

GENERAL RATE FILING

DIRECT TESTIMONY & EXHIBITS
OF KATHERINE ARP

January 2018

Submitted to:
State of Rhode Island and Providence
Plantations Public Utilities Commission

RIPUC Docket No.

Submitted by:

SUEZ Water Rhode Island Inc.

SUEZ WATER RHODE ISLAND INC.
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1 **Q. Please state your name and business address.**

2 A. My name is Katherine Arp, and my business address is 461 From Rd, Suite 400
3 Paramus, New Jersey 07652.

4

5 **Q. By whom are you employed and in what capacity?**

6 A. In October 2017, I joined SUEZ Water Management and Services Inc.
7 (SWM&S)'s rate department as a Regulatory Specialist. In this role, I am
8 responsible for compiling, analyzing, and logically presenting supporting data for
9 rate cases.

10

11 **Q. Please summarize your educational background and other qualifications.**

12 A. I graduated from William Paterson University, Wayne, New Jersey in 2005 with a
13 Bachelor of Science degree in Accounting.

14

15 **Q. Please describe your work experience.**

16 A. Prior to joining SUEZ Water Rate Department, I worked eleven years in the
17 SUEZ Water accounting department with a focus on fixed assets and corporate
18 management and services (M&S) costs.

19

20 **Q. What regulatory agencies have you previously appeared and presented
21 expert witness testimony?**

22 A. I have not previously appeared or presented an expert witness testimony before
23 any regulatory commission.

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1 **Q. What is the purpose and nature of your testimony in this proceeding?**

2 A. The purpose of my testimony is to support the computation of Operation and
3 Maintenance Expenses and Taxes Other than Income Taxes for SUEZ Water
4 Rhode Island (SWRI) and develop adjustments reflecting known and measurable
5 changes.

6

7 **Q. What adjustments are you presenting in support of the filing?**

8 A. I am presenting the Company's proposed level of to Operating Expenses and
9 Taxes Other than Income Taxes, which are summarized in Exhibit 3 Schedule 1
10 and the detail of each proforma amount is also summarize in Schedules 1A, 1B
11 and 1C. The supporting calculations for all of the adjustments can be found in
12 Exhibit 3 Schedule 2 through Schedule 20.

13

14 **Q. Describe generally the approach you have taken in preparing the proforma
15 amounts.**

16 A. My schedules cover the operating results of the historic test year, consisting of
17 the twelve months ending September 30, 2017 through the end of the rate year
18 ending September 30, 2019. I made normalizing and annualizing adjustments to
19 operating expenses to conform expenses to the level used for revenues and rate
20 base.

21 For expenses that can be independently analyzed, I made adjustments to
22 normalize the expenses based upon known and measurable changes. For the
23 purpose of projecting other expenses where such information is not available, I

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1 used the Blue Chip Financial Forecast's estimated increases to the GDP Price
2 Index to reflect inflationary trends. See Exhibit 3 Schedule 17B for the
3 computation of that index.

4
5 **Q. Please list the Schedules that you are sponsoring in this rate case.**

6 A. The adjustments to Operating Expenses and Taxes Other than Income Taxes
7 are summarized on Exhibit 3 Schedule 1 by each category of expense. The
8 schedules following Exhibit 3 Schedule 1, specifically Exhibit 3 Schedule 2
9 through Exhibit 3 Schedule 20, show the calculation of the individual
10 adjustments.

11 Schedule 2, Wages and Salaries;

12 Schedule 3, Fringe Benefits Transferred;

13 Schedule 4, Power Expense;

14 Schedule 5, Chemical Expense;

15 Schedule 6, Pension Expense;

16 Schedule 7, PEBOP Expense;

17 Schedule 8, Employee Health and Welfare Expense;

18 Schedule 9, Tank Painting Amortization;

19 Schedule 10, Transportation/Vehicle Expense;

20 Schedule 11, Customer Information/Billing Expense;

21 Schedule 12, Rent Expense;

22 Schedule 13, Outside Services Expense;

23 Schedule 14, Management and Services (M&S) Expense;

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- 1 Schedule 15, Rate Case Expense;
- 2 Schedule 16, Regulatory Commission Expense;
- 3 Schedule 17, Other Operation and Maintenance Expense;
- 4 Schedule 18, Property Tax Expense;
- 5 Schedule 19, Payroll Tax Expense;
- 6 Schedule 20, Gross Receipts Tax Expense

7

8 **Q. Please describe the adjustments to Operating Expenses that you are**
9 **sponsoring.**

10 A. **Exhibit 3 Schedule 2, Wages and Salaries,** The adjustment to wages and
11 salaries displays the normalized calculation of labor expense for the Rate Year.
12 Since the test year is the twelve months ending September 30, 2017, a projected
13 salary increase of 3.00% was applied to the 2017 hourly rates to properly reflect
14 salaries and wages in year 2018. Additionally, another projected salary increase
15 of 3.00% was applied to the 2018 projected hourly rates to reflect salaries and
16 wages in the rate year on a fully annualized basis.

17 To compute the total annual wages and salaries of the rate year, amounts
18 related to overtime pay and incentive compensation were also added. The
19 normalization adjustment for overtime pay is based upon a four year historical
20 hours average times the 12 months ending September 30, 2017 hourly rate and
21 increased by the compound wage increase of 6.09% for the rate year costs. The
22 amount of incentive compensation was determined by applying a target

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1 percentage determined by each employee's eligibility in accordance with the
2 Company's Short Term Incentive Plan (STIP) guidelines to employees' base pay.

3 Normalization adjustments for labor charges billed (transferred out) for
4 work performed by UWRI employees for other business units and for capitalized
5 labor was based upon the four year historical average percentage utilizing years
6 2014, 2015, 2016, and 12 months ending September 30, 2017.

7 Exhibit 3 Schedule 2A and Exhibit 3 Schedule 2B provide support for the
8 wages and salaries adjustments.

9
10 **Exhibit 3 Schedule 3, Fringe Benefits**, Reflects an adjustment for fringe
11 benefits capitalized. Fringe benefits capitalized was adjusted based upon the
12 same four year historical average percentage as used for wages and salaries.
13 The percentage of 23.03% representing labor capitalized was netted with the
14 labor transferred in percentage of 1.20%, resulting in a net fringe benefits
15 capitalized of 21.83%. This percentage, 21.83%, was applied to the adjusted
16 fringe benefits costs, including payroll taxes, health and welfare costs, worker's
17 compensation, pension, PEBOP, 401k and other employee benefits costs.
18 Exhibit 3 Schedule 3A provides the computation for this adjustment.

19
20 **Exhibit 3 Schedule 4, Power Expense**, The purchase power costs were
21 computed by taking the projected total kWh usage and increasing it by the
22 calculated rate year kWh average costs for commodity and distribution. The kWh
23 average usage was applied to total rate year water produced to determine rate

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1 year total kWh usage. Total rate year water produced was computed by using
2 the billed volume determined by the adjusted level of volumetric sales provided
3 by Company Witness Gil, and then it was adjusted by the non-revenue water
4 percentage. The non-revenue water percentage was determined by using
5 historical non-revenue percentages utilizing the calendar years 2014, 2015, 2016
6 and 12 months ending September 30, 2017. The kWh average cost for
7 commodity was calculated by applying the contract price from Engie Resources,
8 LLC and increasing it by 15% for surcharges and taxes. The projected kWh
9 average price for transmission and distribution for the rate year was calculated by
10 taking National Grid actual average rate per kWh and applying a 10.21%
11 increase based upon the rate case filed on November 27, 2017. For the Other
12 Utilities- Power, the adjustment was based on a four year average adjusted by
13 5.714% inflation rate. Exhibit 3 Schedule 4A provides support for the computation
14 of the power adjustment.

15
16 **Exhibit 3 Schedule 5, Chemical Expense**, The projected chemical expense
17 was calculated by computing the chemical unit price for each chemical times the
18 total usage for the rate year. The chemical unit price was based on the actual
19 price bid of 2018 and adjusted by the inflation rate of 2.20%. The total usage
20 was based on projected water produced times averaging the chemical usage per
21 million gallons during the most recent four years. The projected water produced
22 is billed consumption adjusted by the non-revenue water percentage, which was

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1 determined by utilizing the last four years of historical non-revenue percentages.
2 Exhibit 3 Schedule 5A provides support for the computation of this adjustment.

3
4 **Exhibit 3 Schedule 6, Pension Expense and Exhibit 3 Schedule 7, PEBOP**
5 **Expense**, The rate year amounts for both pension and PEBOP reflect the level of
6 costs determined for 2018 by the Company's actuary, Tower Watson, based on
7 the current employee complement.

8
9 **Exhibit 3 Schedule 8, Employee Health and Welfare Expenses**, Employee
10 health and medical expense is the cost incurred by the Company to provide
11 medical, dental and vision care along with group term life insurance coverage to
12 employees. It is computed based on actual costs for 2018 and applied to the
13 existing employee plan participants with a projected 3.42% increase. Exhibit 3
14 Schedule 8A provides support for the computation of this adjustment.

15 Rate year life insurance was adjusted by applying the medical increase of
16 3.42% to year 2018 actual life insurance amounts. The Rate Year amount for the
17 401K was adjusted by taking the historical four year average and applying the
18 compound wage increase of 6.09%. Other employee benefits, other awards, and
19 workers compensation were adjusted by applying the inflationary rate per the
20 GDP to the four year average of each of these expense amounts. Exhibit 3
21 Schedule 8 provides support for the computation of these adjustments.

22

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1 **Exhibit 3 Schedule 9, Tank Painting Amortization**, The Company painted the
2 interior and exterior of the Sherman and Howland Aerator Tanks in 2008. Per
3 previous rate case the Company amortized these costs over a period of 10
4 years. These tanks will be fully amortized by the end of 2018. In December
5 2012, UWRI finished painting the Boston Neck Tank, and the Company began
6 amortizing this cost over a 10 year period beginning January 2013. The tank
7 painting adjustment includes the annual amortization of this one tank for \$19,812
8 generating a negative adjustment of \$23,568. Exhibit 3 Schedule 9A provides
9 details regarding the painting of these tanks.

10
11 **Exhibit 3 Schedule 10, Transportation/Vehicle Expenses**, Transportation
12 adjustment includes lease costs based on current leasing agreements and
13 projected costs for replacement leases. Fuel costs, maintenance and repair
14 costs, insurance, and miscellaneous expenses were projected utilizing a four
15 year average of actual costs for the years 2014, 2015, 2016 and 12 months
16 ending September 30, 2017 adjusted by the inflationary rate of 5.714%. The
17 depreciation expense is the same as that in the Test Year. Costs capitalized
18 represents a reduction to the total transportation expense for costs that are
19 capitalized. The percentage is based on four year average for the years 2014,
20 2015, 2016 and 12 months ending September 30, 2017 costs capitalized. Exhibit
21 3 Schedule 10A and Exhibit 3 Schedule 10B provide the computation and
22 support for these adjustments.

23

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1 **Exhibit 3 Schedule 11, Customer Information/Billing Expense**, Billing
2 expense is composed of the costs of billing, postage, E-billing, and convenience
3 fee. The adjustments for billing, postage, and E-billing were computed using the
4 actual costs for the 12 months ending in September 31, 2017 and adjusted by
5 the inflationary rate of 4.244%. There was also an additional adjustment made to
6 reflect the change in going from quarterly billing to monthly billing. The
7 adjustment for convenience fee was computed by taking the current number of
8 credit card payments within the 12 months ending September 30, 2017 adding
9 the 25% projected increase and multiplying it by the \$1.99 cost per credit card
10 payment. Exhibit 3 Schedule 11A provides support for the computation of these
11 adjustments.

12
13 **Exhibit 3 Schedule 12, Rent Expense**, SUEZ Water Rhode Island now leases a
14 property at 10 High Street, Wakefield, Rhode Island. This property is the site of
15 the Company's office and operations center. This lease began in October 2017
16 and terminates in September 2025. Per lease agreement the rent for the Rate
17 Year is \$83,714. Exhibit 3 Schedule 12A provides support for the computation of
18 these adjustments.

19
20 **Exhibit 3 Schedule 13, Outside Services Expense**, The Company does
21 outsource additional professional and technical support in areas where this may
22 be required such as accounting associated with external audit functions, legal,
23 engineering and information technology (software and hardware maintenance).

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1 The adjustments for these outside services were computed by applying the
2 inflationary rate of 5.714% per the GDP to a four year average of actual costs for
3 the years 2014, 2015, 2016 and 12 months ending September 30, 2017. Exhibit
4 3 Schedule 13A shows the computation of each of these adjustments.

5
6 **Exhibit 3 Schedule 14, Management and Services (M&S) Expense,** The
7 Management and Services (M&S) Fees adjustment represents the increase in
8 the M&S expense for services provided by SUEZ Water Management and
9 Services employees. The total rate year M&S expense was determined by
10 applying the projected compound wage increase of 6.09% to the test year
11 amount. Exhibit 3 Schedule 14A shows the computation of each of these
12 adjustments.

13
14 **Exhibit 3 Schedule 15, Rate Case Expense,** This adjustment represents the
15 projection of the Company's rate case expense. The amount was calculated
16 based on the total estimated cost of past rate case expense. The total expense is
17 amortized over 3 years.

18
19 **Exhibit 3 Schedule 16, Regulatory Commission Expense,** The PUC
20 Assessment Fee was calculated based on the most current assessment in
21 accordance with Section 39-1-23 of the General Laws of the State of Rhode
22 Island. This assessment rate was applied to the rate year operating revenues at
23 present and proposed rates provided by Company Witness Gil.

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1 **Exhibit 3 Schedule 17, Other Operation and Maintenance Expenses**, The
2 other operation and maintenance expenses not specifically adjusted and not
3 noted in the above testimony, a 4.244% inflationary factor per the GDP was
4 applied to the test year of these costs. The computation of the O&M expense
5 adjustment is shown on Exhibit 3 Schedule 17A.

6
7 **Exhibit 3 Schedule 17B, Inflationary Factor**, The amounts were based on the
8 Blue Chip Financial Forecast's estimate of increases to the GDP Price Index per
9 the March 1, 2016 (Volume 35, No. 3) and October 1, 2017 (Volume 36, No.10).
10 I developed three rates, the first is a compound rate of 4.244% which covers the
11 periods 2018 and 2019, the second is the inflationary rate expected for 2019 of
12 2.200% and the third compound rate is the four year average rate from 2014 to
13 2017 plus the compound rate of 4.244% for 2018 and 2019 or 5.714%. These
14 rates were utilized to forecast certain expenses from the test year to the rate year
15 as noted in the above testimony.

16
17 **Exhibit 3 Schedule 18, Property Tax**, Property Taxes were adjusted by
18 calculating a four year historical average percentage change in actual property
19 taxes paid from 2013 through 2017 periods. This average annual increase,
20 5.75%, was applied to both year 2018 and the test year. The property tax
21 amount resulted in a \$51,210 adjustment. Exhibit 3 Schedule 18 shows the
22 computation of each of these adjustments.

23

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1 **Exhibit 3 Schedule 19, Payroll Tax Expense**, Payroll taxes were calculated
2 using the current statutory Federal and State tax rates which were applied to the
3 taxable rate year payroll base. Exhibit 3 Schedule 19A provides the computation
4 of the rate year payroll tax amount.

5
6 **Exhibit 3 Schedule 20, Gross Receipts Tax Expense**, The current gross
7 receipts tax rate of 1.25% was applied to the rate year operating revenues at
8 present and proposed rates provided by Company Witness Gil.

9
10 **Q. Does this conclude your direct testimony?**

11 **A. Yes it does.**