

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

**PROVIDENCE WATER SUPPLY BOARD ) DOCKET NO. 4618**

**SURREBUTTAL TESTIMONY**

**OF**

**JEROME D. MIERZWA**

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

**January 10, 2017**

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**EXETER**

**ASSOCIATES, INC.**

10480 Little Patuxent Parkway, Suite 300  
Columbia, Maryland 21044

BEFORE THE  
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PROVIDENCE WATER SUPPLY BOARD ) DOCKET NO. 4618

SURREBUTTAL TESTIMONY OF JEROME D. MIERZWA

**I. INTRODUCTION**

1

2 Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS  
3 ADDRESS?

4 A. My name is Jerome D. Mierzwa. I am a principal and Vice President of Exeter  
5 Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway,  
6 Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-  
7 related consulting services.

8 Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS  
9 PROCEEDING?

10 A. Yes. My Direct Testimony was submitted on October 14, 2016.

11 Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

12 A. The purpose of my Surrebuttal Testimony is to respond to certain cost allocation and  
13 rate design issues raised in the Rebuttal Testimony of Harold J. Smith on behalf of the  
14 Providence Water Supply Board (“Providence Water”); the Direct Testimony of  
15 Christopher P.N. Woodcock on behalf of Kent County Water Authority (“Kent  
16 County”); and the Direct Testimony of Pamela M. Marchand on behalf of Bristol  
17 County Water Authority (“Bristol County”).

18 Q. PLEASE SUMMARIZE THE RECOMMENDATIONS PRESENTED IN  
19 YOUR DIRECT TESTIMONY.

1 A. In my Direct Testimony, with limited exceptions, I generally found Providence Water’s  
2 class cost of service study (“CCOSS”) to be reasonable. Those exceptions included the  
3 functionalization of bad debt expense and the allocation of the costs included in  
4 Account 63560 Contractual Service – Other. However, because there were offsetting  
5 factors that should be considered, I accepted Providence Water’s functionalization of  
6 bad debt expense and allocation of Account 63560 expenses. In my Direct Testimony,  
7 I noted that Providence Water was to address the accuracy of its plant asset values in  
8 its Rebuttal Testimony, and that I would present the Division’s recommendations  
9 concerning plant asset values after review of Providence Water’s Rebuttal Testimony.  
10 Finally, I recommended that the 15 percent increase in fire protection rates proposed  
11 by Providence Water should be maintained and not reduced in the event that the  
12 Commission authorizes an increase for Providence Water that is less than its requested  
13 increase.

14 Q. WHAT WAS MR. SMITH’S RESPONSE TO THE ISSUE OF PLANT  
15 ASSET VALUES?

16 A. Net plant asset values have historically been used in Providence Water’s CCOSS to  
17 allocate capital costs. Mr. Smith noted that the independent study performed to verify  
18 Providence Water’s asset records agreed to in Docket No. 4406 found that some  
19 categories of assets had negative net values while others were almost completely  
20 depreciated. Mr. Smith found that this called into question the reasonableness of using  
21 net plant asset values as the basis for allocating capital costs. In response to a  
22 suggestion presented in the Direct Testimony of Mr. Woodcock, Mr. Smith has used  
23 gross plant values to allocate capital costs rather than net plant values in the CCOSS  
24 presented in his surrebuttal testimony.

1 Q. IS THE ALLOCATION OF CAPITAL COSTS BASED ON GROSS PLANT  
2 VALUES REASONABLE?

3 A. The use of negative net values to allocate capital costs would certainly be unreasonable.  
4 The use of gross plant values rather than net plant values does not have a material  
5 impact on the indicated cost of service for any customer class included in Providence  
6 Water's CCOSS. Therefore, given the lack of alternatives, the use of gross plant values  
7 does not appear to be unreasonable.

8 Q. IN HIS DIRECT TESTIMONY, MR. WOODCOCK RECOMMENDS THAT  
9 THE COSTS ASSOCIATED WITH PROVIDENCE WATER'S NEW  
10 CENTRAL OPERATIONS FACILITY ("COF") SHOULD BE  
11 ALLOCATED BASED ON A METHOD PROPOSED IN PROVIDENCE  
12 WATER'S MOST RECENT ABBREVIATED RATE APPLICATION  
13 (DOCKET NO. 4571), AND ABSENT SUCH AN ALLOCATION, ALL  
14 COF COSTS SHOULD BE ALLOCATED ONLY TO RETAIL  
15 CUSTOMERS. DOES MR. SMITH AGREE WITH THE METHOD  
16 PROPOSED IN DOCKET NO. 4571 TO ALLOCATE COF COSTS?

17 A. Yes, he does. However, Mr. Smith claims that the data necessary to allocate new COF  
18 costs using the method proposed in Docket No. 4571 is not available at this time. In  
19 the response to KCWA 2-6, Providence Water indicated that "Since the COF was still  
20 in the design stage when the rate filing was prepared it was not possible to determine  
21 with any degree of accuracy the way in which the COF would be utilized." It is my  
22 understanding that the new COF will be completed and ready for occupancy later in  
23 2017.

24 Q. DOES MR. SMITH THEN AGREE THAT COF COSTS SHOULD ONLY  
25 BE ALLOCATED TO RETAIL CUSTOMERS?

1 A. No. Mr. Smith claims that the COF will be used to ensure effective operation of the  
2 Providence Water system, which includes functions and services that are retail-only  
3 and others that are common to retail and wholesale customers. Mr. Smith claims that  
4 to argue that wholesale customers receive no benefit from the COF is unreasonable.  
5 Mr. Smith recommends that the current default position for allocating COF costs should  
6 be maintained until the COF is in use and the data necessary to perform the allocation  
7 proposed in Docket No. 4571 is available.

8 Q. DO YOU AGREE WITH MR. SMITH'S PROPOSED ALLOCATION OF  
9 COF COSTS IN THIS PROCEEDING?

10 A. Yes. The new COF will increase Providence Water's operational efficiency which will  
11 benefit both retail and wholesale customers. In addition, Providence Water's  
12 laboratory testing facilities will be located at the new COF. (Response to BCWA 1-  
13 25.) These facilities will assist in ensuring water quality for all customers of  
14 Providence Water. Given the benefits of the new COF that will accrue to wholesale  
15 customers, it would be unreasonable to allocate none of the costs associated with the  
16 new COF to wholesale customers.

17 I would also note that as indicated in the response to KCWA 2-1, the expenses  
18 associated with the new COF included in Providence Water's rate increase request total  
19 \$1,220,724. The single largest expense item is Providence Water's proposed payment  
20 in-lieu-of-taxes ("PILOT") to the City of Providence. The Division, Kent County, and  
21 Bristol County ("Intervening Parties") all oppose Providence Water's PILOT claim. If  
22 the Commission accepts the Intervening Parties' position on the proposed PILOT, the  
23 rate year expenses associated with the new COF will be significantly reduced.

24 Q. THE NEW COF IS REPLACING PROVIDENCE WATER'S EXISTING  
25 FACILITY ON ACADEMY AVENUE. HAVE KENT COUNTY OR

1 BRISTOL COUNTY TAKEN POSITIONS IN PRIOR DOCKETS THAT  
2 THEY SHOULD NOT PAY FOR ANY OF THE COSTS ASSOCIATED  
3 WITH THE ACADEMY AVENUE FACILITY?

4 A. Not that I am aware.

5 Q. MR. WOODCOCK CLAIMS THAT PRIOR TO THIS PROCEEDING, ALL  
6 OF THE COSTS ASSOCIATED WITH THE NEW COF WERE ASSIGNED  
7 ENTIRELY TO RETAIL CUSTOMERS AND THAT THERE IS NO BASIS  
8 OR PRECEDENT TO DO SO OTHERWISE. WHAT IS YOUR RESPONSE  
9 TO MR. WOODCOCK'S CLAIM?

10 A. Mr. Woodcock's claim is misleading at best. The costs associated with Providence  
11 Water's new COF were first addressed by the Commission in Docket No. 4406. In that  
12 docket, a settlement agreement was filed with the Commission on November 8, 2013  
13 that included \$2.45 million in revenue for the new COF. Item 16 of the Settlement  
14 provided:

15 *This Settlement Agreement is the result of negotiated*  
16 *settlement among the Parties. The agreement by the*  
17 *Parties to this Settlement shall not be construed as an*  
18 *agreement to any matter of fact or law addressed in this*  
19 *Settlement in any future Division or Commission*  
20 *proceedings, and no party, by executing this Settlement, is*  
21 *bound by any of the positions taken in this Settlement in*  
22 *any said future proceedings, and no position taken by any*  
23 *of the Parties to this Settlement on any issue is to be*  
24 *construed as a precedent in any future Division or*  
25 *Commission proceedings, nor shall it be cited as a*  
26 *precedent.*

27 At an open meeting held on November 23, 2013, the Commission voted to  
28 remove \$2.40 million in revenue from the settlement because the costs associated with  
29 the new COF were not known and measurable. The Commission determined that the  
30 benefit of this removal should be allocated exclusively to retail customers. Under the

1 initial settlement, retail customers would have received a rate increase of 23.2 percent,  
2 while wholesale customers would have received a rate increase of 2.0 percent. Thus,  
3 if a portion of the \$2.40 million in revenue that was removed were assigned to  
4 wholesale customers, wholesale customers could have received a rate decrease.

5 On June 18, 2015, in Docket No. 4571, Providence Water filed an application  
6 to fund a bond issuance to support the purchase of its new COF in the amount of \$2.45  
7 million. In that proceeding, Providence Water proposed to collect the full \$2.45 million  
8 from retail customers because the entire \$2.40 million disallowed for recovery in  
9 Docket No. 4406 was assigned 100 percent to retail customers. As such, Providence  
10 Water proposed to restore the terms of the settlement filed in Docket No. 4571 that  
11 existed before the Commission removed the costs associated with the new COF. In its  
12 Order in Docket No. 4571, the Commission accepted Providence Water's proposed  
13 assignment of new COF costs 100 percent to retail customers without discussion.  
14 Therefore, the continued assignment of 100 percent of new COF costs to retail  
15 customers should not be considered precedent.

16 Q. WHAT HAS MR. WOODCOCK PROPOSED FOR THE ALLOCATION OF  
17 THE COSTS ASSOCIATED WITH PROVIDING RETAIL SERVICE TO  
18 EAST SMITHFIELD CUSTOMERS WHICH WAS PREVIOUSLY A  
19 WHOLESALE CUSTOMER?

20 A. Mr. Woodcock claims that providing retail service to East Smithfield customers will  
21 add at least \$387,000 to Providence Water's rate year costs. He claims that wholesale  
22 customers should not pay for any of the costs associated with providing retail service  
23 to East Smithfield customers. However, Mr. Woodcock presents no evidence that  
24 wholesale customers will pay for any of the costs associated with providing retail  
25 service to East Smithfield customers.

1 Q. WHAT IS YOUR RESPONSE TO MR. WOODCOCK’S CLAIM  
2 CONCERNING THE RECOVERY OF EAST SMITHFIELD RETAIL  
3 COSTS FROM WHOLESALE CUSTOMERS?

4 A. Mr. Woodcock has presented no evidence that wholesale customers will bear any of  
5 the additional costs associated with providing retail service to East Smithfield  
6 customers. Mr. Woodcock had every opportunity to do so in his Direct Testimony.  
7 Therefore, his claim should be dismissed.

8 Q. MS. MARCHAND CLAIMS THAT PROVIDENCE WATER’S CCOSS  
9 DOES NOT PROPERLY DISTINGUISH BETWEEN THE SOURCES OF  
10 UNACCOUNTED-FOR WATER (“UFW”) AND THAT THE UFW COSTS  
11 ASSIGNED TO WHOLESALE CUSTOMERS ARE EXCESSIVE. WHAT  
12 IS YOUR RESPONSE?

13 A. First, I would note that Ms. Marchand has not quantified any of her recommendations  
14 concerning the allocation of UFW and, therefore, the reasonableness of her  
15 recommendations cannot be assessed. Moreover, Ms. Marchand’s claims with respect  
16 to UFW are addressed by Mr. Gregg M. Giasson of Providence Water. Based on the  
17 additional information presented by Mr. Giasson, Providence Water’s UFW allocations  
18 appear reasonable.

19 Q. MS. MARCHAND CLAIMS THAT PROVIDENCE WATER’S  
20 UNIDIRECTIONAL FLUSHING PROGRAM (“UDFP”) ONLY BENEFITS  
21 RETAIL CUSTOMERS AND, THEREFORE, THESE COSTS SHOULD  
22 ONLY BE ALLOCATED TO RETAIL CUSTOMERS. WHAT IS MR.  
23 SMITH’S RESPONSE TO THIS CLAIM?

24 A. Mr. Smith acknowledges that while the retail classes are the primary beneficiaries of  
25 the UDFP, the wholesale class does receive some benefit. Wholesale customers receive



1           some benefit from the UDFP because portions of the transmission and distribution  
2           system are used to transport water to the connection points with wholesale customers.  
3           He notes that wholesale customers are allocated approximately 2 percent of UDFP  
4           costs.

5    Q.           DOES THE DIVISION CONCUR WITH PROVIDENCE WATER'S  
6           CURRENT ALLOCATION OF UDFP COSTS?

7    A.    Yes.

8    Q.           DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

9    A.    Yes, it does at this time.

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