

GENERAL RATE FILING

DIRECT TESTIMONY
OF ELDA GIL

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 Elda Gil and my business address is 461 From Road, Paramus, New
3 Jersey.

4

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

6 A. In May, 2007 I joined SUEZ Water Management and Services Inc. (SWM&S) as
7 an Associate Rate Analyst. In August, 2010 I was promoted to the position of
8 Regulatory Specialist and in July 2015 to Senior Regulatory Specialist.

9

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

11 A. I am a Certified Public Accountant licensed in New Jersey and in the country of
12 Colombia. I graduated from Central University of Bogota, Colombia in 1996 with
13 a Bachelor of Business Administration degree in Accounting, and earned my
14 Master of Science degree in Taxation from Los Andes University of Bogota in
15 1999. Additionally, I have an MBA in Finance from Saint Peter's University in
16 2008.

17

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

19 A. Prior to joining SUEZ Water, I was employed by Ballet Makers Inc., a
20 manufacturer and retail company, where I was responsible for Cost Accounting.
21 From 2004 to 2006, I was employed by Federal Direct, Inc. a securities printing
22 company as a Staff Accountant responsible for billing. Prior to that, I held the
23 position of Financial Specialist in the Bank of Colombia from 1996 to 2002. I was

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1 responsible for financial analysis and preparation of consolidated company
2 budgets and financial reports.

3

4 **Q. What regulatory agencies have you previously presented testimony?**

5 A. I have presented testimony before the New Jersey Board of Public Utilities
6 (NJBPU), the New York State Public Service Commission (NYPSC), the
7 Delaware Public Service Commission (DPSC), the Pennsylvania Public Utility
8 Commission (PPUC), the State of Rhode Island and Providence Plantations
9 Public Utilities Commission (RIPUC), and the Connecticut Department of Public
10 Utility Control (DPUC).

11

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

13 A. The purpose of my testimony is to support the Petitioner's request for rate relief.
14 I am sponsoring the overall revenue requirement, revenue conversion factor,
15 Federal Income Taxes, normalized operating revenues, rate base, and
16 depreciation expense on behalf of SUEZ Water Rhode Island Inc. (SWRI or the
17 Company).

18

19 **Q. Who are the other witnesses in the case?**

20 A. Mr. Christopher Jacobs is the Operations Manager and will address the
21 Operations of the Company. Mr. James Cagle is sponsoring the impact of the
22 2017 Tax Cuts and Jobs Act (Tax Act) and the Accumulated Deferred Income
23 Taxes. Mr. Gary Prettyman is sponsoring the proposal to implement the

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1 Distribution System Improvement Charge (DSIC). Ms. Paula McEvoy is
2 sponsoring the Company's construction program and Ms. Katherine Arp is
3 sponsoring operation and maintenance expenses and taxes other than income.
4 As outside consultants, Mr. Dave Fox is sponsoring the Cost of Service Study,
5 Mr. John J. Spanos is sponsoring the Depreciation Study and Mr. Harold Walker
6 III is sponsoring the Cost of Capital.

7
8 **Q. What are the main drivers of this rate case?**

9 A. The main driver in this case is the recovery of the major capital investments
10 including the replacement of the Sherman tank, Ms. McEvoy will discuss in more
11 detail in her testimony. Other major drivers include, although to a much lesser
12 degree, labor and labor related, power, chemicals and property taxes and the
13 reduction of water consumption, discussed below in my testimony. Offsetting
14 these increases is a reduction in Federal Income Tax as discussed by Mr. Cagle.

15
16 **Q. What is the Company's Test Year and proposed Rate Year in this
17 proceeding?**

18 A. The Company is using the twelve months ended September 30, 2017 as the Test
19 Year and the twelve months ending September 30, 2019 as the proposed Rate
20 Year. The rate year represents an average rate base for the 13 months ending
21 September 30, 2019 as well as increases in operating expenses, customer
22 growth through September 30, 2019 and it also reflects a decrease in water sales
23 due to reduced consumption.

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1 **Q. What Exhibits are you presenting in support of the filing?**

2 A. I am presenting the Company's proposed adjustments to Exhibit 1 Schedule 1,
3 Revenue Deficiency; Exhibit 2 Schedule 1 and 2, Operating Revenues; Exhibit 4
4 Schedule 1 through Schedule 9, Rate Base; Exhibit 3 Schedule 21, Federal
5 Income Tax Expense and Interest Expense; Exhibit 3 Schedule 22 Depreciation
6 Expense.

7

8 **REVENUE DEFICIENCY**

9 **Q. Please describe Exhibit 1 Schedule 1**

10 A. Exhibit 1 Schedule 1 shows the Company's income statement for the actual test
11 year twelve months ended September 30, 2017 and the rate year ending
12 September 30, 2019 at present and proposed rates; the rate base is the average
13 of 13 months ended September 30, 2017 for test year and the average of 13
14 months ending September 30, 2019 for rate year.

15 It also shows the computation of the required rate increase necessary for
16 the Company to achieve its requested rate of return. Column 1 represents the
17 actual test year ending September 30, 2017. Column 2, Adjustments shows the
18 difference to the test year and the Pro Forma amounts in Column 3, the rate
19 year, which represents the twelve months ending September 30, 2019 on a fully
20 annualized basis under present rates and the 13 months average rate base.
21 Column 4 shows the revenue deficiency and the development of the rate
22 increase of \$1,024,856 or 21.29% necessary for the Company to earn its

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1 requested rate of return of 7.82%. Column 5 shows the pro-forma level of
2 revenues and expenses as requested by the Company at proposed rates.

3
4 **Q. Please describe Exhibit 1, Schedule 1, and Line 14 revenue conversion**
5 **factor.**

6 A. Line 14 shows the revenue conversion factor which is utilized in this
7 proceeding. This factor is applied to the deficiency in Utility Operating Income
8 to determine the amount of additional revenues that SWRI is requesting. This
9 factor reflects all revenue related taxes in its development.

10
11 **Q. Please describe Exhibit 3, Schedule 21 Federal Income Tax Expense.**

12 A. In arriving at SWRI's Federal Income Tax expense, taxable income has been
13 calculated by deducting from operating revenues the following: operation and
14 maintenance expenses, book depreciation expense, taxes other than income
15 taxes and interest charges (calculated by utilizing the interest synchronization
16 method shown on line 15 at the bottom of Schedule 21).

17 The statutory tax rate of 21% is then applied to taxable income. The
18 amortization of Regulatory Liability shown on Line 12 is subtracted as
19 discussed in Mr. Cagle testimony. The amortization ITC is shown on line 14.
20 This results in a pro-forma income tax expense at present rates and at
21 proposed rates shown in line 14.

REVENUES

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Q. What process was used to develop the Rate Year revenues at Present Rates?

A. For all classes except the residential customer class, the consumption was normalized using a linear regression of the historical consumption of the most recent five calendar years (2013-2017). Next, the projected customer growth for the Company was based on the average growth in the number of meters for the same time frame used in the analysis of consumption. The normalized consumption was applied to the projected number of customers to obtain the total operating metered revenue at present rates shown on Exhibit 2, Schedule 1.

Q. What approach did you use in projecting residential consumption?

A. Residential customers represent approximately 90 percent of the total number of customers served in the Company's service territory. Given this relative proportion it is necessary to take a more detailed approach in projecting water consumption for this class of customers. Consistent with industry trends, SWRI has generally seen a decline in total water consumption and usage per customer. In any particular year, water consumption can vary significantly due to external factors such as weather fluctuations, environmental changes, social and economic conditions, housing growth, conservation measures, and the use of environmentally friendly appliances. As this trend is expected to continue in the future, and using a linear regression trend doesn't take in account factors such weather and environmental changes, in order to more accurately determine the

1 consumption typically used, therefore the analysis for residential customers was
2 based on a base usage methodology plus a weather related portion.

3
4 **Q. What factors are contributing to declining water consumption through**
5 **North America?**

6 **A.** The following excerpt from an article published by the University of North
7 Carolina Environmental Finance Center clearly describes a number of reasons
8 why water consumption is declining.

9 “Conservation efforts are everywhere. Most cities collect recyclables. Children no
10 longer leave the faucet running when brushing teeth. “Green” is viewed favorably
11 by the majority of the population. This acceptance of conservation has evolved
12 over the past 40 years.

13 Federal legislation (the Energy Policy Act of 1992, the Energy Policy Act
14 of 2005 and the Energy Independence and Security Act of 2007) have led to
15 requirements that mandate more and more efficient fixtures and appliances. Most
16 homes have reached build-out with respect to fixtures and appliances, so there
17 are not additional fixtures or appliances coming into homes, just replacements,
18 which are likely more efficient than the devices they are replacing.

19 It is unlikely that the conservation ethos, particularly held by the younger
20 generations, will dissipate. Appliances and fixtures will continue to become more
21 efficient and rates will rise. While the economy has historically been cyclical and
22 should rebound, with the other three factors continuing to depress per capita
23 usage, we believe that utilities in the United States are in the midst of a “new
24 normal.” It is unlikely that consumption will return to the levels of five or ten years
25 ago. Though there is a limit to how low per capita usage can go, it is unlikely that
26 the lower limits have been reached, considering how low per capita usage is in
27 certain areas of the United States and around the world.”

28
29 Declining Water Consumption, Part Two: The Big Picture
30 By Erin Weeks

31 [http://efc.web.unc.edu/2012/05/25/declining-water-consumption-part-two-
33 the-big-picture/](http://efc.web.unc.edu/2012/05/25/declining-water-consumption-part-two-
32 the-big-picture/)

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1 As stated in the paper, the factors that are pushing down consumption
2 are: acceptance of conservation; prevalence of more water efficient fixtures and
3 appliances; elasticity impact of increasing water rates; and economic downturn.
4

5 **Q. Explain the base usage methodology used in projecting residential**
6 **consumption.**

7 A. First, the historical usage per meter was calculated on a monthly basis for the
8 last 5 calendar years (2013-2017), and then calculated a trend on the average
9 usage of the base months or winter months (Jan, Feb, Mar and Apr) "Base
10 Usage". Next, this base usage is compared against average usage for the entire
11 period to determine the 5 year "Excess-Over Base" average usage. In summary,
12 the trend in base usage and the excess over base usage is summed to arrive at
13 a normalized residential per capita usage of 4.207. This number is multiplied by
14 the total projected residential customers to arrive at the projected residential
15 consumption for the rate year of 377,800 thousand gallons.
16

17 **Q. How was customer growth determined?**

18 A. The customer growth was based on the average growth in the number of meters
19 for the last 5 calendar years (2013-2017) and then extended for 2 years and
20 added to the Equivalent Meters for 2017 to obtain the projected meters per size
21 and customer class for the Rate Year ending September 30, 2019.
22

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1 **Q. Please explain the term “Equivalent Meters” and why the count is lower**
2 **than the actual average Meters?**

3 A. Equivalent Meters mean the number of meters that generates revenues for a period
4 of time, in this case the calendar year of 2017. SWRI has approximately 300
5 residential seasonal customers that are active between May through October
6 depending of the weather, and only generates revenue for 5 or 6 months. In
7 consequence the equivalent number of meters is lower than the actual average
8 meters. For example 300 seasonal meters are the equivalent to 150 meters that
9 generates revenue through the year.

10

11 **Q. Please describe the structure of providing fire service.**

12 A. SWRI provides Fire Protection through 202 private fire service lines and 659
13 public hydrants maintained by the Company at December 31, 2017.

14

15 **Q. How was growth determined for fire protection services?**

16 A. The growth for Private Fire Protection Service lines and Public Fire Hydrants was
17 determined using trend analysis with the average number of fire lines and
18 hydrants each year ended December from 2013 to December 2017. Fire service
19 lines and public hydrants have been very stable with a slight increase during the
20 last few years, which I have considered in my Rate Year revenue projection.

21

22 **Q. What was the result of the analysis conducted on other revenues?**

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1 A. Miscellaneous revenues consisting of items such as Turn-on Fees, Meter Reset
2 Fees, Meter Repair Fees, Returned Checks, Tank Truck Sales and Water Quality
3 charge account for less than 0.8% of the total revenue. A simple average was
4 used to project revenues from these miscellaneous items. The Company is
5 proposing to update the rates for Turn-on Fees and Tank Trunk Sales and for the
6 other miscellaneous charges maintain the current fees. The Company is also
7 proposing a new fee for missed appointments.

8

9 **Q. Please explain Exhibit 2, Schedule 1.**

10 A. This exhibit details the operating revenues by class for the Company for the Test
11 Year ended September 30, 2017, and the Rate Year ending September 30,
12 2019, at both existing and proposed rates. Column 1 of Schedule 1 represents
13 Company revenues for the Historic Test Year (twelve months actual October
14 2016 through September 2017). Column 2 is the normalized and annualized
15 revenues for the Rate Year ending September 2019 at present rates and Column
16 3 represents the Rate Year revenues at proposed rates. Column 4 shows the
17 percentage increase from the Rate Year at present rates (column 2) to proposed
18 rates (column 3).

19

20 **Q. Please explain Exhibit 2, Schedule 2.**

21 A. This schedule calculates all the individual components of revenue for the
22 Company for the Test Year and Rate Year at present and proposed rates. The
23 first five columns represent the number of monthly, quarterly and semi-annual

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1 bills, consumption, the rate and the revenues for the Test Year. The next five
2 columns represent the increase in the number of customers and their respective
3 number of bills, the conversion to monthly billing, and the consumption for the
4 Rate Year at present rates. The final five columns represent the Rate Year
5 customers and consumption billed at the Company's proposed rates.

6 **Q. How did the Company develop its proposed rates?**

7 A. The Company had Mr. David Fox prepare a class cost of service (CCOS) study to
8 develop what the appropriate revenues and rates should be to cover its various
9 customer classes. Accordingly, the Company is proposing changes to the tariff
10 schedules based on the findings of the CCOS.

11
12 **Q. Please explain further.**

13 A. The CCOS was prepared by David Fox from Raftelis Financial Consultants, Inc.
14 using data provided by the Company. The last CCOS study completed by the
15 Company was conducted in 2011 as presented in Docket 4455. Please refer to
16 Mr. Fox testimony for details of the current study.

17
18 **Q. Can you summarize the Company's proposal to implement monthly billing?**

19 A. Mr. Jacobs explains in his testimony why SWRI wants to implement monthly
20 billing. All customers of the Company are billed quarterly except for 22
21 commercial customers who are billed monthly. The change in billing from
22 quarterly to monthly include benefits for the customers as more frequent bills
23 make budgeting their payments easier as opposed to being faced with a larger

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1 quarterly bill. Customers should also be better able to monitor their consumption
2 both in terms of conservation and in finding leaks sooner which will avoid wasted
3 water and the resulting higher bill.

4

5 **Q. Are any other tariff changes proposed?**

6 A. Yes. The Company proposes a fee for missed appointments and update to the
7 backflow policy described in detail by Mr. Jacobs.

8

9 **Q. Are these tariff sheets included with the filing?**

10 A. Yes. All tariff sheets containing proposed rates and the proposed language
11 changes are provided in Item 2.5 (a) Exhibit B Proposed Tariff.

12

13 **RATE BASE AND DEPRECIATION EXPENSE**

14 **Q. Please describe Exhibit 4 Schedule 1 Rate Base Summary**

15 A. Schedule 1 page 1 shows how the Company's Rate Base balance is derived.
16 First, Column 1 shows each component of Rate Base for the Test Year 12
17 months ended September 30, 2017. Column 2 is the 13 month average of each
18 component ended September 30, 2017. Then Column 3 is the projected rate
19 base for the year ending September 30, 2018 and Column 4 is the 13 month
20 average ending September 30, 2018. Finally Column 5 is the projected rate base
21 for the Rate Year ending September 30, 2019 and Column 6 is the 13 month
22 average ending September 30, 2019.

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1 Each element was projected to the proposed Rate Year in Column 5, in the
2 following manner:

3 1. Utility Plant In Service – As shown on Exhibit 4, Schedule 3, projected
4 monthly Plant Additions and Retirements are added to / subtracted
5 from each month's beginning Plant Account balance, starting with
6 September 30, 2017 and ending at September 30, 2019. The average
7 Plant in Service balance for the Rate Year by Plant Account is
8 calculated by adding each month's ending balance, starting with
9 September 30, 2018 and ending at September 30, 2019 and dividing
10 by 13 months.

11 2. Accumulated Depreciation - Exhibit 4, Schedule 3 first calculates
12 monthly Depreciation Expense for each Plant Account by taking its
13 prior month's Balance, adding and subtracting the current month's
14 additions and retirements and then applying 1/12 of the annual
15 depreciation for each Plant Account. The monthly Accumulated
16 Depreciation balances are calculated by adding the current month's
17 Depreciation Expense to, and subtracting any current month
18 retirements from, the prior month's Accumulated Depreciation Balance.
19 The average Accumulated Depreciation Balance for the Rate Year is
20 calculated by adding each month's ending balance, starting with
21 September 30, 2018 and ending at September 30, 2019 and dividing
22 by 13 months. Cost of removal was also adjusted as applicable. The
23 Company completed a Depreciation Study and the proposed

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1 Depreciation rates were applied every month since October 2018
2 through September 2019, the Rate Year.

3 3. Contributions in Aid of Construction (CIAC) – Projected monthly
4 contributed mains and services were added to the prior month's CIAC
5 balance, starting at the September 30, 2017 balance from the Balance
6 Sheet, to determine new monthly balances for 2018 and 2019. The
7 average CIAC was also calculated for the 13 months balances from
8 September 30, 2017 through September 30, 2019 and divided by 13
9 as shown in Exhibit 4, Schedule 4. This Exhibit also calculates
10 incremental monthly amortization, total monthly amortization and
11 monthly Accumulated Amortization of CIAC balances which are also
12 contained in Exhibit 4, Schedule 3. The amortization of CIAC has
13 been included as a reduction in calculating the annual Depreciation
14 Expense.

15 4. Please refer to Mr. Cagle's testimony for detail of the following
16 schedules. Accumulated Deferred Income Taxes (ADIT) – Exhibit 4,
17 Schedule 5A, Deferred MACRS Tax Calculation Schedule 5B,
18 Regulatory liability- Tax rate change Schedule 5C, Deferred FIT –
19 AFUDC Equity and Cost of Removal Schedule 5D.

20 5. Unamortized Investment Tax Credit (ITC) – Exhibit 4, Schedule 9 is the
21 annual amortization and unamortized balances of investment tax
22 credits. Monthly balances in 2018 and 2019 were calculated by
23 deducting the current month's amortization from the prior month's

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1 balance. The average Unamortized ITC is calculated using the 13
2 month method described previously for other items of rate base.

3 6. Materials and Supplies – For the Rate Year, the Company has
4 included the average balance calculated for the Test Year using the 13
5 month averaging methodology previously discussed.

6 7. Cash Working Capital (CWC) – The Company is including an
7 allowance for CWC calculated using the 1/8 of Operation and
8 Maintenance expenses methodology.

9 8. Deferred Tank Painting – Exhibit 4, Schedule 6 calculates the
10 unamortized deferred Tank Painting balance. Unamortized balances
11 are calculated by subtracting current month amortization from the prior
12 month's balance. The schedule also calculates the deferred tax impact
13 on the monthly unamortized balance. An average of 13 months
14 projected September 30, 2017 through projected September 30, 2019
15 is calculated and included in Rate Base.

16 9. Deferred Rate Case Expense – As described in Ms. Arp's testimony,
17 the Company is projecting a total of \$181,000 for costs related to filing
18 a rate case. The Company is requesting a 3 year amortization. Exhibit
19 4, Schedule 7 calculates the monthly Deferred Balances from January,
20 2018 (when the Company started incurring costs related to filing the
21 current Rate Case) until the estimated end of the Rate Year
22 September, 2019. A 13 month average calculation as described above
23 was used to calculate the Rate Base impact.

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1 10. Unfunded FAS-106 – The Company calculated the historic unfunded
2 percentage 71.00% - shown on Exhibit 4, Schedule 8A and then
3 applied this percentage to its expected FAS-106 expense for 2018 and
4 2019. Since the expected expense is negative the calculation is zero
5 and the projected monthly balances does not change. Then the
6 Deferred Tax impact was calculated and a 13 month average of the net
7 balance from September 2018 through September 2019 was used to
8 determine the amount to be included in Rate Base.

9
10 **Q. Please describe the calculation of the Depreciation Expense Exhibit 3,**
11 **Schedule 22?**

12 A. As described above in the Accumulated Depreciation adjustment; the monthly
13 Depreciation Expense is calculated by taking the prior month's Plant Account
14 Balance, adding/subtracting the current month's additions/retirements and then
15 applying 1/12 of the annual depreciation for each Plant Account. For the Rate
16 year, each month's expense was added to arrive at the amount of \$905,502 used
17 in this case. Also, as mentioned above, the amortization of CIAC is included in
18 the calculation. The depreciation rates used in the Rate Year were the result of
19 the Depreciation Study. Please refer to Mr. Spanos' testimony for complete
20 detail.

21
22 **Q. Does this conclude your direct testimony?**

23 A. Yes it does.