

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

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

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

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

**September 1, 2016**

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OF RHODE ISLAND

KENT COUNTY WATER            )            DOCKET NO. 4611  
AUTHORITY                        )

Direct 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, Suite 300, 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.            PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND  
QUALIFICATIONS.

A.    I received a Master of Business Administration degree from The George Washington  
University. The major area of concentration for this degree was Finance. I received a  
Bachelor of Business Administration degree with concentration in Accounting from  
North Carolina Central University. I was previously a CPA licensed in the state of  
North Carolina, but have elected to place my license in an inactive status as I pursued  
other business interests.

Q.            WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL  
EXPERIENCE?

A.    From May 1984 until June 1990, I was employed by the North Carolina Utilities  
Commission (“NCUC”) – Public Staff in Raleigh, North Carolina. I was responsible

1 for analyzing testimony, exhibits, and other data presented by parties before the  
2 NCUC. I had the additional responsibility of performing the examinations of books  
3 and records of utilities involved in rate proceedings and summarizing the results into  
4 testimony and exhibits for presentation before that commission. I was also involved  
5 in numerous special projects, including participation in compliance and prudence  
6 audits of a major utility and conducted research on several issues affecting natural gas  
7 and electric utilities.

8 From June 1990 until July 1993, I was employed by Potomac Electric Power  
9 Company (“Pepco”) in Washington, D.C. At Pepco, I was involved in the  
10 preparation of the cost of service, rate base, and ratemaking adjustments supporting  
11 the company’s requests for revenue increases in the State of Maryland and the  
12 District of Columbia. I also conducted research on several issues affecting the  
13 electric utility industry for presentation to management.

14 From July 1993 through 2010, I was employed by Exeter as a Senior  
15 Regulatory Analyst. During that period, I was involved in the analysis of the  
16 operations of public utilities, with particular emphasis on utility rate regulation. I  
17 reviewed and analyzed utility rate filings, focusing primarily on revenue requirements  
18 determination. This work involved natural gas, water, electric, and telephone  
19 companies.

20 In 2010, I left Exeter to focus on start-up activities of other business interests.  
21 In late 2014, I returned to Exeter to continue to work in a similar capacity to my work  
22 prior to my leave of absence.

23 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
24 PROCEEDINGS ON UTILITY RATES?

1 A. Yes. I have previously presented testimony and affidavits on numerous occasions  
2 before the North Carolina Utilities Commission, the Pennsylvania Public Utility  
3 Commission, the Virginia Corporation Commission, the Louisiana Public Service  
4 Commission, the Georgia Public Service Commission, the Maine Public Utilities  
5 Commission, the Kentucky Public Service Commission, the Public Utilities  
6 Commission of Rhode Island, the Vermont Public Service Board, the Illinois  
7 Commerce Commission, the West Virginia Public Service Commission, the Indiana  
8 Utility Regulatory Commission, the Maryland Public Service Commission, the  
9 Corporation Commission of Oklahoma, the Philadelphia Water, Sewer and Storm  
10 Water Rate Board and the Federal Energy Regulatory Commission (“FERC”).

11 Q. ON WHOSE BEHALF ARE YOU APPEARING?

12 A. I am presenting testimony on behalf of the Rhode Island Division of Public Utilities  
13 and Carriers (the “Division”).

14 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS  
15 PROCEEDING?

16 A. Exeter has been retained by the Division to assist in the evaluation of the General  
17 Rate Filing submitted by Kent County Water Authority (“KCWA” or the  
18 “Authority,”). In this testimony, I present my findings on behalf of the Division  
19 regarding the overall revenue increase that KCWA is entitled for the rate year and  
20 step increases. My colleague and Principal at Exeter, Mr. Jerome D. Mierzwa, will  
21 present the Division’s recommendations with regard to rate design and class cost of  
22 service issues.

23 Q. IN CONNECTION WITH THIS CASE, HAVE YOU PERFORMED AN  
24 EXAMINATION AND REVIEW OF THE COMPANY’S TESTIMONY  
25 AND EXHIBITS?

1 A. Yes. I have reviewed KCWA's testimony, exhibits, its rate filing, and its responses to  
2 the Division's data requests.

3 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR  
4 TESTIMONY?

5 A. Yes. I have prepared Schedules LKM-1 through LKM-10. Schedule LKM-1  
6 provides a summary of revenues and expenses under present and proposed rates. My  
7 adjustments to KCWA's claimed revenues and operating expenses are presented on  
8 Schedules LKM-2 through LKM-10.

9 **II. SUMMARY AND RECOMMENDATIONS**

10 Q. PLEASE SUMMARIZE THE RATE RELIEF REQUESTED BY KCWA IN  
11 ITS FILING.

12 A. As discussed in the direct testimony of KCWA witness Christopher P. N. Woodcock,  
13 KCWA is seeking an increase in rate year revenues of \$3,293,666. To develop its  
14 claim, KCWA utilized the results for the Fiscal Year ended June 30, 2015 (FY 2015)  
15 as the test year. KCWA then adjusted the test year cost of service to reflect changes  
16 to become effective for the rate year ending June 30, 2017 (FY 2017). The  
17 Authority's filing also includes two proposed additional step increases of \$874,192  
18 and \$1,480,302 for FY 2018 and FY 2019, respectively.

19 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

20 A. As shown on Schedule LKM-1, page 1, I have determined KCWA's overall revenue  
21 requirement for the rate year to be \$22,281,499. This represents an increase over  
22 revenues at present rates of \$2,178,226 for the rate year. For the step increases, I  
23 have determined an increase of \$222,829 for FY 2018 and \$232,809 for FY 2019.  
24 When compared to the amount KCWA has requested, the changes in revenues that I

1 am recommending are \$1,115,440 less than the amount KCWA proposed for the rate  
 2 year, \$651,363 less for FY 2018 (the 1<sup>st</sup> step increase), and \$1,247,493 less for FY  
 3 2019 (the 2<sup>nd</sup> step increase). In total, the increases in revenues for the rate year and  
 4 step increases that I am recommending are \$3,014,296 less than the increases  
 5 proposed by KCWA. The table below summarizes the differences between the  
 6 Division's proposed revenue increases and those of KCWA.

	<u>Change in Revenues per Division</u>	<u>Change in Revenues per KCWA</u>	<u>Difference</u>
Rate Year Revenue Increase	\$2,178,226	\$3,293,666	(\$1,115,440)
FY 2018 1 <sup>st</sup> Step Increase	222,829	874,192	(651,363)
FY 2019 2 <sup>nd</sup> Step Increase	<u>232,809</u>	<u>1,480,302</u>	<u>(1,247,493)</u>
Totals	\$2,633,864	\$5,648,160	(\$3,014,296)

7 Q. WHAT TIME PERIODS HAVE YOU USED IN MAKING YOUR  
 8 DETERMINATION OF KCWA'S REVENUE REQUIREMENTS?

9 A. Consistent with KCWA's filing, I have used the same test year ended June 30, 2015  
 10 and rate year ending June 30, 2017 as the basis for determining KCWA's rate year  
 11 revenue requirements and the revenue increase necessary to recover those  
 12 requirements.

13 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

14 A. The remainder of my testimony is organized into sections corresponding to the issue  
 15 or topic being addressed. I have also separated my discussion of the issues by rate  
 16 year and step increase. Specifically, under the rate year section, I discuss the issues  
 17 that I have adjusted in determining the rate year revenue requirement. Similarly,  
 18 under the step increase section, I address those issues that affect the revenue increases

1 for the step increase years. These sections are set forth in the Table of Contents of  
2 this testimony.

3 **III. RATE YEAR SALES VOLUME**

4 Q. HOW DID THE KCWA DERIVE ITS RATE YEAR SALES VOLUMES?

5 A. KCWA's rate year sales volumes were derived based upon the most recent three-year  
6 average of actual sales volumes at the time the rate case was prepared. For July  
7 through December 2017 the sales volumes were based upon the average sales for July  
8 through December of 2014 through 2016. For January through June of the rate year,  
9 the sales volumes were based upon the average sales for January through June of  
10 2013 through 2015 (the most recent actual data at the time).

11 Q. WAS YOUR REVIEW OF KCWA'S SALES VOLUMES LIMITED TO  
12 THE PERIOD USED IN ITS FILING?

13 A. No. During my review of the Authority's filing, I requested and obtained 2016 sales  
14 volume through May 2016. However, based upon my analysis of the total sales  
15 volumes after including the updated sales volumes through May 2016, I have  
16 concluded that the sales volumes proposed by KCWA is reasonable.

17 **IV. OTHER OPERATING REVENUES**

18 Q. WOULD YOU PLEASE EXPLAIN YOUR ADJUSTMENT TO OTHER  
19 OPERATING REVENUES?

20 A. Yes. In KCWA's filing, other operating revenues (i.e., Miscellaneous Income,  
21 Interest Income, and Merchandise & Jobbing) were presented in the cost of service at  
22 the test year (FY 2015) level. Typically, these types of revenues can fluctuate from  
23 year-to-year. As a result, no one year of activity is representative of these revenues.  
24 As a result, I believe for ratemaking purposes, a reasonable approach is to normalize



1 these revenues rather than using only one year's activity. Therefore, I have adjusted  
2 the level of other operating revenues to reflect the three most recent fiscal years  
3 available to me at the time of preparing this testimony.

4 On Schedule LKM-2, I have presented my adjustment to other operating  
5 revenues which results in an increase of \$373,588.

6 **V. EMPLOYEE BENEFITS**

7 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR EMPLOYEE  
8 BENEFITS?

9 A. KCWA has adjusted the employee benefits for the rate year and the two step increase  
10 years. To derive the rate year's increase for employee benefits, the Authority  
11 annualized the medical insurance – Blue Cross, Delta Dental, Group P-65 Retirees,  
12 Life Insurance, and Disability Insurance – based upon only one month's activity  
13 from FY 2016. Education benefits were annualized based upon activity from seven  
14 months of FY 2016 and pension was based upon the FY 2015 pension actuarial study.  
15 Other components were held constant from the previous year. For retiree costs, the  
16 Authority inflated each year by the 3.08 percent inflation rate which witness  
17 Woodcock describes as a Consumer Price Index ("CPI") factor specific to water and  
18 sewer maintenance.

19 I recognize that at the time of preparing the rate case, some of these amounts  
20 were the most recently available amounts at that time. However, on July 17, 2016,  
21 KCWA provided the FY 2016 year-to-date amounts for each of the categories of the  
22 employee benefits. Therefore, I have adjusted employee benefits to reflect the actual  
23 FY 2016 amounts. For pension, I have replaced the amount presented in KCWA's

1 filing with the amount from the FY 2016 pension actuarial study because it is the  
2 most recent pension amount available.

3 For the retiree costs for the rate year and the step increase periods, I have used  
4 a different approach than that used by KCWA. I disagree with the approach of  
5 inflating these costs by an inflation rate for two reasons. First, these costs are  
6 actuarially determined. Therefore, inflating these costs by the inflation rate does not  
7 yield an amount that is reasonable. In general, actuarial methodologies take into  
8 account a number of factors including employee demographics, inflation, and interest  
9 rates. Hence, applying an inflation rate to the actuarial amount that already includes  
10 assumptions about inflation may not be appropriate. The second reason for  
11 disagreeing with KCWA's application of the inflation rate is the nature of the  
12 KCWA-proposed rate. KCWA describes the rate as a CPI factor specific to water  
13 and sewer maintenance inflation. However, these costs are not water and sewer  
14 maintenance costs. Therefore, the rate used by KCWA is inappropriate.

15 Q. HOW HAVE YOU CALCULATED THE RETIREE COSTS FOR THE  
16 RATE YEAR AND THE STEP INCREASE PERIODS?

17 A. I have held the retiree costs constant for the rate year and step increase periods. The  
18 majority of the retirees' benefit is made up of the "Group P-65 Retirees" cost. In the  
19 three most recent years, as summarized in the chart below, these costs have  
20 demonstrated a declining trend. Therefore, I have held these costs constant rather  
21 than escalate them using an inflation rate. Moreover, as I indicated earlier, these  
22 costs are actuarially determined; hence, I do not believe it is appropriate to project  
23 them using an inflation rate.

	FY 2014	FY 2015	FY 2016
Group P-65 Retirees <sup>1</sup>	\$74,314	\$73,682	\$68,554

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2 Q. PLEASE SUMMARIZE YOUR ADJUSTMENT TO EMPLOYEE  
3 BENEFITS.

4 A. My adjustment to employee benefits results in a decrease of \$70,438 and is presented  
5 on Schedule LKM-3.

6 **VI. PROPERTY & LIABILITY INSURANCE**

7 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO PROPERTY  
8 AND LIABILITY INSURANCE?

9 A. In KCWA's filing, it has derived the rate year level of property and liability insurance  
10 expense by first calculating a compound growth rate for property and liability  
11 insurance using FY 2012 through FY 2015 activity, and applying that growth rate to  
12 FY 2015 to derive the rate year level of expense. In the response to Division 3-13, I  
13 was provided with the most recent amounts for property and liability insurance.  
14 Therefore, I am recommending an adjustment to reflect the most recent actual cost  
15 level for property and liability insurance. On Schedule LKM 4, I present this  
16 adjustment which decreases expenses by \$25,878.

17 **VII. RATE CASE EXPENSES**

18 Q. WHAT CHANGES ARE YOU RECOMMENDING TO RATE CASE  
19 EXPENSE?

20 A. KCWA has estimated the cost of this proceeding to be \$130,000 to cover its legal  
21 fees, consultants, and Division fees related to this rate proceeding. In addition,  
22 KCWA has included \$50,000 for recovery of additional regulatory costs, which it

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<sup>1</sup> Source: Witness Woodcock Sch.1D, page 3 and KCWA response to Division 3-14.

1 describes as being related to a Providence Water proceeding and a Pass Through  
2 proceeding. KCWA witness Woodcock explains the Authority's rate case expense by  
3 stating the Authority incurs costs not only for its own rate proceedings, but that  
4 KCWA intervenes in Providence Water dockets and subsequent pass-through  
5 dockets. Therefore, he has included those costs in rate costs for this proceeding.

6 I am recommending an adjustment to rate case expenses that includes only the  
7 costs associated with this proceeding which total \$130,000. I have amortized these  
8 costs over a three-year period consistent with the period used by KCWA in its  
9 proposed adjustment. My adjustment, however, removes the \$50,000 related to the  
10 Providence rate proceeding and the Pass Through proceeding. The Division's data  
11 request 3-18 sought back up for the \$50,000. Unfortunately, no details were provided  
12 for the amount. As a result, I am unable to assess the reasonableness of the amount  
13 included in the cost of service. Specifically, it is not clear, based upon the  
14 information provided by KCWA, whether or not the amount was incurred during the  
15 test period. Also, there is no breakdown of the amount related to Providence's rate  
16 case and the amount related to the pass-through proceeding. If additional data  
17 supporting these costs are made available to the Division, I will review them and  
18 revise my adjustment, if necessary. Nevertheless, I have presented my adjusted rate  
19 case expenses on Schedule LKM-5 and decreased operating expenses by \$16,667.

## 20 **VIII. OPERATIONAL STUDIES**

21 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU HAVE MADE TO  
22 OPERATIONAL STUDIES EXPENSE.

23 A. The Authority explains that it must periodically undertake various engineering studies  
24 that are required. KCWA lists studies such as water supply, infrastructure

1 replacement, conservation, and vulnerability studies to support its claim. The  
2 Company has amortized the total cost over a five-year period and included \$40,000 as  
3 the annual amortization of these studies' costs in the cost of service in this  
4 proceeding. I am recommending an adjustment to remove these costs from the cost  
5 of service for several reasons. First, with the exception of the CIP study, all of the  
6 other studies appear to have been conducted before the test year, according to the  
7 response to Division 3-11. Therefore, it would be improper to include them in the  
8 cost of service because they are prior period costs. For such costs to be eligible for  
9 recovery, there needs to be a Commission Order authorizing deferred accounting for  
10 future recovery. As far as I am aware, there are no Commission Orders authorizing  
11 deferred accounting for these costs. With regard to the CIP study, Division 3-11  
12 requested supporting documents for each of the studies, but none were provided. As  
13 a result, there is no means by which I could identify the cost of that study or make a  
14 determination whether they were reasonable to include in the cost of service or  
15 proposed recovery over a future period. With regard to the vulnerability study and  
16 the conservation study, the explanation provided by the Authority in the response to  
17 Division 3-11 is vague as to when the studies will be conducted or the frequency of  
18 those studies. Therefore, it was necessary to remove these from the cost of service in  
19 this proceeding. This adjustment decreases operating expenses by \$40,000, as  
20 presented on Schedule LKM-6.

21 **IX. RATE YEAR INFLATION ESCALATION**

22 Q. DID KCWA MAKE AN ADJUSTMENT TO ESCALATE ITS EXPENSES  
23 TO REFLECT INFLATION?

1 A. Yes. As stated earlier, KCWA’s filing is based upon the test year ended June 30,  
2 2015 which is adjusted to the rate year June 30, 2017 (FY 2017). Since there is a  
3 two-year difference in time, the Authority has adjusted expenses that were not  
4 specifically adjusted elsewhere to the FY 2017 level by applying an inflation  
5 escalation factor. In explaining its choice of inflation rate to be used in this  
6 proceeding, KCWA witness Woodcock begins by explaining his disagreement with  
7 the Division’s use of the Gross Domestic Product-Price Index (“GDP-PI”) to  
8 determine the inflation factor in an unrelated case. He argues that the Commission  
9 should not use a broad index like the GDP-PI, but instead use a measure of inflation  
10 that considers the impact of inflation on the water sector. He then identifies a water  
11 and sewer maintenance factor that is included in the Bureau of Labor Statistics  
12 (“BLS”) calculation of the CPI, and claims that with this factor “[w]e do not have to  
13 be chained to the much broader index that includes business capital expenses as a  
14 component”.

15 He recommends the use of an inflation rate of 3.08 percent for this proceeding  
16 which he calculated based upon the CPI (a broad measure of inflation) and a  
17 “multiplier” which he calculates from the water and sewer maintenance component of  
18 the CPI that he implied as being specific to the water sector.<sup>2</sup>

19 Q. DO YOU AGREE WITH KCWA’S INFLATION ESCALATION?

20 A. No. While conceptually I will accept the use of an inflation factor to escalate FY  
21 2015 costs to FY 2017, I disagree with the approach taken by Mr. Woodcock. First, it  
22 appears that Mr. Woodcock has chosen to determine his own measure of inflation  
23 rather than rely upon the standard published measures of inflation. Hence, I  
24 recommend that the Commission carefully determine if his calculation and

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<sup>2</sup> Coincidentally, in Docket No. 4550, Mr. Woodcock proposed using the Gross Domestic Product (“GDP”) as a measure of inflation which he also calculated to be 3.08 percent.

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1 methodology are valid, if it decides to adopt his approach. Second, while, Mr.  
2 Woodcock appears to reject the use of a broad measure of inflation, his calculation of  
3 inflation is based upon the use of the CPI, a broad measure of inflation. To that  
4 extent, he appears to contradict himself. Third, even if one assumes that Mr.  
5 Woodcock's calculation correctly converts the broad inflation rate to an inflation rate  
6 that is specific to water and sewer maintenance, the manner in which he has applied  
7 his inflation rate is inappropriate because he applied his "water and sewer  
8 maintenance inflation rate" to expenses that are not maintenance related. As an  
9 example, earlier I indicated that the inflation rate he calculated was used to escalate  
10 retiree benefits. He has also used his water and sewer maintenance inflation rate to  
11 escalate customer accounts expenses and administrative and general expenses. Those  
12 expenses are not water and sewer maintenance functions, so it is clearly inappropriate  
13 to use his water and sewer maintenance inflation rate to escalate those expenses.  
14 Finally, Mr. Woodcock's approach is based on averaging inflation rates from 2009  
15 through 2015. The averaging of past inflation rates is not a good proxy for  
16 determining future inflation. Shifting the time periods used for the inflation  
17 calculation can have an effect on the average inflation rate. For instance, the U.S.  
18 economy has experienced a period of low inflation for several years (2012 to 2015),  
19 as shown under the CPI column of the table presented on page 17 of Mr. Woodcock's  
20 testimony. However, including data from as far back as 2009 skews the average  
21 inflation higher. Therefore, I believe Mr. Woodcock's approach is not appropriate.

22 Q. ON PAGE 16, LINES 22 THROUGH 24 OF MR. WOODCOCK'S  
23 TESTIMONY, HE STATES THAT THE COMMISSION'S RULES OF  
24 PRACTICE REFERENCE ONLY THE CONSUMER PRICE INDEX FOR  
25 INFLATIONARY ADJUSTMENTS. WOULD YOU PLEASE COMMENT?

1 A. Yes. Section 2.6(c)(4) references the Consumer Price Index as an example of a type  
2 of inflation index. It does not state that CPI shall be used as the measure of inflation.  
3 Even though Mr. Woodcock raised the issue, it is worth noting that Mr. Woodcock's  
4 own inflation rate calculation would then be disallowed by the Commission if the  
5 requirement for inflation calculation was the CPI.

6 Q. HOW HAVE YOU DETERMINED THE INFLATION RATE?

7 A. I have used the projected core price index for personal consumption expenditure  
8 ("PCE") as reported by the Federal Reserve Open Market Committee ("FOMC") June  
9 14-15, 2016 Meeting Minutes. The data showed projected inflation in the range of  
10 1.6 percent to 2.0 percent. I have chosen to use 2.0 percent, the high side, to be  
11 conservative in my adjustment to the Authority's inflation adjustment.

12 Q. IN MR. WOODCOCK'S TESTIMONY, HE DISCUSSES THE DIVISION'S  
13 USE OF THE GDP-PI RATE FOR INFLATION IN A PROCEEDING IN  
14 WHICH YOU WERE THE DIVISION'S ACCOUNTING WITNESS. WHY  
15 HAVE YOU NOW CHANGED TO THE PCE?

16 A. As I indicated above, past inflation rates are not a good predictor of future inflation.  
17 Therefore, it is important that my recommendation to the Commission be consistent  
18 with my position. The publication from which I referenced the GDP-PI is no longer  
19 available to me as a reference tool. However, it is also important that the source of  
20 data, upon which I base my adjustment, be reputable. Therefore, I chose to use the  
21 data from the FOMC. I would like to note the 2.0 percent projected inflation rate is in  
22 line with what was reported by my previous source.

23 Q. PLEASE EXPLAIN HOW YOU HAVE APPLIED THE INFLATION RATE  
24 TO DERIVE THE RATE YEAR EXPENSE AMOUNTS.



1 A. Similar to the approach used by KCWA, I have calculated a two-year compounded  
2 inflation rate of 4.04 percent as compared to KCWA's compounded inflation rate of  
3 6.26 percent. I applied the inflation rate to non-labor expenses and those expenses  
4 that were not specifically adjusted elsewhere. The resulting amounts were compared  
5 to the Authority's amounts to derive my rate year adjustment decreasing non-labor  
6 O&M expenses by \$39,351, as presented on Schedule LKM-7.

7 **X. O&M AND R&R RESERVES**

8 Q. PLEASE DISCUSS THE ADJUSTMENTS YOU ARE RECOMMENDING  
9 TO THE OPERATING & MAINTENANCE ("O&M") AND RENEWAL &  
10 REPLACEMENT ("R&R") RESERVES.

11 A. The O&M reserve is calculated based upon 25 percent of O&M expenses plus payroll  
12 and property taxes. The amount KCWA included in its cost of service was derived  
13 after reflecting the adjustments it made to O&M expenses. Since I am recommending  
14 adjustments to those expenses, I am recalculating the O&M reserve amount after  
15 reflecting my adjustments using the same 25 percent rate. As a result of my O&M  
16 expense adjustments, I am recommending an adjustment to reduce the O&M reserve  
17 by \$48,083, as shown on Schedule LKM-8.

18 With regard to the R&R reserve, KCWA has adjusted the reserve based upon  
19 one percent of net utility plant value. A component of that calculation was the  
20 estimated FY 2016 plant additions of \$11,000,000. Based upon the response to  
21 Division 3-8, it does not appear that, as of the date of the response, the final plant  
22 additions for FY 2016 had been finalized. Therefore, I have removed the plant  
23 additions' pending verification of the actual FY 2016 plant additions. As a result of  
24 the removal of the FY 2016 plant additions, I am recommending an adjustment to

1 reduce the R&R reserve by \$110,000. This adjustment is also presented on Schedule  
2 LKM-8.

3 **XI. DEBT SERVICE COVERAGE**

4 Q. PLEASE DISCUSS THE ADJUSTMENT YOU ARE RECOMMENDING  
5 TO THE DEBT SERVICE COVERAGE.

6 A. The level of debt service payments presented in KCWA's filing is inconsistent with  
7 the debt service requirements as reported in its financial statements. During each  
8 fiscal year, KCWA makes two interest payments and one principal payment.  
9 Specifically, in July a combined principal and interest payment is made, and in  
10 January only an interest payment is made. For instance, in KCWA's FY 2015  
11 financial statements a summary of the annual debt service for several years is  
12 presented. The debt service requirements for FY 2016 is composed of the principle  
13 and interest payment that was due in July 2015 and the interest payment that was due  
14 in January 2016. However, for the same period (FY 2016) in the cost of service, the  
15 debt service requirement is calculated by adding the principal payment for FY 2017,  
16 one interest payment from FY 2016 and one interest payment from FY 2017. As a  
17 result, the debt service requirements for the rate year and the step increase periods are  
18 overstated. Additionally, the financial statements show a declining debt service  
19 requirement, as one would expect with the payment of principal and interest. In  
20 contrast, the debt service requirement in the cost of service shows an increasing debt  
21 service requirement. I have presented a summary of the differences below.

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Kent County Water Authority  
 Comparison Cost of Debt Service Requirements  
 Presented in the Cost of Service and the Financial Statements

Cost of Service		Financial Statements	
	<u>FY 2015</u>		<u>FY 2015</u>
FY 16 Principal	\$1,485,000	FY 16 Principal	n/a
FY 15 Interest	347,250	FY 16 Interest	n/a
FY 16 Interest	<u>347,250</u>	FY 16 Interest	<u>n/a</u>
Total	<u>\$2,179,500</u>	Total	<u>n/a</u>
	<u>FY 2016</u>		<u>FY 2016</u>
FY 17 Principal	\$1,540,000	FY 16 Principal	\$1,485,000
FY 16 Interest	317,550	FY 16 Interest	347,250
FY 17 Interest	<u>317,550</u>	FY 16 Interest	<u>317,550</u>
Total	<u>\$2,175,100</u>	Total	<u>\$2,149,800</u>
	<u>FY 2017</u>		<u>FY 2017</u>
FY 18 Principal	\$1,605,000	FY 17 Principal	\$1,540,000
FY 17 Interest	286,750	FY 17 Interest	317,550
FY 18 Interest	<u>286,750</u>	FY 17 Interest	<u>286,750</u>
Total	<u>\$2,178,500</u>	Total	<u>\$2,144,300</u>
	<u>FY 2018</u>		<u>FY 2018</u>
FY 19 Principal	\$1,690,000	FY 18 Principal	\$1,605,000
FY 18 Interest	246,625	FY 18 Interest	286,750
FY 19 Interest	<u>246,625</u>	FY 18 Interest	<u>246,625</u>
Total	<u>\$2,183,250</u>	Total	<u>\$2,138,375</u>
	<u>FY 2019</u>		<u>FY 2019</u>
FY 20 Principal	\$1,775,000	FY 19 Principal	\$1,690,000
FY 19 Interest	204,375	FY 19 Interest	246,625
FY 20 Interest	<u>204,375</u>	FY 19 Interest	<u>204,375</u>
Total	<u>\$2,183,750</u>	Total	<u>\$2,141,000</u>
	<u>FY 2020</u>		<u>FY 2020</u>
FY 21 Principal	\$1,870,000	FY 20 Principal	\$1,775,000
FY 20 Interest	160,000	FY 20 Interest	204,375
FY 21 Interest	<u>160,000</u>	FY 20 Interest	<u>160,000</u>
Total	<u>\$2,190,000</u>	Total	<u>\$2,139,375</u>

1  
2  
3  
4  
5

In the response to Division 3-12, KCWA explains its method of calculating the debt service requirements by indicating that it has to deposit the debt service requirements monthly to the Trustee so that the funds are available when the payment is due. KCWA's response to the data request and manner in which it has calculated

1 the debt service requirements in the cost of service suggests that it is seeking a  
2 separate basis of accounting for debt service requirements than that which is used for  
3 all other costs. I believe this approach is inappropriate, and that the debt service  
4 requirements that are included in the cost of service should be presented on the same  
5 accounting basis as presented in KCWA's financial statements. Therefore, on  
6 Schedule LKM-9, I present my adjustment which reduces the rate year debt service  
7 requirement by \$34,200.

## 8 **XII. OPERATING REVENUE ALLOWANCE**

9 Q. WHAT ADJUSTMENT HAVE YOU MADE TO THE OPERATING  
10 REVENUE ALLOWANCE?

11 A. In Docket Nos. 3942 and 4142, the Commission allowed the Authority to collect and  
12 deposit 1.5 percent of annual revenue which was to be restricted to use only in the  
13 event the allowed annual rate revenue fell short by half of a percent. The Authority  
14 has been depositing \$24,305 monthly since May 2010. The Commission Order stated  
15 that the balance in the operating revenue allowance account shall be limited to 6  
16 percent of total rate revenue. On page 6, lines 8 to 10 of the direct testimony of  
17 KCWA witness, Ms. Jo-Ann Gershkoff, she acknowledges the restriction of the  
18 operating revenue allowance accounts, and indicates that the March 31, 2016 balance  
19 in the account is \$1,119,438. Nevertheless, on page 18, lines 15 to 17 of the direct  
20 testimony of KCWA witness Woodcock, he states that the Authority is seeking the  
21 full three percent operating revenue allowance.

22 The chart below summarizes my analysis of the operating revenue allowance  
23 account based upon the account balance and monthly deposits provided in Ms.  
24 Gershkoff's testimony.

Kent County Water Authority  
Restricted Operating Revenue Allowance

<u>Description</u>	<u>Amount</u>
Balance at March 31, 2016	\$1,119,438
Current Funding through December 31, 2016 (\$24,304 x 9 months)	218,736
	\$1,338,174
Projected Operating Revenue Allowance Balance at December 31, 2016	4
Operating Revenue Threshold Based upon Division Proposed Revenues (\$22,281,499 x 6%)	1,336,890
Projected Operating Revenue Allowance Balance in Excess of Threshold	\$1,284

1                   As seen from the chart above, KCWA will exceed the six percent limit  
2                   established by the Commission in Docket No. 3942. As a result, the continued  
3                   funding of the restricted operating revenue allowance account is no longer necessary.  
4                   Therefore, I am recommending an adjustment to reduce the restricted operating  
5                   revenue allowance by \$357,235 on Schedule LKM-10.

**XIII. STEP PERIOD INCREASES**

7    Q.                WOULD YOU PLEASE DISCUSS THE STEP INCREASES PROPOSED  
8                    BY KCWA?

9    A.                As I indicated earlier, KCWA has proposed two step increases after the rate year. As  
10                    revised, the first step increase of \$874,192 would become effective during FY 2018,  
11                    and the second step increase of \$1,480,302 would become effective during FY 2019.  
12                    The step increases are driven by the following components: Debt Service Costs,  
13                    Salaries, Inflation, Employee Benefits, the Meter program, IFR, and the Revenue  
14                    Stabilization Fund. I will discuss each of those components and any adjustments  
15                    made that affects them.

1 **XIV. NON-LABOR INFLATION ESCALATION**

2 Q. WHAT ADJUSTMENT HAVE YOU MADE TO RECOGNIZE NON-  
3 LABOR INFLATION DURING THE STEP INCREASE PERIODS?

4 A. During the step increase periods, the Authority proposed increases to recognize a  
5 3.08 percent increase in non-labor costs. As I explained earlier in this testimony, I  
6 disagree with the 3.08 percent inflation rate. Consistent with my recommendation for  
7 the rate year inflation adjustment, I used an inflation rate of 2.0 percent based on the  
8 projected increase in the core PCE for 2016 to calculate the increase in non-labor  
9 expenses to be reflected in the calculation of both step increases.

10 **XV. EMPLOYEE BENEFITS**

11 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO EMPLOYEE  
12 BENEFITS FOR THE STEP INCREASE PERIODS?

13 A. Earlier in my testimony, I explain the adjustment I am recommending to employee  
14 benefits. Since the employee benefits for the step increase periods are calculated  
15 based upon the level of employee benefits for the rate year, there is a corresponding  
16 effect on the employee benefits included in the step increase periods. The reduced  
17 level of employee benefits for the step increase periods is a direct result of the rate  
18 year decrease in employee benefits.

19 **XVI. IFR EXPENDITURES**

20 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO IFR EXPENDITURES  
21 FOR THE STEP INCREASE PERIODS?

22 A. Both Mr. Woodcock and Mr. Timothy Brown indicate in their testimonies KCWA is  
23 not seeking to increase IFR funding above the \$5.4 million level. However, for both  
24 step increase periods, KCWA has proposed annual increases of \$533,333. The

1 inclusion of the \$533,333 is contrary to Mr. Woodcock and Mr. Brown's testimonies.  
2 In addition, the Authority is requesting that rates be increased by \$2 million annually  
3 to cover the costs of the meter replacement program. Consequently, I think it would  
4 be burdensome to ramp-up the IFR expenditures during this period. Therefore, I am  
5 recommending that any IFR ramp-ups be put on hold until after the meter  
6 replacement program is complete.

7 **XVII. METER REPLACEMENT COSTS**

8 Q. WHY HAVE YOU MADE AN ADJUSTMENT TO THE METER  
9 REPLACEMENT COST FOR THE SECOND STEP INCREASE?

10 A. In the response to Division 3-4, KCWA acknowledges that there may be some  
11 salvage value associated with the old meters to be replaced, but it has not reflected a  
12 decrease in the meter replacement costs to recognize the salvage value. Since  
13 customers are required to pay for the new meters, it is only fair that they receive the  
14 salvage value of the old meters. Therefore, I have decreased the second step increase  
15 by \$600,000 to remove KCWA's request for an additional \$600,000 related to the  
16 meter replacement costs.

17 **XVIII. REVENUE STABILIZATION**

18 Q. HAVE YOU MADE AN ADJUSTMENT TO THE REVENUE  
19 STABILIZATION ACCOUNT?

20 A. Yes. KCWA is seeking a 1.5 percent operating revenue allowance for both step  
21 increase periods. Earlier in my testimony, I discuss my adjustment to remove the 1.5  
22 percent restricted operating revenue allowance. However, this 1.5 percent represents  
23 the unrestricted operating revenue allowance, which I am not recommending to be  
24 removed. Even though I am not recommending the removal of the unrestricted

1 operating revenue reserve, there is still a difference in the level of the amount to be  
2 allowed. This difference results primarily from the adjustments I have made to the  
3 other components of the revenues for the step periods.

4 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

5 A. Yes, it does.



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

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

**SCHEDULES ACCOMPANYING  
DIRECT TESTIMONY**

**OF**

**LAFAYETTE K. MORGAN, JR.**

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

**September 1, 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)	
<b>Revenue</b>									
1	Service Revenues	\$ 17,780,588	\$ 155,891	\$ 17,936,479	\$ -	\$ 17,936,479	\$ -	\$ 17,936,479	
2	Fire Protection	1,476,694	(7,662)	1,469,032	-	1,469,032	-	1,469,032	
3	Miscellaneous	323,648	526	324,174	373,588	697,762	-	697,762	
4	Total Revenue	\$ 19,580,930	\$ 148,755	\$ 19,729,685	\$ 373,588	\$ 20,103,273	\$ 2,178,226	\$ 22,281,499	
5									
6	<b>Expenses</b>								
7	<b>Operating &amp; Maintenance</b>								
8	Supply	\$ 4,999,638	\$ (650,207)	\$ 4,349,431	\$ (40,000)	\$ 4,309,431	\$ -	\$ 4,309,431	
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	320,960	2,933,490	(132,458)	2,801,032	-	2,801,032	
14	Total Operating & Maintenance	\$ 10,370,313	\$ 181,594	\$ 10,551,907	\$ (192,334)	\$ 10,359,573	\$ -	\$ 10,359,573	
15	<b>Fixed Charges</b>								
16	Debt Service	\$ 2,179,500	\$ (1,000)	\$ 2,178,500	\$ (34,200)	\$ 2,144,300	\$ -	\$ 2,144,300	
17	O&M Reserve	-	49,375	49,375	(48,083)	1,292	-	1,292	
18	R&R Reserve	77,607	32,393	110,000	(110,000)	-	-	-	
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	-	1,753,819	-	1,753,819	
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	\$ 3,855,791	\$ 11,790,438	\$ (192,283)	\$ 11,598,154	\$ -	\$ 11,598,154	
26									
27	Total Expenses	\$ 18,304,960	\$ 4,037,385	\$ 22,342,344	\$ (384,617)	\$ 21,957,727	\$ -	\$ 21,957,727	
28									
29	Operating Reserve Allowance	583,313	97,694	681,007	(357,235)	323,772	-	323,772	
30									
31	Total Cost of Service	\$ 18,888,273	\$ 4,135,079	\$ 23,023,351	\$ (741,852)	\$ 22,281,499	\$ -	\$ 22,281,499	
32									
33	Revenue Surplus/(Deficiency)	\$ 692,658	\$ (3,986,324)	\$ (3,293,666)	\$ 1,115,440	\$ (2,178,226)	\$ 2,178,226	\$ -	

**Notes:**

1/ Witness Woodcock 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	\$ -		\$ (5,925)		\$ 2,625	
2	Salaries	-		45,914		46,832	
3	Inflation (Non-Labor)	-		161,361		161,361	
4	Additional Benefits	-		18,187		18,550	
5	Additional Meter Program Costs	-		-		-	
6	Additional CIP Costs	-		-		-	
7	IFR Increase	-		-		-	
8	Rev. Stabiliz @ 1.5%	-		3,293		3,441	
9							
10	Revenue Increase per Year	\$ 2,178,226		222,829		232,809	
11							
12	Annual Revenues At Current Rates	\$ 20,103,273		\$ 22,281,499		\$ 22,504,328	
13							
14	Revenues After Proposed Rate Increase	<u>\$ 22,281,499</u>		<u>\$ 22,504,328</u>		<u>\$ 22,737,137</u>	

Notes:

1/ Schedule LKM-1, 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/ \$ 235,485	\$ 25,826	\$ 16,230	\$ 277,541
2					
3	FY 14	2/ 875,213	26,152	3,156	904,521
4					
5	FY 13	2/ <u>689,235</u>	<u>38,586</u>	<u>43,504</u>	<u>771,325</u>
6					
7	3-Year Average Revenues	\$ 599,978	\$ 30,188	\$ 20,963	\$ 651,129
8					
9	Adjusted Revenues per KCWA	<u>235,485</u>	<u>25,826</u>	<u>16,230</u>	<u>277,541</u>
10					
11	Adjustment to Other Operating Revenues	<u>\$ 364,493</u>	<u>\$ 4,362</u>	<u>\$ 4,733</u>	<u>\$ 373,588</u>

Notes:

1/ Witness Woodcock 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>1,036,290 2/</u>
4		
5	Adjustment to Employee Benefits	<u>\$ (70,438)</u>

Notes:

1/ Calculated based upon data provided in the Response to Division 3-14.

2/ Witness Woodcock 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	\$ 166,015 1/
2	Worker's Comp. Insurance	<u>84,158</u> 1/
3		
4	Total Property and Liability Insurance	\$ 250,173
5	Total Property and Liability Insurance per KCWA	<u>276,051</u>
6		
7	Adjustment to Property and Liability Insurance	<u>\$ (25,878)</u>

Notes:

1/ Response to Division 3-13.

KENT COUNTY WATER AUTHORITY

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

<u>Line No.</u>	<u>Description</u>	<u>Rate Year Amount</u> 1/
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><u>\$ (16,667)</u></u>

Note

1/ Witness Woodcock 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, CIP, & IFR Plans	\$ -
3	Cost of Conservation Program	-
4	New Vulnerability Study	-
5		<u>\$ -</u>
6		
7	Normalized Operation Studies Costs per Division	\$ -
8	Normalized Operation Studies Costs per KCWA	<u>40,000</u> 1/
9		
10	Adjustment to Normalize Source of Supply - Operations Studies	<u>\$ (40,000)</u>

Notes

1/ Witness Woodcock 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 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&amp;M Reserve</u>			
2	O&M Expenses	\$ 10,551,907	\$ 10,359,573	
3	Payroll Taxes	175,621	175,621	
4	PILOT	23,123	23,123	
5	Total Operating	\$ 10,750,651	\$ 10,558,317	
6				
7	Required O&M Reserve (Line 5 X 25%)	\$ 2,687,663	\$ 2,639,579	
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)	\$ 49,375	\$ 1,292	\$ (48,083)
14	<u>R&amp;R Reserve</u>			
15	Net Utility Plant Value (6/30/15)	\$ 137,597,235	\$ 137,597,235	
16	Estimated Additions	11,000,000	-	
17	Pro Forma NUP	\$ 148,597,235	\$ 137,597,235	
18				
19	Required Balance (Line 17 X 1%)	\$ 1,485,972	\$ 1,375,972	
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)	\$ 110,000	\$ -	\$ (110,000)

Notes

1/ Witness Woodcock 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	\$ 2,144,300 1/
2		
3	Debt Service Requirements per KCWA	<u>2,178,500 2/</u>
4		
5	Adjustment to Debt Service Requirements	<u>\$ (34,200)</u>

Notes:

- 1/ Calculated based upon data provided in the Response to Division 3-12.  
2/ Witness Woodcock Sch. 1D, Page 2.

KENT COUNTY WATER AUTHORITY

Comparison Cost of Debt Service Requirements  
 Presented in the Cost of Service and the Financial Statements

Line No.	Cost of Service		Financial Statements	
		FY 2015		FY 2015
1	FY 16 Principal	\$ 1,485,000	FY 16 Principal	n/a
2	FY 15 Interest	347,250	FY 16 Interest	n/a
3	FY 16 Interest	347,250	FY 16 Interest	n/a
4	Total	<u>\$ 2,179,500</u>	Total	<u>n/a</u>
5				
6		FY 2016		FY 2016
7	FY 17 Principal	\$ 1,540,000	FY 16 Principal	\$ 1,485,000
8	FY 16 Interest	317,550	FY 16 Interest	347,250
9	FY 17 Interest	317,550	FY 16 Interest	317,550
10	Total	<u>\$ 2,175,100</u>	Total	<u>\$ 2,149,800</u>
11				
12		FY 2017		FY 2017
13	FY 18 Principal	\$ 1,605,000	FY 17 Principal	\$ 1,540,000
14	FY 17 Interest	286,750	FY 17 Interest	317,550
15	FY 18 Interest	286,750	FY 17 Interest	286,750
16	Total	<u>\$ 2,178,500</u>	Total	<u>\$ 2,144,300</u>
17				
18		FY 2018		FY 2018
19	FY 19 Principal	\$ 1,690,000	FY 18 Principal	\$ 1,605,000
20	FY 18 Interest	246,625	FY 18 Interest	286,750
21	FY 19 Interest	246,625	FY 18 Interest	246,625
22	Total	<u>\$ 2,183,250</u>	Total	<u>\$ 2,138,375</u>
23				
24		FY 2019		FY 2019
25	FY 20 Principal	\$ 1,775,000	FY 19 Principal	\$ 1,690,000
26	FY 19 Interest	204,375	FY 19 Interest	246,625
27	FY 20 Interest	204,375	FY 19 Interest	204,375
28	Total	<u>\$ 2,183,750</u>	Total	<u>\$ 2,141,000</u>
29				
30		FY 2020		FY 2020
31	FY 21 Principal	\$ 1,870,000	FY 20 Principal	\$ 1,775,000
32	FY 20 Interest	160,000	FY 20 Interest	204,375
33	FY 21 Interest	160,000	FY 20 Interest	160,000
34	Total	<u>\$ 2,190,000</u>	Total	<u>\$ 2,139,375</u>

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	\$ 323,772
2		
3	Operating Reserve Allowance per KCWA	<u>681,007</u> 1/
4		
5	Adjustment to Operating Revenue Allowance	<u>\$ (357,235)</u>

Notes:

1/ Witness Woodcock Sch. 1, Page 3.