before this Commission, it is only right that I can state
6 affirmatively that I am satisfied with positions taken in my testimony. If I take the
7 approach suggested by Mr. Woodcock, I would be taking a risk that I could be
8 accused of dereliction of my duties. With that said, I will now respond to each of
9 KCWA's rebuttal testimony disagreements based upon the merits of its arguments
10 from a technical perspective.

11

12

III. Inflation Factor

13 Q.

MR. WOODCOCK INDICATES THAT KCWA'S INFLATION
14 ADJUSTMENT WAS MADE PURSUANT TO SECTION 2.6(C)(4) OF
15 THE COMMISSION'S RULES OF PRACTICE, AND THAT YOU HAVE
16 DISMISSED THE ONLY INDEX SPECIFICALLY MENTIONED AS AN
17 EXAMPLE IN THE COMMISSION'S RULES. WOULD YOU PLEASE
18 RESPOND TO HIS CLAIM?

19 A.

Yes. Section 2.6(c)(4) of the Commission's rule of practice states:
20 "Inflationary adjustments. These adjustments are based upon
21 projected cost increases, e.g. Consumer Price Index changes".

22

There are two points to be made about Section 2.6(c)(4). First, the rule only cites the
23 CPI as an example of a price index. In fact, Mr. Woodcock agrees, on page 4, lines 8
24 and 9 of his rebuttal testimony that the rule does not mandate the use of the CPI.

25

Second, the rule clearly state that the adjustment should be based upon "projected
26 cost increases".

1 Regarding the CPI Index, Mr. Woodcock states on page 5, lines 15 and 16:

2
3 “In this case, we have proposed an element of the Consumer Price
4 Index (water and sewer maintenance)”.

5 However, this is not an accurate statement of his inflation adjustment because in both
6 his direct and rebuttal testimony he explains how he has manipulated the CPI data to
7 derive the desired result. In his rebuttal testimony at page 6, Mr. Woodcock states:

8
9 “My direct testimony is very clear that I used a combination of the
10 Bureau of Labor Statistics published Consumer Price Index in concert
11 with the Bureau’s published index for water and sewer. While I could
12 have simply used the historic 5.63% average of the water and sewer
13 index, I instead used the overall CPI and adjusted it based on the
14 historic relationship between the overall CPI and the water and sewer
15 index. Both the overall CPI and the water and sewer portion of the CPI
16 are “standard measures of inflation””.

17 On page 17 of his direct testimony, he states:

18 “In, short, I have picked the 2015 general CPI-U change of 0.70% (one
19 of the lowest in recent years) multiplied an average of the water and
20 sewer multiplier (rather than using the higher multiplier we have seen
21 in recent years. I would note that the inflation rate I am proposing
22 (3.08%) is lower than the water and sewer rate in any years”.

23 There are several observations about Mr. Woodcock’s inflation rate
24 determination that should be carefully considered by the Commission. First, the
25 overall CPI and the water and sewer maintenance CPI are standard measures of
26 inflation when considered separately as reported by the Bureau of Labor Statistics
27 (BLS). However, when they are multiplied together, as Mr. Woodcock as done, they
28 are no longer standard measures of inflation. Therefore, Mr. Woodcock is not being
29 accurate when he denies, on page 6 of his rebuttal testimony, that he has not proposed
30 his own measure of inflation.

31 Second, on page 5, lines 15 and 16 of his rebuttal testimony when he implies
32 that he has used the CPI water and sewer maintenance inflation factor, that statement
33 is not accurate either. Both the overall CPI and the CPI water and sewer maintenance

1 factor have already been calculated by the BLS. As I have quoted above from his
2 direct testimony, the starting point of his inflation rate calculation is the overall CPI
3 of 0.70% to which he added a multiplier of 4.4. When Mr. Woodcock uses a
4 combination of data from the overall CPI and the CPI for water and sewer
5 maintenance and derives a different factor, which he uses as the inflation factor in his
6 calculations, clearly he has derived his own measure of inflation.

7 Third, Mr. Woodcock states that it is “absurd” that the Division has suggested
8 that his inflation rate is a broad measure of inflation. Again, using Mr. Woodcock’s
9 own words, as I have quoted above, the basis of his inflation calculation is the overall
10 CPI, which is a broad measure of inflation.

11 Fourth, Mr. Woodcock criticizes me for not using the CPI based upon the
12 wording of Section 2.6(c)(4) of the Commission’s Rules of Practice, even though he
13 agrees on page 4, lines 8 and 9 of his rebuttal testimony that the rule does not
14 mandate the use of the CPI. If one were to interpret the rule as narrowly as Mr.
15 Woodcock suggests, his own inflation measure would not qualify because it is not a
16 “change in the Consumer Price Index”. Under his interpretation, for Mr. Woodcock’s
17 own inflation rate to qualify, the Rule would have to be changed to allow the use of a
18 general change in the consumer price index data. The point here is that Mr.
19 Woodcock’s criticism for not using CPI data is not valid.

20 Q. IF THE COMMISSION CONCLUDES THAT ONLY THE CPI SHOULD
21 BE USED FOR THE INFLATION RATE, WHAT WOULD BE THE
22 APPROPRIATE RATE?

23 A. Although the Commission’s Rules of Practice does not mandate the CPI, the overall
24 CPI would be the appropriate CPI rate to use if the decision were to use only the CPI

1 for ratemaking purposes. That rate is currently 1.6 percent¹ and less than the 2.0
2 percent inflation rate that I am recommending.

3 Q. WHY ARE YOU PROPOSING AN INFLATION RATE THAT IS HIGHER
4 THAN THE MOST RECENT INFLATION RATE?

5 A. Section 2.6(c)(4) states that the inflation adjustments should be “based upon projected
6 cost increases”. However, the CPI is a reporting of past inflation rates. An average of
7 past inflation rates is not good predictor of future inflation. Therefore, a forward-
8 looking inflation rate would be more appropriate than the 7-year historical average
9 that Mr. Woodcock is recommending. The Federal Open Market Committee (FOMC)
10 inflation rate which I have adopted is, in fact, higher than the current CPI, my
11 decision to use that rate is because it is forward-looking rather than an historical 7-
12 year average.

13 Q. MR. WOODCOCK STATES THAT YOU ARE RECOMMENDING A
14 TOTALLY NEW INDEX. IS HE CORRECT?

15 A. No. I have used the FOMC’s estimate of future inflation. The FOMC does not
16 produce an inflation index. Mr. Woodcock argues on page 4 of his rebuttal testimony
17 that I previously recommended the use of the GDP-PI in Docket No. 4550 (Pawtucket
18 Water Supply Board or PWSB) and that I am recommending a new index. While it is
19 true that in Docket No. 4550 I used the Gross Domestic Product-Price Index (GDP-
20 PI) to measure the rate of inflation,²the source of the projected inflation rate becomes
21 an issue if it is not reputable or backed by comprehensive analysis. (I will explain the
22 use of the GDP-PI data in Docket No. 4550 later to put things in the proper

¹ Over the last 12 months, the all items index rose 1.6 percent before seasonal adjustment per the BLS for October 2016.

² The Gross Domestic Product-Price Index (GDP-PI) is a measure of inflation that captures changes in prices in the economy as a whole.

1 perspective.) Moreover, I am not recommending the FOMC as the only source of
2 inflation projection that should be used by all water utilities before the Commission.

3 Section 2.6(c)(4) of the Commission Rules of Practice clearly state that the
4 inflation adjustment should be based upon projected cost increases. The real issue that
5 the Commission should focus on is what constitutes a projected inflation rate. The
6 two inflation rates put forth are: 1) Mr. Woodcock’s calculation in which he used 7-
7 year historical averages and multiplies one CPI index by a “multiplier” derived from
8 another CPI Index, which he deems to be a projection of future inflation; and 2) the
9 FOMC’s projection of future inflation – a rate that is backed by the Federal Reserve
10 economic analysis³.

11 Q. IS THE BASIS OF THE INFLATION RATE YOU ARE
12 RECOMMENDING IN THIS PROCEEDING CONSISTENT WITH THE
13 BASIS OF THE INFLATION RATE YOU RECOMMENDED FOR
14 PAWTUCKET WATER SUPPLY BOARD IN THE DOCKET NO. 4550?

15 A. Yes. There are two primary criteria I considered before recommending the inflation
16 rate. First, the inflation rate I used had to be forward-looking for it to qualify as a
17 projection of future costs. Second, it had to be a broad measure of inflation since the
18 inflation rate is applied several different categories, it had to be broad to capture an
19 array of costs. I used the FOMC’s core price index because it excludes food and
20 energy costs. I should also note that to be fair to KCWA, I used the high end of the
21 inflation range reported.

22 Q. IN MR. WOODCOCK’S DIRECT AND REBUTTAL TESTIMONIES HE
23 REFERENCES THE PWSB RATE IN THE DOCKET NO. 4550. CAN YOU

³ The Federal Open Market Committee, or FOMC, is the Fed’s chief body for monetary policy. The FOMC typically meets eight times a year, and if economic conditions require additional meetings, the FOMC can meet more often. Staff from the Board of Governors then present their economic and financial forecasts. The Board’s Governors and all 12 Reserve Bank presidents offer their views on the economic outlook.

1 SUMMARIZE THE INFLATION ISSUE IN THAT PROCEEDING TO
2 PROVIDE SOME CONTEXT FOR THE COMMISSION?

3 A. Yes. In that proceeding Mr. Woodcock was also PWSB’s witness. He derived a one-
4 year inflation rate of 3.08 percent from a four-year average of third quarter GDP
5 amounts. I disagreed with him because the use of the GDP as the basis of the inflation
6 rate was wrong⁴. Instead, I recommended the Gross Domestic Product-Price Index
7 (GDP-PI) which is a measure of inflation. The GDP-PI measures the changes in
8 prices in the economy from quarter-to-quarter, etc. To be consistent with the intent of
9 the inflation adjustment, I used a projection of the GDP-PI that was published by a
10 reputable source.

11 The basis of the rate I used was consistent with this proceeding. The GDP-PI
12 was chosen because it is a broader measure of inflation since it measures price
13 changes in the economy as a whole, whereas the CPI is based upon a basket of
14 consumer goods and services. The rate I used was a projection of inflation rather than
15 a historical average.

16 **IV. Miscellaneous Revenues**

17 Q. PLEASE RESPOND TO MR. WOODCOCK’S COMMENTS ON YOUR
18 ADJUSTMENT TO MISCELLANEOUS REVENUES.

19 A. In my direct testimony, I recommended an adjustment to Miscellaneous Revenue to
20 normalize them using the most recent three-year average because of the fluctuations
21 in these accounts. In Mr. Woodcock’s rebuttal, he spends time and effort criticizing
22 the approach I have used to normalize these revenues, rather than focusing on the
23 significant errors in KCWA’s filing to which he later admits. The Commission should

⁴ The GDP, or Gross Domestic Product, is measure of all goods and service that occur in the economy as a whole. The change in GDP from quarter-to-quarter (or year-to-year) measures the growth or shrinkage of the economy, not inflation.

1 ignore his entire critique because after he discusses how KCWA has corrected the
2 errors, he adopts the same approach I have used to normalize these revenues.
3 Nevertheless, I have reviewed the corrected revenue amounts presented in Mr.
4 Woodcock's rebuttal testimony and have accepted them for use in this proceeding.
5 Therefore, on Schedule LKM-2S, I have revised my adjustment to accept those
6 amounts.

7 **V. Employee Benefits**

8 Q. PLEASE RESPOND TO MR. WOODCOCK'S REBUTTAL TESTIMONY
9 RELATING TO EMPLOYEE BENEFITS.

10 A. In Mr. Woodcock's rebuttal testimony, he indicates that he revised KCWA's
11 employee benefits claim based upon the recommendations in my direct testimony.
12 There are two differences that remain between the Division and KCWA are the level
13 of pension contribution and benefits as a percentage of payroll rate.

14 Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN YOU AND MR.
15 WOODCOCK ON PENSION CONTRIBUTION.

16 A. For the pension contribution, Mr. Woodcock uses the FY 15 pension contribution
17 amount. In contrast, I have used the FY 16 pension contribution amount provided by
18 KCWA in its actuarial report dated April 2016 which was provided in the response to
19 the Division's Data Request 3-16. I have also attached the page from the actuarial
20 report (Attachment 1) that was the source of the amount I used. The use of the FY 16
21 contribution amount is consistent with the FY 16 amounts for the other categories of
22 employee benefits.

23 Q. PLEASE EXPLAIN THE DIFFERENCE BETWEEN YOU AND MR.
24 WOODCOCK ON THE BENEFITS AS A PERCENTAGE OF PAYROLL
25 RATE.

1 A. Regarding the benefits as a percentage of payroll rate, Mr. Woodcock states in his
2 rebuttal testimony that he continues to “propose that future (non-retiree) benefits be
3 estimated based on a percentage of the pro forma salaries”. Conceptually, I agree with
4 him. In fact, I have used that approach in my calculation of employee benefits
5 expense for the rate year and the step periods in both my direct testimony and this
6 testimony. On Attachment 2 to this testimony, I present the backup workpaper for my
7 employee benefits adjustment which shows that I have used that approach. However,
8 Mr. Woodcock and I disagree on the period over which the rate is calculated. Mr.
9 Woodcock favors a three-year average and I, in contrast, believe the rate should be
10 based upon the FY 16 data.

11 Q. WHY SHOULD THE RATE BE BASED UPON THE FY 16 DATA
12 INSTEAD OF THE THREE-YEAR AVERAGE?

13 A. It is inherent in the use of the benefits as a percentage of payroll approach that there is
14 a direct relationship between level benefits and the payroll. Therefore, the percentage
15 derived should be based on cost data from the same periods, so that the number of the
16 employee and other employee demographics match up. The ratio I have used is
17 consistent in that regard, while KCWA’s approach will have a mismatch of costs and
18 employee demographic data

19 **VI. Property & Liability Insurance**

20 Q. WOULD YOU PLEASE RESPOND TO MR. WOODCOCK’S REBUTTAL
21 TESTIMONY ADDRESSING YOUR ADJUSTMENT TO PROPERTY
22 AND LIABILITY INSURANCE?

23 A. Yes. KCWA derived the rate year level of property and liability insurance expense by
24 applying its calculated growth rate to the FY 2015 level of insurance expense. In my
25 direct testimony, I explained that the level of insurance expense that I am

1 recommending is based upon the actual FY 16 insurance premium, the most recent
2 actual premiums available. Mr. Woodcock disagrees with my adjustment in his
3 rebuttal testimony, stating that the amount I have included for the rate period does not
4 recognize the annual increases in insurance expense of the past five years and that my
5 adjustment is not consistent the position other witnesses have taken on behalf of the
6 Division in other cases.

7 Q. HAVE YOU REVISED YOUR POSITION ON THE INSURANCE
8 GROWTH ADJUSTMENT?

9 A. Yes. As I have indicated, the adjustment in my direct testimony, was based upon
10 using the most recent actual insurance premiums to derive my recommendation for
11 the level of insurance expense. Based upon Mr. Woodcock's rebuttal testimony, I
12 have reconsidered my position on this issue, and find it reasonable to allow for cost
13 increases to be reflected in the derivation of the pro forma level of insurance expense.
14 My adjustment, however, differs from Mr. Woodcock in that I have used the growth
15 rate based upon the most recent three years instead of the five years used by Mr.
16 Woodcock. I have used the most recent three years because the five-year period
17 includes data from years that are too old to be representative the current cost trends.
18 On Schedule LKM-5, this adjustment has been revised.

19
20

VII. Rate Case Expenses

21 Q. PLEASE RESPOND TO MR. WOODCOCK'S REBUTTAL TESTIMONY
22 ON RATE CASE EXPENSE?

23 A. In Mr. Woodcock's rebuttal testimony addressing rate case expense, he disagrees
24 with my adjustment to exclude cost related to KCWA's participation a Providence
25 Water proceeding and a pass-through proceeding. In my direct testimony, I also

1 indicate that in a data request response (Attachment 3), insufficient data was provided
2 by KCWA that would allow me to assess the reasonableness of the rate case claim.
3 Mr. Woodcock criticizes my adjustment by characterizing my explanation of
4 insufficient data as an extraordinary complaint and that I departed from past practices
5 and holding KCWA to a new standard.

6 In his rebuttal testimony, Mr. Woodcock has chosen to provide no additional
7 information to resolve this issue. As I have indicated earlier in this testimony, the
8 position taken on the issues in a rate case should not be based simply on what was
9 done in a previous proceeding, or in proceedings involving other water utilities.
10 Moreover, rather than providing additional support for KCWA's claim, Mr.
11 Woodcock states in his rebuttal testimony that "the Division also gets annual reports
12 every year that detail KCWA's rate case expenses and should thus be quite aware of
13 what the actual costs have been". Mr. Woodcock's statement implies that the costs
14 associated with the additional proceedings may be prior period costs. Under generally
15 accepted ratemaking practices, prior period costs are not eligible for recovery. Based
16 on the foregoing, I recommend that the Commission reject Mr. Woodcock's
17 arguments for recovery of these unsupported costs.

18 Q. ON PAGE 14, LINES 1 THROUGH 11 OF MR. WOODCOCK'S
19 REBUTTAL TESTIMONY, HE DISCUSSES KCWA'S RATE CASE
20 CLAIM IN COMPARISON TO OTHER RHODE ISLAND WATER
21 UTILITIES. DID YOU REVISE KCWA'S CLAIM FOR THE COST OF
22 THIS PROCEEDING?

23 A. No, I have not. However, on lines 10 and 11 of that page Mr. Woodcock states:

24 "By any measure, KCWA's rate case expenses (even including the
25 other dockets where it intervenes or passes through the Providence
26 increase) are quite reasonable".
27

1 I would note that the level of rate case expense incurred by other utilities is irrelevant
2 to KCWA's rate case claim. The circumstances under which each utility operates is
3 unique to each utility. The level of expenses incurred by other utilities should not be
4 used to legitimize costs that are not eligible for recovery.

5 **VIII. Operations Studies**

6 Q. PLEASE RESPOND TO KCWA'S REBUTTAL TESTIMONIES
7 RELATING TO YOUR ADJUSTMENT TO OPERATIONS STUDIES.

8 Beginning on page 10, line 21 of my direct testimony, I explain my
9 adjustment to remove operational studies from the cost of service. I began by first
10 explaining the reason for the adjustment based on general ratemaking practice, and I
11 also specifically explain the concerns I had for each of the components of the total
12 costs included in the cost of service. Additionally, in the response to data requests
13 served on the Division by KCWA (Attachment 4), I clarified the reasons for my
14 adjustment and explained my specific concerns for the costs as presented by KCWA.

15 Mr. Woodcock and Mr. Brown provided rebuttal testimony critical of my
16 adjustment. Mr. Woodcock's uses his rebuttal testimony to imply that I have taken a
17 renegade approach in making this adjustment rather than addressing the specific
18 concerns I raised in making the adjustment. On the other hand, Mr. Brown, while
19 critical of my adjustment, provides additional data to address my concerns. However,
20 the gist of both rebuttal testimonies is that there is no need to question these costs
21 because they are government mandated and have always been included in the cost of
22 service. It is important to note that just because these studies are required by law, it
23 does not exempt KCWA from providing support for the costs in a ratemaking
24 proceeding.

1 Q. WHAT CONCLUSIONS HAVE YOU REACHED AFTER REVIEWING
2 THE ADDITIONAL INFORMATION PROVIDED IN MR. BROWN'S
3 REBUTTAL TESTIMONY?

4 A. The information contained in Mr. Brown's rebuttal testimony provided a break down
5 of the costs by each of the studies which will enable me to make specific
6 recommendations for recovery. The information in Mr. Brown's testimony also
7 showed that KCWA's claim in it's filing is overstated by \$25,900 as summarized
8 below. It is only through requesting supporting information that I could have made
9 the determination that the claim was overstated.

Summary of Operations Studies Costs		
<u>Line No.</u>	<u>Description</u>	<u>Amount</u>
1	CIP Study	\$ 6,500
2	Cost of Water Supply	17,600
3	IFR Plans	75,000
4	Cost of Conservation Program	25,000
5	New Vulnerability Study	<u>50,000</u>
6	Total	\$ 174,100
7	Operational Studies Claim per Authority	<u>200,000</u>
8	Overstatement of Costs	<u>\$ 25,900</u>

11
12 Regarding the CIP and IFR studies, I am recommending that those costs be recovered
13 through the respective restricted accounts that have been established for those
14 programs rather than an increase in operating expenses. Since these studies are
15 directly related to the IFR and capital programs, the funding of the studies should
16 come from the related restricted accounts (without any further increase in the
17 requested funding levels of those accounts). I recommend recovery of the remaining

1 costs, totaling \$92,600, over a five-year period as proposed by KCWA. Based upon
2 these recommendations, I have revised my adjustment to operations studies resulting
3 in a decrease of \$21,480 from KCWA's claim of \$40,000. This adjustment is
4 presented on Schedule LKM-6S.

5 **IX. O&M AND Renewal & Replacement Reserves**

6 Q. ARE YOU STILL RECOMMENDING AN ADJUSTMENT TO THE O&M
7 AND RENEWAL & REPLACEMENT ("R&R") RESERVES?

8 A. In my direct testimony, I recommended an adjustment pending verification of the
9 final FY 2016 plant additions. That information has been provided in KCWA's
10 rebuttal filing. I have reviewed the information and am no longer recommending an
11 adjustment to the renewal and replacement reserves.

12 **X. Debt Service Expenses**

13 Q. HAVE YOU REVISED YOUR POSITION ON THE DEBT SERVICE
14 EXPENSES?

15 A. In my direct testimony, I recommended an adjustment to adjust the debt service
16 expenses in the cost of service to match amount claimed in the financial statements.
17 Mr. Woodcock has disagreed with my approach and explained that because of the
18 timing of the debt service payments, the funds must be deposited prior to date the
19 paying agent must pay the bond holders. After additional reconsideration of this issue,
20 I have revised my adjustment and will accept KCWA's debt service expense claim.

21 **XI. IFR Expenditures**

22 Q. PLEASE RESPOND TO KCWA'S REBUTTAL TESTIMONIES ON IFR
23 EXPENDITURES.

24 A. In my direct testimony, I recommended exclusion of the additional \$533,333 annually
25 in IFR expenditures based on what appeared to be clear statements by both Mr.

1 Woodcock and Mr. Brown that KCWA was not seeking to recover expenditures over
2 the \$5.4 million previously approved by the Commission. The Q and A on page 8,
3 lines 15 through 26 of Mr. Brown’s direct testimony reads as follows:
4

5 “Q. Are you proposing any IFR funding request?”

6 “A. Yes, the request is the same as our previous filing that included a
7 revised IFR Program with the restricted amount of \$5.4 million.”
8

9 “Q. Are you current with the restricted IFR funding previously
10 approved by the Commission?”

11 “A. Yes.”
12

13 “Q. Why haven’t you requested the full \$7,000,000 per year of
14 program needs?”

15 “A. Previously we had, but the Commission did not agree with our
16 proposal. At this time the needs of a meter program and its effect on
17 the rate outweighs the added need in the IFR program. Therefore, we
18 have not requested the additional funding”.

19 I am puzzled by KCWA’s position on the IFR recovery for several reasons. First, in
20 the direct testimony KCWA states that it is not seeking to recover IFR funding over
21 the \$5,400,000 that the Commission previously approved. However, in rebuttal
22 testimony, KCWA states that it meant that it would not seek recovery of the
23 additional IFR funding only during the rate period, not the step periods. Second, the
24 rationale used to limit the recovery of the IFR costs is out of concern for meter
25 replacement program impact on rates. Yet KCWA is now seeking to increase by
26 another \$533,000 during the same period it proposes to collect an additional
27 \$2,000,000 from its customers for the meter replacement. Finally, the reason I gave
28 for limiting the recovery of the additional IFR costs is the same reason KCWA
29 witness gave for proposing to limit the IFR recovery. Yet Mr. Woodcock criticizes
30 me for using such rationale in my recommendation.

31 I continue to believe that limiting the recovery of IFR costs to the \$5,400,000
32 is reasonable considering the impact of the \$2,000,000 increase in rates related to the

1 meter replacement. I believe KCWA recognizes that to be true or else it would not
2 have proposed such a limit itself, even if its proposal was for one year. Therefore, I
3 recommend the Commission continue to limit the recovery of the IFR funding to the
4 \$5,400,000.

5 **XII. Meter Replacement Costs**

6 Q. PLEASE RESPOND TO KCWA'S DISAGREEMENT WITH YOUR
7 ADJUSTMENT TO RECOGNIZE THE SALVAGE VALUE ON THE OLD
8 METERS TO BE REPLACED.

9 A. KCWA has disagreed with my adjustment to reduce the meter replacement costs to
10 reflect the salvage value on the old meters being replaced. My adjustment was based
11 upon KCWA's response to DIV 3-4. In the response, KCWA stated:

12
13 "Please note FY 2019 step increase has \$600,000 of meter program
14 budgeted. We fully expect that will be offset by scrap value and
15 hopefully bid program cost savings."

16 According to KCWA, the statement meant that any program costs would be reduced
17 by any scrap sales, not that the entire cost would be offset. However, my primary
18 concern is that to the extent that any salvage value is received by KCWA related to
19 the meter replacement program, those savings should be reflected in rates. In
20 addition, KCWA's projection of the meter replacement costs includes \$622,000 for
21 cost contingencies. Consequently, I have revised my recommendation for the FY 19
22 step increase to include the additional meter replacement costs. However, I am also
23 recommending that the Commission requires a reconciliation at the end of the meter
24 replacement program that will capture any salvage value received and any cost
25 savings realized based upon the projected project costs that have been included in
26 rates, and pass those savings on to customers.

XIII. Wholesale Water Costs

1
2 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU HAVE MADE TO
3 WHOLESAL WATER COSTS.

4 A. In KCWA's rebuttal filing, Mr. Woodcock attempted to update the wholesale water
5 costs to reflect updated data that was provided in the response to DIV 3-9. However,
6 there was an error in the spreadsheet cells that resulted in an overstatement in the
7 wholesale water costs. KCWA has provided a corrected version of the supporting
8 schedule which I have accepted and incorporated in my development of KCWA's
9 cost of service. Hence, aside from correcting the arithmetic error, there is no
10 disagreement between the Division and KCWA on the derivation of the wholesale
11 water costs. This adjustment is presented on schedule LKM-11S.

12 Q. DO YOU HAVE ANY ADDITIONAL CONCERNS REGARDING THE
13 WHOLESAL WATER COSTS?

14 A. KCWA's filing indicates that it expects its own water production to increase
15 in the near future⁵. As KCWA's water production increases, the volume of water
16 purchased to meet its demand will decrease. Therefore, the rates being established in
17 this proceeding assumes a higher quantity of water to be purchased than would be
18 necessary as KCWA ramps up its water production. Consequently, I recommend that
19 KCWA be required to update its wholesale water costs to reflect the cost decreases as
20 part of the step increase filings to occur for FY 18 and FY19.

21 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

22 A. Yes, it does.

⁵ Mr. Woodcock's Rebuttal Testimony, Rebut. Sch. 1C.

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**KENT COUNTY WATER)
AUTHORITY)** **Docket No. 4611**

**SCHEDULES ACCOMPANYING THE SURREBUTTAL TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

September 2, 2016

KENT COUNTY WATER AUTHORITY

Summary of Revenues and Expenses at
 Present and Proposed Rates
 Test Year Ended June 30, 2015

Line No.	Description	Test Year Amount Per KCWA	KCWA Rate Year Adjustments	Rate Year Amount Per KCWA	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
		(a)	(b)	(c)	(d)	(e)	(f)	(g)
Revenue								
1	Service Revenues	\$ 17,780,588	\$ 155,891	\$ 17,936,479	\$ -	\$ 17,936,479	\$ -	\$ 17,936,479
2	Fire Protection	1,476,694	(3,204)	1,473,490	-	1,473,490	-	1,473,490
3	Miscellaneous	323,648	(200,357)	123,291	4/ -	123,291	-	123,291
4	Total Revenue	\$ 19,580,930	\$ (47,670)	\$ 19,533,260	\$ -	\$ 19,533,260	\$ 2,908,743	\$ 22,442,003
Expenses								
Operating & Maintenance								
8	Supply	\$ 4,999,638	\$ (99,580)	\$ 4,900,058	\$ (583,957)	\$ 4,316,101	\$ -	\$ 4,316,101
9	Pumping	812,335	212,805	1,025,140	(1,209)	1,023,932	-	1,023,932
10	Treatment	310,572	135,344	445,916	(2,041)	443,875	-	443,875
11	Transmission & Distribution	1,164,782	139,882	1,304,664	(12,822)	1,291,842	-	1,291,842
12	Customer Service	470,456	22,809	493,265	(3,803)	489,462	-	489,462
13	Administration & General	2,612,530	247,666	2,860,196	(52,107)	2,808,089	-	2,808,089
14	Total Operating & Maintenance	\$ 10,370,313	\$ 658,927	\$ 11,029,240	\$ (655,939)	\$ 10,373,301	\$ -	\$ 10,373,301
Fixed Charges								
16	Debt Service	\$ 2,179,500	\$ (1,000)	\$ 2,178,500	\$ -	\$ 2,178,500	\$ -	\$ 2,178,500
17	O&M Reserve	-	168,708	168,708	(163,985)	4,723	-	4,723
18	R&R Reserve	77,607	54,729	132,336	(0)	132,336	-	132,336
19	Renewal & Replacement	100,000	-	100,000	-	100,000	-	100,000
20	Infrastructure Replacement	5,400,000	-	5,400,000	-	5,400,000	-	5,400,000
21	Meter Replacement	-	2,000,000	2,000,000	-	2,000,000	-	2,000,000
22	CIP	-	1,753,819	1,753,819	(34,200)	1,719,619	-	1,719,619
23	Payroll Taxes	154,417	21,204	175,621	-	175,621	-	175,621
24	PILOT	23,123	-	23,123	-	23,123	-	23,123
25	Total Fixed	\$ 7,934,647	\$ 3,997,460	\$ 11,932,107	\$ (198,185)	\$ 11,733,922	\$ -	\$ 11,733,922
27	Total Expenses	\$ 18,304,960	\$ 4,656,387	\$ 22,961,346	\$ (854,124)	\$ 22,107,223	\$ -	\$ 22,107,223
29	Operating Reserve Allowance	583,313	(238,683)	344,630	(9,849)	334,781	-	334,781
31	Total Cost of Service	\$ 18,888,273	\$ 4,417,704	\$ 23,305,976	\$ (863,973)	\$ 22,442,003	\$ -	\$ 22,442,003
33	Revenue Surplus/(Deficiency)	\$ 692,658	\$ (4,465,374)	\$ (3,772,716)	\$ 863,973	\$ (2,908,743)	\$ 2,908,743	\$ -

Notes:

- 1/ Witness Woodcock Rebut. Sch. 1.
- 2/ Column (e) - Column(c).
- 3/ Calculated base on data provided by KCWA.

KENT COUNTY WATER AUTHORITY

Summary of Revenues and Annual Step Increases
 Test Year Ended June 30, 2015

Line No.	Description	Rate Year Increase FY 2017	1/	Step 1 Increase FY 2018	2/	Step 2 Increase FY 2019	2/
1	New Debt	\$ -		\$ 4,750		\$ 500	
2	Salaries	-		45,914		46,832	
3	Inflation (Non-Labor)	-		161,635		161,635	
4	Additional Benefits	-		18,187		18,550	
5	Additional Meter Program Costs	-		-		600,000	
6	Additional CIP Costs	-		-		-	
7	IFR Increase	-		-		-	
8	Rev. Stabiliz @ 1.5%	-		3,457		12,413	
9							
10	Revenue Increase per Year	\$ 2,908,743		233,943		839,931	
11							
12	Annual Revenues At Current Rates	\$ 19,533,260		\$ 22,442,003		\$ 22,675,946	
13							
14	Revenues After Proposed Rate Increase	\$ <u>22,442,003</u>		\$ <u>22,675,946</u>		\$ <u>23,515,877</u>	

Notes:

1/ Schedule LKM-1S, Page 1.

2/ Calculated base on data provided by KCWA.

KENT COUNTY WATER AUTHORITY
 Adjustment to Normalize Other Operating Revenues
 Test Year Ended June 30, 2015

Line No.	Description	Miscellaneous Income	Interest Income	Merchandise & Jobbing	Totals
1	FY 15	1/ \$ 42,131	\$ 25,826	\$ 16,320	\$ 84,277
2					
3	FY 14	2/ 19,376	26,152	20,277	65,805
4					
5	FY 13	2/ 36,955	38,586	4,350	79,891
6					
7	3-Year Average Revenues	\$ 32,821	\$ 30,188	\$ 13,649	\$ 76,658
8					
9	Adjusted Revenues per KCWA	32,821	30,188	13,649	76,658
10					
11	Adjustment to Other Operating Revenues	\$ -	\$ -	\$ -	\$ -

Notes:

- 1/ Witness Woodcock Rebut. Sch. 1A, Page 1.
- 2/ KCWA response to Division 2-10.

KENT COUNTY WATER AUTHORITY

Adjustment to Annualize Employee Benefits Expense
Test Year Ended June 30, 2015

<u>Line</u>	<u>Description</u>	<u>Rate Year</u>
1	Employee Benefits Expense per Division	\$ 965,853 1/
2		
3	Employee Benefits Expense per KCWA	<u>969,706 2/</u>
4		
5	Adjustment to Employee Benefits	<u>\$ (3,853)</u>

Notes:

- 1/ Calculated based upon data provided in the Response to Division 3-14.
- 2/ Witness Woodcock Rebut. Sch. 1D, Page 3.

KENT COUNTY WATER AUTHORITY

Adjustment to Annualize Property and Liability Insurance.
Test Year Ended June 30, 2015

Line No.	Description	Rate Year Amount
1	Liability/Property Insurance	\$ 171,203 1/
2	Worker's Comp. Insurance	<u>86,027 1/</u>
3		
4	Total Property and Liability Insurance	\$ 257,230
5	Total Property and Liability Insurance per KCWA	<u>269,341 2/</u>
6		
7	Adjustment to Property and Liability Insurance	<u>\$ (12,111)</u>

Notes:

1/ Response to Division 3-13.

2/ Rebut. Sch. 1D.

KENT COUNTY WATER AUTHORITY

Adjustment to Normalize Rate Case Expense
Test Year Ended June 30, 2015

<u>Line</u> <u>No.</u>	<u>Description</u>	<u>Rate Year</u> <u>Amount</u>	<u>1/</u>
1	Legal	\$ 50,000	
2	Consultants	60,000	
3	DPUC Fees	<u>20,000</u>	
4			
5	Annualized Rate Case Expense	\$ 130,000	
6	Amortization Period (Years)	<u>3</u>	
7			
8	Annual Rate Case Expense	\$ 43,333	
9	Rate Case Expense per KCWA	<u>60,000</u>	
10			
11	Adjustment to Rate Case Expense	<u>\$ (16,667)</u>	

Note

1/ Witness Woodcock Rebut. Sch. 1E, Page 1.

KENT COUNTY WATER AUTHORITY

Adjustment to Normalize Source of Supply - Operations Studies
Test Year Ended June 30, 2015

<u>Line No.</u>	<u>Description</u>	<u>Total Cost</u>
1	<u>Source of Supply Operations Studies</u>	
2	Cost of Water Supply	\$ 17,600 1/
3	Cost of Conservation Program	25,000 1/
4	New Vulnerability Study	<u>50,000 1/</u>
5		\$ 92,600
6		
7	5-Year Normalized Operation Studies Costs per Division	\$ 18,520
8	Normalized Operation Studies Costs per KCWA	<u>40,000 2/</u>
9		
10	Adjustment to Normalize Source of Supply - Operations Studies	<u>\$ (21,480)</u>

Notes

1/ Witness Brown Rebuttal testimony.

2/ Witness Woodcock Rebut. Sch. 1D, Page 1.

KENT COUNTY WATER AUTHORITY

Adjustment to Reflect Inflation on Non-labor Expenses
 Test Year Ended June 30, 2015

Line No.	Description	Non-Labor Inflation per KCWA	Non-Labor Inflation per Division	Division Adjustment
1	SOURCE OF SUPPLY			
2	Maint of Wells/Supply Study	\$ -	\$ -	\$ -
3	Purchased Water	-	-	-
4	PUMPING OPERATIONS			
5	Fuel for Pumping	1,418	916	(502)
6	Power	-	-	-
7	Labor-Pumping	268	173	(95)
8	Pumping Expense	-	-	-
9	Maint. - Structures & Improv	540	349	(191)
10	Diesel Oil	-	-	-
11	Maint. - Equip	1,186	766	(420)
12	WATER TREATMENT			
13	Chemicals	-	-	-
14	Labor	531	343	(188)
15	Operating / Mishnock	4,093	2,643	(1,450)
16	Maint. - Water Treat Equip	1,098	709	(389)
17	Maint. - Structure	41	26	(14)
18	TRANS & DISTR. EXPENSE			
19	Storage Facilities Exp.	-	-	-
20	Labor	1,486	959	(526)
21	Supplies	6,686	4,318	(2,369)
22	Labor-Meter	210	135	(74)
23	Meter - Supp & Exp	1	0	(0)
24	Cust. Install.	-	-	-
25	Misc.	829	536	(294)
26	Maint. - Structures & Improv	3,566	2,303	(1,263)
27	Maint. - Res & Stdp	170	110	(60)
28	Maint. - Mains	12,471	8,053	(4,418)
29	Maint. - Service	2,208	1,426	(782)
30	Maint. - Meters	5,803	3,748	(2,056)
31	Maint. - Hydrants	2,768	1,787	(980)
32	Construction Labor	-	-	-
33	CUSTOMER ACCOUNT			
34	Labor-Meter Read	370	239	(131)
35	Cust Record Labor	623	402	(221)
36	Cust Records Sup	5,994	3,871	(2,123)
37	Meter Read Supplies	157	101	(56)
38	Uncollectible	3,591	2,319	(1,272)
39	ADMIN. & GENERAL			
40	Salaries	26,798	17,305	(9,493)
41	Office Supplies & Expenses	16,118	10,408	(5,710)
42	Insurance (Property/Liability/WC)	-	-	-
43	OPEB Trust Contrib.	-	-	-
44	Employee Benefits	-	-	-
45	Maint. - Plant	1,898	1,226	(672)
46	Maint. - Vehicles	3,553	2,294	(1,258)
47	Miscellaneous	991	640	(351)
48	Vacation, Holiday, Sick	-	-	-
49	Regul. Exp.	-	-	-
50	Outside Service	5,623	3,631	(1,992)
51				
52	TOTAL O&M	\$ 111,088	\$ 71,736	\$ (39,351)

Notes

- 1/ Witness Woodcock Rebut. Sch. 1, Page 1.
- 2/ Calculated based Division's cost of service adjustments.

KENT COUNTY WATER AUTHORITY

Adjustment to O&M Reserve and R&R Reserve
 Test Year Ended June 30, 2015

Line No.	Description	Amounts per KCWA 1/	Amounts per Division 2/	Division Adjustment
1	<u>O&M Reserve</u>			
2	O&M Expenses	\$ 11,029,239	\$ 10,373,301	
3	Payroll Taxes	175,621	175,621	
4	PILOT	23,123	23,123	
5	Total Operating	\$ 11,227,983	\$ 10,572,045	
6				
7	Required O&M Reserve (Line 5 X 25%)	\$ 2,806,996	\$ 2,643,011	
8				
9	Balance 6/30/15	\$ 2,382,240	\$ 2,382,240	
10	Additions October 2015	256,048	256,048	
11	Estim. Balance Start of Rate Year	\$ 2,638,288	\$ 2,638,288	
12				
13	Required deposit (Line 7 - Line 11)	\$ 168,708	\$ 4,723	\$ (163,985)
14	<u>R&R Reserve</u>			
15	Net Utility Plant Value (6/30/16)	\$ 145,130,806	\$ 145,130,806	
16	Estimated Additions	5,700,000	5,700,000	
17	Pro Forma NUP	\$ 150,830,806	\$ 150,830,806	
18				
19	Required Balance (Line 17 X 1%)	\$ 1,508,308	\$ 1,508,308	
20				
21	Balance 6/30/15	\$ 1,350,565	\$ 1,350,565	
22	Additions October 2015	25,407	25,407	
23	Estim. Balance Start of Rate Year	\$ 1,375,972	\$ 1,375,972	
24				
25	Addition to Reserve Required (Line 19 - Line 23)	\$ 132,336	\$ 132,336	\$ -

Notes

1/ Witness Woodcock Rebut. Sch. 1D, Page 1.

2/ Calculated based Division's cost of service adjustments.

KENT COUNTY WATER AUTHORITY

Adjustment to Restate Debt Service Requirements
to Financial Statement Basis
Test Year Ended June 30, 2015

Line No.	Description	Rate Year Amount
1	Debt Service Requirements per Division	\$ 2,178,500 1/
2		
3	Debt Service Requirements per KCWA	<u>2,178,500 1/</u>
4		
5	Adjustment to Debt Service Requirements	<u>\$ -</u>

Notes:

1/ Witness Woodcock Rebut. Sch. 1D, Page 2.

KENT COUNTY WATER AUTHORITY

Adjustment to Reduce Operating Revenue Allowance
Test Year Ended June 30, 2015

Line No.	Description	Rate Year Amount
1	Operating Reserve Allowance per Division	\$ 334,781
2		
3	Operating Reserve Allowance per KCWA	<u>344,630</u> 1/
4		
5	Adjustment to Operating Revenue Allowance	<u>\$ (9,849)</u>

Notes:

1/ Witness Woodcock Rebut. Sch. 1, Page 3.

KENT COUNTY WATER AUTHORITY

Adjustment to Reduce Wholesale Water Cost
Test Year Ended June 30, 2015

Line No.	Description	Rate Year Amount
1	Wholesale Water Costs per Division	\$ 4,297,581
2		
3	Wholesale Water Costs per KCWA	<u>4,860,057</u> 1/
4		
5	Adjustment to Wholesale Water Costs	<u>\$ (562,476)</u>

Notes:

1/ Witness Woodcock Updated Rebut. Sch. 1, Page 3 provided in response to DIV 8.

SUMMARY OF KEY RESULTS

Summary of Changes from Prior Fiscal Year

Contribution History

Plan Year Beginning	<u>1/1/2015</u>	<u>1/1/2014</u>	<u>1/1/2013</u>
Minimum Required Contribution	\$ 246,738	\$ 277,560	\$ 311,745
Actual Amount Contributed	TBD	\$ 277,560	\$ 311,745

Key Assumptions & Provisions

Appendix A summarizes the actuarial assumptions and cost methods used to determine plan liabilities. The mortality assumption has been revised from the 2008 IRS Combined Mortality to the 2015 IRS Combined Mortality table. The update in mortality added \$86,251, or 1.3%, to the present value of expected benefits.

Appendix B summarizes key provisions of the plan as of the valuation date. To our knowledge, there have been no changes in any key plan provisions since the last valuation and none are pending.

Comments on Results

The annual required contribution decreased from \$277,560 for 2014 to \$246,738 for 2015. This decrease in cost is due primarily to continued recognition of asset gains, the death of retiree during the past year and lower than expected average salary increases.

Similar to last year, the actuarial smoothing method is deferring mostly asset gains causing the actuarial value of assets to lag just over \$205,000 behind the market value adding approximately \$26,000 to the 2015 funding cost. On a market basis, the plan's funding ratio continues to increase, from a low of 58% as of 1/1/2009 to 86.8% as of the current valuation date.

EXPLANATION OF ADJUSTMENTS TO TEST YEAR COSTS

Benefits	<u>FY 2014</u>	<u>Test Yr (FY15)</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>FY 2018</u>	<u>FY 2019</u>	<u>FY 2020</u>
Medical - Blue Cross	\$510,912	\$528,254	\$513,573				
Delta Dental	\$41,303	\$46,702	\$46,279				
Group P-65 Retirees	\$74,314	\$73,682	\$68,554				
Life Insurance	\$5,826	\$6,487	\$6,331				
Disability insurance	\$7,768	\$8,867	\$9,162				
Coastline Employee Assist	\$1,200	\$1,500	\$1,500				
Education	\$8,835	\$29,218	\$9,026				
Pension Contribution	\$311,745	\$228,129	\$243,161				
Xmas Bonus	<u>\$5,100</u>	<u>\$5,100</u>	<u>\$5,100</u>				
Total	\$967,003	\$927,939	\$902,686				
Less Retiree Costs (*)	-\$72,808	-\$46,337	-\$74,357				
Net for Current Employees	\$894,195	\$881,602	\$828,329	\$891,495	\$909,325	\$927,512	\$946,062
Labor Costs	\$1,956,599	\$2,091,505	\$2,133,035	\$2,295,695	\$2,341,609	\$2,388,441	\$2,436,210
Benefits as % of Current Labor	45.70%	42.15%	38.83%	38.83%	38.83%	38.83%	38.83%
Retiree Costs (**)				\$74,357.20	\$74,357.20	\$74,357.20	\$74,357.20
Plus Benefits (above)				<u>\$891,495</u>	<u>\$909,325</u>	<u>\$927,512</u>	<u>\$946,062</u>
Total Benefits				\$965,853	\$983,683	\$1,001,869	\$1,020,419
Change in Benefits for RY				\$37,914			
Annual Increase After Rate Year					55,744	\$18,187	\$18,550

* includes payments to retired employees for Delta-Dental, Group 65 Retirees and Life Insurance

** rate year and beyond costs for retirees increased from 2016 based on estimated inflation rate (see below), FY 16 based on first 7 months

18. Reference to Sch. 1E, page 1, of Mr. Woodcock's testimony.
- a. Please explain the increase in Legal, consultants and DPUC fees for this docket as compared to the amounts for those categories of costs for the three previous years.
 - b. Please provide supporting documentation for Other Rate Case (Prov Water, Pass Thru) costs of \$50,000, and provide the dates on which those costs were incurred.
 - c. Please provide the actual PUC assessment for FY 16.

Response:

- a. These are estimated costs for the current filing. KCWA's last full rate filing before the Commission was in Docket 4142 (2010). The costs presented on Schedule 1E are for other regulatory proceedings including intervention in Providence Water Cases and Filings of pass through increases associated with Providence Water Filings. In FY2014 and FY2015 we had begun the preparation of a full rate filing, however, this was not filed as the Board did not authorize a filing at that time.
- b. Please refer to PUC Annual Report page 35 attached.
- c. There is no PUC assessment. We believe you are looking for the Division assessment. Copy attached.

Witness Responsible: T. Brown

ANNUAL REPORT

OF

Kent County Water Authority

TO THE

PUBLIC UTILITIES COMMISSION

OF THE

STATE OF RHODE ISLAND

For the Fiscal Year Ended June 30, 2015

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
DIVISION OF PUBLIC UTILITIES AND CARRIERS

89 Jefferson Boulevard Warwick, RI 02888
Phone: (401) 941-4500 Fax: (401) 941-9248 Web: www.ripuc.ri.gov

Kent County Water
1072 Main Street
Warwick RI 02893
Attention: Tim Brown

INVOICE NUMBER: 31 INVOICE DATE: December 1, 2015
Total Amount Due by January 1, 2016
Interest at the rate of 6% per annum may be added if invoice is not paid by the due date. (R.I. GL - 39-1-24)

ASSESSMENT INVOICE

This invoice is in accordance with Section 39-1-23 of the General Laws of the State of Rhode Island.
For FY2016 - July 1, 2015 to June 30, 2016

Company Name: Kent County Water Assessment Amount Due: **\$80,389.37**

Breakdown of Assessment Calculation

<u>Item 1</u>	<u>Item 2</u>	<u>Item 3</u>	<u>Item 4</u>	Amount Due By January 1, 2016
Utility Revenue Reported FY2014	Agency Assessment FY2016	Revenues Reported All Utilities	Amount Paid In Advance	
\$19,436,006	\$7,753,683	\$1,874,633,880	\$0	\$80,389.37

Steps for calculating the assessment

(Item 1 / Item 3 * Item 2) - Item 4 = Assessment Amount Due

R.I. General Law 39-1-23. Administrative expenses - Assessment against utilities.

0108

Date Received 12/10/15
Purchase Order No. _____
Voucher No. _____
O.K. TO expenses
Date Paid 12/14/15
Check No. 028250
Ent'd Gen'l Accts. _____
ACCOUNT _____
19280 80389.37

The administrator shall aggregate the expenses of the division, including expenses incurred by the attorney general pursuant to 39-1-19, and expenses incurred by the commission for each upcoming fiscal year and shall apportion and assess these expenses among the state's regulated utilities based upon approved budgets.

Please Make Check Payable To:

Rhode Island Division of Public Utilities
Attn: Anthony Manni
89 Jefferson Boulevard
Warwick, Rhode Island 02888

Req comm Expense

KENT COUNTY WATER AUTHORITY
Docket No. 4611
Response of The Division of Public Utilities and Carriers'
To Kent County Water Authority's First Set of Data Requests

KCWA-DIV 1- 1. Regarding page 11, lines 5-7 of Mr. Morgan's prefilled direct testimony: Does Mr. Morgan disagree with the response to Division Data Request 3-11 that shows that the various studies are required more than once and need to be updated periodically? Please list all water rate dockets before the RI Public Utilities Commission in the past five years where the Division has recommended against the funding of studies that are required under state law.

Response:

No, Mr. Morgan acknowledges that these studies may need to be updated periodically. Mr. Morgan's testimony on this issue is explained not just on page 11, lines 5 through 7, but beginning on page 10, line 20 through page 11, line 20. The referenced section of his testimony explains that the adjustment removing these costs was made because the Authority has not fully substantiated its claim for recovery of these costs. Mr. Morgan's adjustment was based upon the Authority's response to the Division's Data Request 3-11 and Mr. Woodcock's Schedule 1-D, page 1.

The Authority indicated that the Water Supply System Management Plan and the Infrastructure Renewal & Replacement Plan are required by state law to be prepared every 5 years. The amount for these studies aggregated with the CIP program. (The Authority referenced Mr. Woodcock's Schedule 1D, page 1 of 5 for the basis of the amounts included in the cost of service). Therefore, there is no way to separate the Water Supply System Management Plan and the Infrastructure Renewal & Replacement Plan for inclusion in the cost of service. The Water Supply System Management Plan and the Infrastructure Renewal & Replacement Plan costs would have been included in the cost of service if the requested amounts were provided in a level of detail to determine the amounts associated with the Water Supply System Management Plan and the Infrastructure Renewal & Replacement Plan.

The Authority indicated that the CIP is updated on a 5-year interval, but not required by law. Hence, the frequency of the update appears to be at the discretion of the Authority. Nevertheless, the amount associated with the CIP is aggregated with the Water Supply System Management Plan and the Infrastructure Renewal & Replacement Plan, so there is no means of determining the reasonableness of the amount included in the cost of service.

The Authority indicated that the Conservation Study is required by the Water Efficiency Act. However, the Authority provided no time period required by the Act for the frequency of such study nor when such study was last prepared. The Authority also does not provide when the next study will be prepared. In the response to the Division's Data Request 3-11, the Authority states that "planning documents and devices by KCWA". The phrase quoted implies that the Authority has some discretion regarding timing of and preparation of the study. Hence, Mr. Morgan is unable to determine if cost in the proceeding is reasonable or whether the 5-year period over which the costs are spread is reasonable.

KENT COUNTY WATER AUTHORITY
Docket No. 4611
Response of The Division of Public Utilities and Carriers'
To Kent County Water Authority's First Set of Data Requests

Response to KCWA-DIV 1-1 Continued:

The Authority indicated that the Vulnerability Study will be updated on its own accord. However, the Authority does not provide any data which allows one to determine the reasonableness of its choice of a 5-year recovery period. No dates are provided for when the study was last prepared, or when the new study will be prepared.

Mr. Morgan has not performed a study that lists all water rate dockets before the RI Public Utilities Commission in the past five years where the Division has recommended against the funding of studies that are required under state law. The justification for the adjustment proposed by Mr. Morgan is explained above. In short, the Authority has not adequately supported the amounts it is seeking to recover. Simply because a study is required by law does not exempt the Authority from having to properly support its claim for those costs.

Response prepared by: Lafayette Morgan

KENT COUNTY WATER AUTHORITY
Docket No. 4611
Response of The Division of Public Utilities and Carriers'
To Kent County Water Authority's First Set of Data Requests

KCWA-DIV 1- 2. Regarding page 11, lines 101 of Mr. Morgan's prefilled direct testimony: Please list each docket where the RI PUC issued an order "authorizing (a) deferred accounting" of the cost of various studies, particularly for Water Supply Management Plan, Infrastructure Renewal & Replacement, Conservation, Vulnerability, and Capital Improvement. If Mr. Morgan cannot find such an order, please explain why it would be appropriate in this particular docket.

Response:

Given there is no line 101 on page 11 of Mr. Morgan's testimony and based upon the issue in question, it is assumed that the reference is to page 11, lines 10 and 11 of Mr. Morgan testimony. Mr. Morgan has not conduct such a study of Commission Orders. To put the reference in the proper context, the full explanation from Mr. Morgan's testimony on page 11, lines 5 through 11 is:

First, with the exception of the CIP study, all of the other studies appear to have been conducted before the test year, according to the response to Division 3-11. Therefore, it would be improper to include them in the cost of service because they are prior period costs. For such costs to be eligible for recovery, there needs to be a Commission Order authorizing deferred accounting for future recovery. As far as I am aware, there are no Commission Orders authorizing deferred accounting for these costs.

As stated above, Mr. Morgan was discussing, in general terms, all studies are presented in the Authority's adjustment, not just the Water Supply Management Plan, Infrastructure Renewal & Replacement, Conservation, Vulnerability, and Capital Improvement. As a matter of normal ratemaking practice, prior period costs are not allowed to be recovered in current rates unless there is prior Commission authorization, which should be in an Order authorizing deferred accounting. Where there are laws requiring studies or certain costs to be incurred on a recurring basis, a rate making adjustment can be made to recognize those costs. However, because a study is required by law does not exempt the Authority from having to properly support its claim for those costs. Please refer to the response to the Division response to KCWA-DIV 1-1 for additional explanation of Mr. Morgan's adjustment.