

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

**WOONSOCKET)
WATER DIVISION) DOCKET NO. 4879**

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

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

January 25, 2019

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WOONSOCKET WATER) DOCKET NO. 4879
DIVISION)

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, 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 participating in compliance and prudence
6 audits of a major utility and conducting research on several issues affecting natural
7 gas 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 Kansas Corporation Commission and the
10 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 request to
17 change rates and implement a multi-year rate plan that was submitted by Woonsocket
18 Water Division (“WWD,” or “Woonsocket”). In this testimony, I present my
19 findings on behalf of the Division regarding the rate year revenue increase and the
20 multi-year rate plan that WWD has requested. My colleague, and Principal at Exeter,
21 Mr. Jerome D. Mierzwa, will present the Division’s recommendations regarding rate
22 design and class cost of 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 WWD's testimony, exhibits, its rate filing, and its responses to
2 the Division's and PUC's data requests.

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

5 Yes. I have prepared Schedules LKM-1 through LKM-4-4, which present my
6 findings and recommendations. Schedule LKM-1 provides a summary of revenues
7 and expenses under present rates after reflecting the Division's adjustments. This
8 schedule also presents the Division's recommended change in revenues for the rate
9 year. Schedule LKM-2, presents a more detailed breakdown of WWD's revenues by
10 account numbers and show my adjustments to specific revenue accounts. Schedule
11 LKM-3 presents the operating expenses (or the cost of providing service). This
12 schedule also shows the specific expense accounts that I have adjusted as a result of
13 my review. Schedule LKM-4 presents my recommendations for the change in
14 revenues for each of the years that are a part of the multi-year rate plan. The
15 remaining schedules attached to this testimony provide supporting calculations for the
16 adjustments that I am recommending.

17 **II. SUMMARY AND RECOMMENDATIONS**

18 Q. PLEASE SUMMARIZE THE RATE RELIEF REQUESTED BY WWD IN
19 ITS FILING.

20 A. As discussed in the direct testimony of WWD witness David G. Bebyn, WWD is
21 seeking an increase in rate year revenues of \$799,205. This amount would result in a
22 9.85 percent increase in operating revenues. This increase is based upon the rate year
23 ending December 31, 2019 and was developed from adjusting the test year ended
24 December 31, 2017 to reflect certain known and measurable changes.

1 Woonsocket has also requested the authorization of a 5-year multi-year rate plan,
 2 which would include four additional “step” increases that would go into effect in each
 3 of the next four years following the rate year (2020 through 2023)¹. In 2020 (Year 2),
 4 WWD proposes an increase of \$445,221, or a 4.99 percent increase. In 2021, WWD
 5 proposes an increase of \$633,928, or a 6.77 percent increase. In 2022, WWD
 6 proposes an increase of \$1,363,132, or 13.64 percent. Finally, in 2023, WWD
 7 proposes an increase of \$1,341,568, or 11.81 percent. In aggregate, WWD is
 8 proposing that it be granted an increase of \$4,583,054, or 56.46 percent, over the next
 9 five years. The table below summarizes the increases sought.

	Rate Year	WWD Rate Increase \$ Amount	Rate Increase % Amount
Initial Rate Increase	2019	\$799,205	9.85 %
1 st Step Increase	2020	445,221	4.99 %
2 nd Step Increase	2021	633,928	6.77 %
3 rd Step Increase	2022	1,363,132	13.64 %
4 th Step Increase	2023	<u>1,341,568</u>	11.81 %
Total Rate Increases		\$4,583,054	
Annualized Current Revenues		\$8,117,079	
Total Percentage Increase over Multi-year Rate Plan			56.46 %

10 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

11 A. As shown on Schedule LKM-1, I have determined WWD’s overall revenue
 12 requirement for the rate year to be \$8,641,776. This results in a rate year increase of
 13 \$515,635. This amount is \$283,570 less than the amount WWD requested.

14 Regarding the multi-year rate plan, I recommend that the Commission not authorize
 15 the 5-year rate increase plan as proposed by WWD. As I discuss later, the

16 Commission should limit the multi-year plan to a 3-year plan, and in years 4 and 5, I

¹ The initial rate year increase will be year 1 of the 5-year multi-year rate plan.

1 recommend the Commission only authorize recovery of the debt service, the DBO
 2 contract escalation and the increase in the operating reserve fund. The chart below is
 3 a summary of the Division's recommendation for WWD's change in revenues.

	Rate Year	WWD Rate Increase \$ Amount	Rate Increase % Amount
Initial Rate Increase	2019	\$515,635	6.35 %
1 st Step Increase	2020	430,822	4.99 %
2 nd Step Increase	2021	286,177	3.15 %
3 rd Step Increase	2022	1,278,687	13.66 %
4 th Step Increase	2023	<u>1,259,520</u>	11.84 %
Total Rate Increases		\$3,770,841	
Annualized Revenues at Current Rates		\$8,126,141	
Total Percentage Increase over Multi-year Rate Plan			46.40 %

4 Based on my analysis, the change in revenue that I have calculated is \$812,213 less
 5 than WWD has proposed over the next five years. For the rate year, I have calculated
 6 a change in revenue that is \$283,570 less than WWD requested. These data are
 7 summarized below.

	Rate Year	WWD Rate Increase	Division Rate Increase	Difference
Initial Rate Increase	2019	\$799,205	\$515,635	\$(283,570)
1 st Step Increase	2020	445,221	430,822	(14,399)
2 nd Step Increase	2021	633,928	286,177	(347,751)
3 rd Step Increase	2022	1,363,132	1,278,687	(84,445)
4 th Step Increase	2023	<u>1,341,568</u>	<u>1,259,520</u>	<u>(82,048)</u>
Total Rate Increases		\$4,583,054	\$3,770,841	\$(812,213)

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

1 A. Consistent with WWD's filing, I have used the same test year ended December 31,
2 2017 and rate year ending December 31, 2019 as the basis for determining WWD's
3 rate year revenue requirements and the revenue increase necessary to recover those
4 requirements.

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

6 A. The remainder of my testimony is organized into sections corresponding to the issue
7 or topic being addressed. I have also separated my discussion of the issues by rate
8 year and step increase. Specifically, under the rate year section, I discuss the issues
9 that I have adjusted in determining the rate year revenue requirement. Similarly,
10 under the step increase section, I address those issues that affect the revenue increases
11 for the step increase years. These sections are set forth in the Table of Contents of
12 this testimony.

13 **III. OTHER OPERATING REVENUES**

14 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO OTHER OPERATING
15 REVENUES.

16 A. Yes. In WWD's filing, an adjustment was made to the test year other operating
17 revenues (i.e., Service & Extensions Income, Miscellaneous Income and Interest on
18 Bills) to reflect a 4-year average of these revenues. The 4-year average, as presented
19 by WWD, was derived based upon the Fiscal Years 2014, 2015, 2016 and calendar
20 year 2017. WWD maintains its books on a fiscal year basis, which runs from July of
21 one year to June of the following year. As I reviewed the responses to data requests,
22 there were two instances where the response to the data request² suggested that the
23 data presented on a calendar year basis did not capture all the activity during the
24 calendar year. To avoid any potential distortion of the annual level of these revenues,

² See WWD's response to DIV-2-25(a) and DIV-2-26(a).

1 I have recalculated the 4-year average on a fiscal year basis for Fiscal Years 2014
2 through 2017. I then adjusted Other Operating Revenues to reflect the 4-year average
3 determined on a fiscal year basis. On Schedules LKM-2-1 through 2-3, I present the
4 calculation of the average other operating revenues and my adjustment to each of the
5 categories. As presented on these schedules, I am recommending increases in Service
6 and Extension Revenue, Miscellaneous Revenues and Interest on Bills of \$1,610,
7 \$4,031 and \$3,421, respectively.

8 **IV. PENSION EXPENSE**

9 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO PENSION
10 EXPENSE?

11 A. The level of pension expense WWD included in the cost of service was derived by
12 applying a pension expense rate of 12.20 percent to the total permanent services
13 salaries and longevity pay of \$979,338. In the response to Division data request DIV
14 2-14, WWD provided documentation which shows that the contribution rate is 10.77
15 percent. Therefore, I have recalculated the pension expense on Schedule LKM-3-1
16 using the 10.77 percent contribution rate. I then calculated the annual pension
17 expense using WWD's salaries and longevity pay and the 10.77 percent contribution
18 rate. The use of this rate results in a decrease in pension expense of \$14,005.

19 **V. ELECTRIC POWER EXPENSE**

20 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING TO ELECTRIC
21 POWER EXPENSE?

22 A. In WWD's filing, it derived the rate year level of electric power expense based upon
23 an adjustment to increase power purchased from National Grid by 10.21 percent.
24 This 10.21 percent increase was based upon a rate increase filing by National Grid
25 that was before the Commission. During the discovery phase, WWD indicated that

1 National Grid was authorized a 4.74 percent rate increase. Therefore, I am
2 recommending an adjustment to reflect the 4.74 percent increase in National Grid's
3 rates rather than the 10.21 percent contained in WWD's filing. On Schedule
4 LKM-3-2, I present this adjustment which decreases operating expenses by \$8,519.

5 There is one other item of concern that relates to electricity expense. It is my
6 understanding that WWD received a proposal for a new power supply contract.
7 However, to my knowledge, the proposal has not yet been approved nor has a
8 contract been executed. Given that WWD's current power supply contract is expiring
9 and it is probable that a new contract will be executed, WWD should update its filing
10 to reflect the change in its power supply cost.

11 **VI. PROPERTY TAXES**

12 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO WWD'S PROPERTY
13 TAXES.

14 A. WWD calculated property taxes by first escalating the test year (12/31/17) to derive
15 the 12/31/18 (referred to as the interim year) level of property taxes and then
16 escalating the interim year amount to derive the rate year amount.

17 Since WWD's rate year is a calendar year, the rate year property tax amount is
18 composed of two semi-annual amounts from two different fiscal years. Hence, the
19 test year amount is composed of the amount from January to June 2017 ("FY 2017")
20 and the amount from July to December 2017 ("FY 2018"). The escalation rate used
21 to calculate the annual property taxes for both the interim year and the rate year is
22 based upon the change in the level of property taxes between these two semi-annual
23 periods. This amounts to approximately a 3 percent increase in property taxes when
24 viewed on a total basis. This 3 percent is not only used to determine the rate year

1 property taxes but is also used as the basis for escalating property taxes during the
2 multi-year rate plan.

3 I disagree with this approach because one 6-month period is not an adequate
4 period of time to determine an estimate of future expense growth. In fact, when
5 property taxes are viewed over several years, the account fluctuates from year to year.
6 There are years when property taxes have decreased from the previous year. Hence,
7 the change in the account between one 6-month period, less than one year, is
8 insufficient to determine the growth or escalation rate to be used for five years or
9 more in the future. I have calculated the average growth rate based on a three-year
10 average and a five-year average to be 1.14 percent and 1.09 percent respectively.

11 To derive my adjustment to property taxes on Schedule LKM-3-3, I have used
12 the three-year average increase of 1.14 percent as the escalation rate. This results in a
13 decrease in the rate year property tax expense of \$5,204. Additionally, this escalation
14 rate is also used in the multi-year plan to escalate property taxes.

15 **VII. HEALTH AND DENTAL INSURANCE**

16 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU HAVE MADE TO
17 HEALTH AND DENTAL INSURANCE EXPENSE.

18 A. Woonsocket has made an adjustment to medical and dental insurance with the intent
19 of reflecting a projected increase in the cost of these insurances. First, WWD
20 calculates the percentage increase in the health and dental insurance by comparing the
21 FY 2017 rates to the FY 2019 rates. Woonsocket presents increases of 9 percent for
22 medical insurance and 6% for dental insurance. Next, WWD applies the calculated
23 increases to the adjusted test year amounts to derive its adjustment to health and
24 dental insurance.

1 From my review of the calculation, I discovered that WWD did not subtract
2 the cost of the water treatment plant employees that are expected to be transferred
3 from WWD as a result of the DBO contract. Although those costs were removed in
4 determining the personnel costs, they were not removed when calculating the
5 healthcare costs. On Schedule LKM-3-4, I have recalculated the healthcare cost by
6 removing costs related to the transferred employees first before applying the increase
7 in the insurance rates. Additionally, in the response to DIV 2-18, WWD points out
8 that the health insurance increase is 8.56 percent rather than 9 percent. Although a
9 minor issue, I carried both the health and dental insurance escalation rates out two
10 decimal points to match the data request response, since I was already recalculating
11 the expense.

12 **VIII. CITY SERVICE CHARGES**

13 Q. WHAT ADJUSTMENT HAVE YOU MADE TO CITY SERVICES
14 EXPENSES?

15 A. During discovery it was determined by WWD that the amount included in the cost of
16 service for City Service Charges was overstated because it contained more than 12
17 months activity. WWD has identified the amount of the overstatement. On Schedule
18 LKM-3-5, I present my adjustment which reduces operating expenses by \$63,167.

19 **IX. RATE CASE EXPENSE**

20 Q. WHY HAVE YOU MADE AN ADJUSTMENT TO RATE CASE
21 EXPENSE?

22 A. According to the presentation of rate case expense by WWD on Schedule
23 DGB-RY-3, the annual amount included in the cost of service was determined based
24 upon a 3-year amortization of \$200,000 of rate case expense. However, from my
25 examination of the electronic version of Schedule DGB-RY-3, WWD's claim is

1 based upon a 4-year amortization of \$250,000 in rate case expense. I have made an
2 adjustment to reduce the level of rate case expense from \$250,000 to \$150,000 and to
3 increase the amortization period from four years to five years.

4 I have reduced the total rate case expense from \$250,000 to \$150,000 for two
5 reasons. First, the amount WWD claimed for total rate case expense appears to be
6 excessive when compared to the rate case expenses claimed by Pawtucket Water
7 Supply Board (“PWSB”) and Kent County Water Authority (“KCWA”) in their most
8 recent rate cases before this Commission. Therefore, the amount that I have included
9 for rate case expense is more inline with the claim by PWSB and KCWA. Both
10 utilities are larger than WWD. Hence, one would not expect WWD’s rate case
11 expense claim to be significantly higher than both utilities.

12 Additionally, as I indicated above, the amount WWD disclosed as its rate case
13 expense claim is not the same as the actual amount that has been included in this
14 proceeding. Therefore, I have concluded that it is best not to place reliance on either
15 of the two amounts. Instead, I recommend the Commission adopt the \$150,000 as a
16 reasonable level of rate case expense unless WWD is able to adequately support its
17 claim of \$250,000.

18 Regarding the amortization period, I have used a five-year period to be
19 consistent with the proposed multi-year rate plan. If the Commission accepts the
20 multi-year rate plan, the benefit period of the rates established from this proceeding
21 will be the next five years. Therefore, it is appropriate to spread the cost over that
22 period. Moreover, WWD’s recent history of general rate case filings supports a five-
23 year amortization period rather than a three-year or four-year period. WWD prior
24 rate case, Docket No. 4320, was adjudicated during 2012 and the case prior to that,

1 Docket No. 3800, was adjudicated during 2007. Based upon this history, I believe
2 the five-year period is appropriate.

3 On Schedule LKM 3-6, I present my adjustment to rate case expense. This
4 adjustment reduces rate case expense by \$32,500.

5 **X. DBO CONTRACT**

6 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU HAVE MADE TO THE
7 DBO CONTRACT COSTS.

8 A. Pursuant to the construction of its new water treatment plant (“WTP”), WWD has
9 entered into a contractual arrangement with Woonsocket Water Services LLC (whose
10 members are AECOM Technical Services, Inc. and Suez Water, Inc.) to design, build,
11 and operate the new treatment facility. This contract (the DBO contract), also
12 includes the costs for the DBO contractor to continue to operate the current old
13 treatment facility until the new WTP is completed. The operations contract fee
14 covers all expenses (labor, supplies, material, chemicals and renewal & replacement)
15 to run the WTP. The arrangement that has been established is that the DBO
16 contractor will operate the current facility while the new facility is being constructed.
17 Upon completion of the new facility, the current facility will shut down and the DBO
18 contractor will begin operating the new facility. The DBO contractor was to have
19 started operating the current WTP on January 1, 2019 until the new facility is
20 completed and operational in December of 2020. One of the provisions of the
21 contract is an escalation clause that requires an annual escalation of the service costs.
22 The escalation rate is derived from a blended index. Sixty percent of the index based
23 upon the U.S. Department of Labor, Consumer Price Index (“CPI”) for all urban
24 consumers in the Northeast Area and the remaining forty percent of the index is based
25 upon the U.S. Department of Labor, Bureau of Labor Statistics, Employment Cost

1 Index (“ECI”). This annual escalation is intended to reflect changes in cost resulting
2 from inflation.

3 My concerns with the level of expenses included in the cost of service related
4 to the DBO contract has to do with the level of costs included for renewal &
5 replacement and the annual inflation escalation rate used by WWD.

6 WWD has included \$105,733 as the annual cost of renewal & replacement as
7 of the beginning of the contract. This amount overstates the DBO contract expense
8 and does not correspond to the expected annual renewal & replacement expenditures
9 related to the new water treatment facility. As indicated in the response to DIV 4-10,
10 in the first year of the DBO contract there is no expected outlay for renewal &
11 replacement. In years two through five of the operation of the new facility, the
12 annual outlay for renewal and replacement is less than \$30,000 in each of those years.

13 Q. DID YOU MAKE AN ADJUSTMENT TO THE RATE YEAR EXPENSES
14 TO REDUCE THE DBO CONTRACT AMOUNT RELATED TO THE
15 RENEWAL & REPLACEMENT COSTS?

16 A. No. The rate year DBO contract expense does not include any renewal and
17 replacement costs for the new water treatment facility. Even though the DBO
18 contractor was to have taken over operation of the water treatment facility as of
19 January 2019, the new facility to which the renewal & replacement costs relate will
20 not become operational until December 2020. Therefore, the renewal and
21 replacement costs are included after the new facility becomes operational during the
22 step period. Therefore, my adjustment to the DBO contract affects the step period
23 rather than the rate year.

24 Q. PLEASE EXPLAIN HOW YOU REFLECTED THE DBO CONTRACT
25 ADJUSTMENT IN THE STEP PERIOD.

1 A. Since the new treatment facility is expected to be completed in December 2020, the
2 DBO contract costs related to the new facility begins in January 2021. On Schedule
3 LKM-3-7, line 5, I have restated the renewal and replacement costs consistent with
4 the expected annual costs as of calendar year 2021. Those changes flow through the
5 total annual costs which is then reflected in the cost of service for the step period.

6 Q. PLEASE EXPLAIN THE OTHER ADJUSTMENT TO THE DBO
7 CONTRACT EXPENSE.

8 A. As I explained above, the DBO contract includes a clause that escalates the service
9 costs annually to recognize inflation using a blended rate that is based upon the CPI
10 and the ECI. Since the blended escalation rate is based upon published CPI and ECI,
11 the 2.62 percent rate used to calculate the annual cost escalation is a historical
12 inflation rate. I disagree with using the historical inflation rates as the future
13 escalation rate because past inflation rates are not necessarily a good predictor of
14 future inflation. Therefore, I have recalculated the blended inflation rate using
15 forecasted components. For the ECI, I obtained the forecasted values from the
16 Congressional Budget Office (“CBO”) August 2018 report, *An Update to the*
17 *Economic Outlook: 2018 to 2028*. For the CPI, I have used the projected core price
18 index for personal consumption expenditure (“PCE”) as reported by the Federal
19 Reserve Open Market Committee (“FOMC”) December 2018 meeting minutes.

20 The chart below summarizes my calculation of the DBO contract escalation
21 rate. Additionally, in my discussion of the inflation escalation (below), I explain the
22 reason why I have chosen to use the PCI instead of the CPI used by WWD.

	Rate Year	Division DBO Inflation Rate	WWD DBO Inflation Rate
1 st Step Increase	2020	2.70	2.62
2 nd Step Increase	2021	2.70	2.62
3 rd Step Increase	2022	2.62	2.62
4 th Step Increase	2023	2.54	2.62

XI. INFLATION ESCALATION

1
2 Q. DID WWD MAKE AN ADJUSTMENT TO ESCALATE ITS EXPENSES
3 TO REFLECT INFLATION?

4 A. WWD did not include an inflation escalation in the determination of the rate year cost
5 of service. However, for the multi-year step increases, WWD has applied an
6 escalation rate of 2.5 percent to the non-labor operating expenses, excluding expenses
7 that were separately adjusted. The 2.5 percent increase was derived from the CPI
8 based upon the change from June 2017 to June 2018.

9 Q. DO YOU AGREE WITH WWD'S INFLATION ESCALATION?

10 A. No. While conceptually I will accept the use of an inflation factor to escalate costs
11 during the multi-year step period, I disagree with the use of the historical CPI rate as
12 the basis of the escalation rate because past inflation rates are not necessarily a good
13 predictor of future inflation. For instance, from 2012 through 2017, the U.S.
14 economy experienced a period of low inflation. During that period annual inflation
15 averaged 1.17 percent. However, in recent years, national priorities have changed,
16 and inflation rates have increased to over 2.0 percent.

17 The approach taken by WWD, uses only one 12-month period to calculate its
18 inflation escalation rate. If the Commission were to accept the use of historical
19 inflation rates as the basis for the future inflation estimates, it would be appropriate to
20 use a multi-year average because historical inflation rates have not been constant.

1 Instead, they have fluctuated from year to year. Consequently, one 12-month period
2 would not be a good basis to estimate inflation. However, if an historical average
3 were used, the average inflation rate would result in an inflation rate of less than 1.5
4 percent.

5 Q. HOW HAVE YOU DETERMINED THE INFLATION RATE?

6 A. I have used the projected core price index for PCE as reported by the FOMC
7 December 2018 meeting minutes. The data showed projected inflation in the range of
8 1.9 percent to 2.3 percent. I have chosen to use 2.1 percent, based upon the median of
9 the range.

10 **XII. STEP INCREASES**

11 Q. WOULD YOU PLEASE DISCUSS THE STEP INCREASES PROPOSED
12 BY WWD?

13 A. As I indicated earlier, WWD has proposed a multi-year plan that includes four step
14 increases after the rate year. According to WWD, Rhode Island statutes provide the
15 opportunity for a water utility to propose a future rate plan of up to six years. The
16 four step increases in this proceeding are proposed to become effective January 1,
17 2020, January 1, 2021, January 1, 2022, and January 1, 2023. The step increases are
18 driven by the following components: Debt Reserve Funding, the DBO contract
19 Adjustments, Property Tax Increases, Non-labor inflation, Labor rate increases, and
20 the operating reserve.

21 Q. DO YOU AGREE WITH THE MULTI-YEAR RATE PLAN AS
22 PROPOSED BY WWD?

23 A. No. I disagree with the five-year multi-year rate plan as proposed. Based upon my
24 review of the filing, I believe any multi-year rate plan granted should be limited to a
25 three-year plan (the rate year increase and two subsequent step increases). However,

1 as I explain later, the Division is willing to make an exception to this position in this
2 proceeding.

3 Q. PLEASE EXPLAIN YOUR OPPOSITION TO THE FIVE-YEAR RATE
4 PLAN AS PROPOSED BY WWD.

5 A. There are several reasons why I disagree with the five-year rate plan. First, with the
6 exception of the debt reserve funding, the cost increases included in the multi-year
7 rate plan are all based upon general price increase indices like the CPI. There is very
8 little data or analysis of WWD's cost of service that is provided to validate the cost
9 increases. However, for short-term rate plans, this type of cost projection is generally
10 not opposed because the impact is relatively moderate. WWD's multi-year proposal
11 is very different in this regard. WWD is proposing to increase its rates by over 50
12 percent by use of the 5-year multi-year rate plan. Out of the \$4,583,054 that is being
13 sought, \$2,704,700 relates to years four and five of the multi-year plan. This is a
14 significant increase for a utility this size. Such an increase should not be granted
15 without a full review of the cost of service to determine whether other costs have
16 declined or if revenues have increased. For example, retiring the old water treatment
17 plant could result in a reduction to maintenance expense. Such decreases will not be
18 recognized given the approach of applying an inflation escalation to the operating
19 expenses.

20 A five-year period is a long enough period that costs and revenues will begin
21 to differ from the costs and revenues that are presented in the rate case. Hence,
22 implementing a significant rate increase without first reviewing costs and revenues
23 puts ratepayers at risk of being overcharged.

24 Another reason why the five-year rate plan should not be authorized is that the
25 proposed rate plan does not include any provision to recognize changes in

1 consumption or customers. WWD's customer count has increased since December
2 2015³ and that is likely to continue. Therefore, the number of customers over which
3 the costs are to be recovered is likely to increase and should be recognized.

4 Finally, the last two increases are largely driven by significant changes in the
5 debt reserve funding. The changes to the debt reserve funding are so significant that
6 they change WWD's cost structure and should not be allowed without a full review of
7 WWD's revenues and expenses. Moreover, WWD's witness Maureen E. Gurghigian
8 indicates that several of the items that are calculated based on interest cost (such as
9 insurance and Debt Service Reserve Fund) are subject to change with interest rates.
10 Therefore, some of the costs are not yet finalized.

11 Q. ARE YOU OFFERING AN ALTERNATIVE TO WWD'S PROPOSED
12 FIVE-YEAR MULTI-YEAR PLAN?

13 A. Yes. The role of the regulator and intervenors in utility rate cases is not limited to
14 determining the rates and charges. As regulators, we have the additional
15 responsibility to ensure that the utility is able to provide safe and reliable service.
16 The construction and operation of the new water treatment facility is a contributing
17 factor to providing safe and reliable service. Providing safe, clean and reliable water
18 service is in the customers' interest. Therefore, the Division does not want to be put
19 in the position where its recommendation may have a negative impact on safe and
20 reliable customer service.

21 Earlier, I indicated that the multi-year rate plan should be limited to a three-
22 year plan. In making that recommendation, I was concerned about cost projections
23 being based solely on price indices and the lack of consideration for any growth in
24 revenue that could offset the impact of the cost increases. However, as I have

³ See the response to DIV 1-5.

1 indicated, a major component of the last two step increases is the cost of the debt
2 funding for the new water treatment plant. Being able to service the debt, is an
3 integral part of constructing and operating the new water treatment plant. I am also
4 mindful that filing a rate case is costly, and that those costs are ultimately borne by
5 customers.

6 Therefore, I believe there is justification in this proceeding to recommend an
7 exception which would allow WWD to adjust its rates in steps three and four to
8 collect the additional debt funding costs. These costs are directly related to putting
9 the new water treatment in service, and cost recovery critical to the provision of
10 service. Because of this crucial aspect of the new WTP cost, the Division is willing
11 not to oppose recognizing these costs through the step increases.

12 It is important to recognize that WWD is a municipal-owned utility rather than
13 an investor-owned utility. As such, it is allowed to accumulate funds in the operating
14 reserve account. Hence, in the event of a short fall during the five-year period, funds
15 in the operating reserve account are available for use.

16 Q. BASED ON YOUR RECOMMENDATION WHAT ARE THE COSTS
17 WWD WILL BE ALLOWED TO RECOVER IN YEARS FOUR AND
18 FIVE OF THE STEP INCREASES?

19 A. In years four and five of the step increases, WWD will be allowed to recover the
20 increases in the debt funding reserve, the contractual increases in the DBO contract
21 and the corresponding increases in the operating reserve fund.

22 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

23 A. Yes, it does.

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

**WOONSOCKET WATER)
DIVISION) DOCKET NO. 4879**

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

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

January 25, 2019

CITY OF WOONSOCKET WATER DIVISION
 Revenue Requirement
 For the Rate Year Ending December 31, 2019

Line No.	Description	WWD Adjusted Test Year ^{1/}	Division Adjustments	Rate Year Old Rates	Rate Increase	Rate Year New Rates
1	Revenue	\$ 8,117,079	\$ 9,062 ^{2/}	\$ 8,126,141	\$ 515,635	\$ 8,641,776
2						
3	Expenses	<u>8,916,284</u>	<u>(274,508) ^{3/}</u>	<u>8,641,776</u>	<u>-</u>	<u>8,641,776</u>
4						
5	Net Profit	<u>\$ (799,205)</u>	<u>\$ 283,570</u>	<u>\$ (515,635)</u>	<u>\$ 515,635</u>	<u>\$ -</u>

Notes:

- 1/ Schedule DGB-RY-1.
- 2/ Schedule LKM-2.
- 3/ Schedule LKM-3.

CITY OF WOONSOCKET WATER DIVISION
 Summary of Operating Revenues
 For the Rate Year Ending December 31, 2019

Line No.	Account No.	Description	Adjusted Test Year	WWD Rate Year Adjustments	After WWD Adjustments	Division Rate Year Adjustments	Adjusted 12/31/19 Rate Year Amounts
REVENUE							
1	<u>Revenue from Rates and Charges</u>						
2	41010	Water Sales	\$ 5,915,529	\$ -	\$ 5,915,529	\$ -	\$ 5,915,529
3		Wholesale Sales	419,565	-	419,565	-	419,565
4		Customer Service Revenue	668,064	-	668,064	-	668,064
5		Customer Service Woon. Fire Prot.	662,026	-	662,026	-	662,026
6		Public Fire Service Revenue	26,746	-	26,746	-	26,746
7		Private Fire Service Revenue	112,358	-	112,358	-	112,358
8			<u>\$ 7,804,289</u>	<u>\$ -</u>	<u>\$ 7,804,289</u>	<u>\$ -</u>	<u>\$ 7,804,289</u>
9	<u>Miscellaneous Revenue</u>						
10	41030	Service & Extensions	\$ 121,513	\$ -	\$ 121,513	\$ 1,610 ^{2/}	\$ 123,123
11	41035	Repairs	-	-	-	-	-
12	41040	Miscellaneous Income	34,625	-	34,625	4,031 ^{3/}	38,656
13	41070	Water Surcharge	21,170	-	21,170	-	21,170
14	42310	Interest on Bills	106,652	-	106,652	3,421 ^{4/}	110,073
15	42320	Interest on Investments	28,830	-	28,830	-	28,830
16		Interest on Restricted Accounts	-	-	-	-	-
17			<u>\$ 312,790</u>	<u>\$ -</u>	<u>\$ 312,790</u>	<u>\$ 9,062</u>	<u>\$ 321,852</u>
18							
19		TOTAL REVENUE	<u>\$ 8,117,079</u>	<u>\$ -</u>	<u>\$ 8,117,079</u>	<u>\$ 9,062</u>	<u>\$ 8,126,141</u>

Notes:

1/ Schedule DGB-RY-2.

2/ Schedule LKM-2-1.

3/ Schedule LKM-2-2.

4/ Schedule LKM-2-3.

CITY OF WOONSOCKET WATER DIVISION
Adjustment to Service & Extension Revenue
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	<u>Revenue History</u>	
2	FY 2014	\$ 97,394
3	FY 2015	117,056
4	FY 2016	90,418
5	FY 2017	<u>187,623</u> ^{1/}
6		
7	4 year average	\$ 123,123
8		
9		
10		
11	Adjusted Test Year Service & Extension Revenue per Division	\$ 123,123
12		
13	Adjusted Test Year Service & Extension Revenue per WWD	<u>121,513</u> ^{2/}
14		
15	Test Year Adjustment	<u><u>\$ 1,610</u></u>

Notes:

1/ Attachment to the Response to DIV 2-25b.
2/ Schedule DGB-TY-1c.

CITY OF WOONSOCKET WATER DIVISION
 Adjustment to Miscellaneous Revenue
 For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	<u>Revenue History</u>	
2	FY 2015	39,712
3	FY 2016	43,244
4	FY 2017	32,322 ^{1/}
5	FY 2018	<u>39,346 ^{1/}</u>
6		
7	4 year average	\$ 38,656
8		
9		
10		
11	Adjusted Test Year Miscellaneous Revenue per Division	\$ 38,656
12		
13	Adjusted Test Year Miscellaneous Revenue per WWD	<u>34,625 ^{2/}</u>
14		
15	Test Year Adjustment	<u>\$ 4,031</u>

Notes
 1/ Attachment to the Response to DIV 2-26.
 2/ Schedule DGB-TY-1c.

CITY OF WOONSOCKET WATER DIVISION
Adjustment to Interest on Bills Revenue
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	<u>Revenue History</u>	
2	FY 2015	112,649
3	FY 2016	94,446
4	FY 2017	96,607 ^{1/}
5	FY 2018	<u>136,590</u> ^{1/}
6		
7	4 year average	\$ 110,073
8		
9		
10		
11	Adjusted Test Year Interest on Bills Revenue per Division	\$ 110,073
12		
13	Adjusted Test Year Interest on Bills Revenue per WWD	<u>106,652</u> ^{2/}
14		
15	Test Year Adjustment (C)	<u>\$ 3,421</u>

Notes

1/ Attachment to the Response to DIV 2-27.
2/ Schedule DGB-TY-1c.

CITY OF WOONSOCKET WATER DIVISION
 Summary of Cost of Service
 For the Rate Year Ending December 31, 2019

Line No.	Account No.	Description	Adjusted Test Year	WWD Rate Year ^{1/} Adjustments	After WWD Adjustments	Rate Year Adjustments	Adjusted 12/31/19 Rate Year Amounts
EXPENSES							
1	<i>Personnel Expense</i>						
2	51110	Permanent Services	\$ 1,388,854	\$ (446,259)	\$ 942,595	\$ -	\$ 942,595
3	51122	Temporary Labor	20,173	-	20,173	-	20,173
4	51141	Overtime Pay	200,286	(125,179)	75,107	-	75,107
5	51144	Out of Class	367	-	367	-	367
6	51145	Longevity Pay	53,989	(17,246)	36,743	-	36,743
7	51146	Medical Buy Back	15,756	(6,756)	9,000	-	9,000
8	51147	Sick Leave Reimbursement	1,920	-	1,920	-	1,920
9	51149	Shift Differential	9,262	(4,631)	4,631	-	4,631
10	51153	Non-sick/Injury Bonus	1,080	-	1,080	-	1,080
11	51155	Bonus for Course	17,439	(7,124)	10,315	-	10,315
12	51160	Retirement	535	-	535	-	535
13	<i>Total Personnel Expenses</i>		\$ 1,709,661	\$ (607,195)	\$ 1,102,465	\$ -	\$ 1,102,465
14							
15	<i>Maintenance & Servicing Expenses</i>						
16	52211	Postage	\$ 16,135	-	\$ 16,135	\$ -	\$ 16,135
17	52212	Telephone	30,734	-	30,734	-	30,734
18	52213	Dues & Subscriptions	2,726	-	2,726	-	2,726
19	52214	Advertising	3,631	-	3,631	-	3,631
20	52216	Travel Out of City	184	-	184	-	184
21	52219	Educational Training	8,585	(4,292)	4,292	-	4,292
22	52221	Printing & Reproducing	20,937	-	20,937	-	20,937
23	52231	General Maint. & Upkeep	40,496	(40,496)	(0)	-	(0)
24	52234	Vehicle & Outside Equip. Upkeep	34,489	-	34,489	-	34,489
25	52236	Maintenance - Office Equipment	116	-	116	-	116
26	52238	Maintenance - Roads & Walks	42,982	-	42,982	-	42,982
27	52239	Computer Software	4,653	-	4,653	-	4,653
28	52244	Land Rental Charges	2,862	-	2,862	-	2,862
29	52249	Other Rentals	17,926	-	17,926	-	17,926
30	52251	Heating	7,061	-	7,061	-	7,061
31	52252	Light & Power	374,530	15,902	390,432	(8,519)	381,913
32	52255	Property & Fire Taxes	169,237	10,818	180,055	(5,204)	174,851
33	52256	Sewer Assessment	83,899	(83,899)	0	-	0
34	52258	State Pollution Monitoring Program	21,477	-	21,477	-	21,477
35	52260	Regulatory Assessments	59,724	5,526	65,250	-	65,250
36	52261	Conservation Services	-	-	-	-	-
37	52266	Police Details	1,263	-	1,263	-	1,263
38	52281	Other Independent Service	51,656	-	51,656	-	51,656
39	52282	Audit Service	3,750	-	3,750	-	3,750
40	52283	Legal Service	6,148	-	6,148	-	6,148
41	52289	Medical Examinations	-	-	-	-	-
42	52290	Engineering Service	825	-	825	-	825
43	<i>Total Maintenance & Servicing Expenses</i>		\$ 1,006,026	\$ (96,442)	\$ 909,584	\$ (13,723)	\$ 895,862
44							

CITY OF WOONSOCKET WATER DIVISION
 Summary of Cost of Service
 For the Rate Year Ending December 31, 2019

Line No.	Account No.	Description	Adjusted Test Year	WWD Rate Year 1/ Adjustments	After WWD Adjustments	Division Rate Year Adjustment	Adjusted 12/31/19 Rate Year Amounts
45	<i>Operating Supplies & Expenses</i>						
46	53311	Office Supplies	\$ 2,699	\$ -	\$ 2,699	\$ -	\$ 2,699
47	53321	Gas & Diesel	22,611	-	22,611	-	22,611
48	53322	Tires & Batteries	2,506	-	2,506	-	2,506
49	53336	Chemicals - Water Supply	-	-	-	-	-
50	<i>Operating Supplies & Expenses (Continued)</i>						
51		Plant Operating Contract existing	-	1,941,000	1,941,000	-	1,941,000
52		Plant Operating Contract (Chem Crdt)	-	(145,717)	(145,717)	-	(145,717)
53	53344	Tools & Implements	2,484	-	2,484	-	2,484
54	53346	Cleaning & Housekeeping Supplies	1,563	-	1,563	-	1,563
55	53349	Other Supplies	39,261	(19,631)	19,631	-	19,631
56	53351	Lab Supplies	30,129	(30,129)	(0)	-	(0)
57	53363	Clothing & Footwear	6,082	(3,041)	3,041	-	3,041
58	53366	Drug & Medical Supplies	402	-	402	-	402
59	53369	Clothing Allowance	4,091	(2,046)	2,046	-	2,046
60	<i>Total Operating Supplies & Expenses</i>		\$ 111,828	\$ 1,740,437	\$ 1,852,265	\$ -	\$ 1,852,265
61							
62	<i>General Expenses</i>						
63	54413	Fiscal Certification	\$ 7,750		\$ 7,750	\$ -	\$ 7,750
64	54433	Pensions	178,142	(58,663)	119,479	(14,005)	105,475
65	54434	FICA Employer Cost	130,789	(46,450)	84,339	-	84,339
66	54446	City Service Charges	372,060	1	372,060	(63,167)	308,893
67	54451	Insurance - Vehicles & Equipment	75,501	-	75,501	-	75,501
68	54452	Insurance - Workmen's Comp	131,800	(50,084)	81,716	-	81,716
69	54453	Insurance - Liability	122,819	(998)	121,821	-	121,821
70	54456	Insurance - Group Life	13,787	549	14,336	-	14,336
71	54471	Health Insurance	533,637	49,081	582,718	(141,007)	441,711
72	54472	Dental Insurance	27,860	1,610	29,470	(10,107)	19,363
73	54493	Bad Debt Exp	-	-	-	-	-
74	<i>Total General Expenses</i>		\$ 1,594,145	\$ (104,955)	\$ 1,489,190	\$ (228,285)	\$ 1,260,904
75							
76	<i>Restricted Account Expenses</i>						
77	53336	Chemicals - Water Supply	\$ 396,000	\$ (396,000)	\$ -	\$ -	\$ -
78	54417	Operating Reserve	63,180	17,100	80,280	-	80,280
79	54463	Infrastructure Replacement	1,700,000	(365,000)	1,335,000	-	1,335,000
80	54464	Rate Case Expense (Unrestricted)	65,864	(3,364)	62,500	(32,500)	30,000
81	54467	Debt Service Reimbursement	1,600,000	365,000	1,965,000	-	1,965,000
82	54473	Renewal & Replace Fund	120,000	-	120,000	-	120,000
83	<i>Total Other Miscellaneous Expenses</i>		\$ 3,945,044	\$ (382,264)	\$ 3,562,780	\$ (32,500)	\$ 3,530,280
84							
85	TOTAL EXPENSES		\$ 8,366,703	\$ 549,581	\$ 8,916,284	\$ (274,508)	\$ 8,641,776

CITY OF WOONSOCKET WATER DIVISION
Adjustment to Pension Expense
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	Total Permanent Services + Longevity	\$ 979,338 ^{1/}
2	Pension Rate	<u>10.77% ^{2/}</u>
3		
4	Pension Expense per Division	\$ 105,475
5	Pension Expense per WWD	<u>119,479</u>
6		
7	Adjustment to Pension Expense	<u>\$ (14,005)</u>

Notes:

1/ WWD Filing, Schedule WEE-4.

2/ Response to DIV-2-14.

CITY OF WOONSOCKET WATER DIVISION
 Adjustment to Power Expense
 For the Rate Year Ending December 31, 2019

Line No.	Description	Adjusted Test Year	Adjustment	Rate Year
1	Light & Power			
2	National Grid	\$ 155,750 ^{1/}	\$ 7,383 ^{2/}	\$ 163,133
3	Direct Energy Business	<u>218,780</u> ^{1/}	<u>-</u>	<u>218,780</u>
4				
5	Total Power Expense per Division	\$ 374,530	\$ 7,383	\$ 381,913
6	Total Power Expense per WWD			<u>390,432</u>
7				
8	Adjustment to Power Expense			<u>\$ (8,519)</u>

Notes:
 1/ WWD filing Schedule DGB-RY-6
 2/ Per response to DIV 2-15, National Grid was authorized a 4.74% increase in Docket No. 4770.

CITY OF WOONSOCKET WATER DIVISION
Adjustment to Property Taxes
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	Property Taxes per Division	\$ 174,851 ^{1/}
2	Property Taxes per WWD	<u>180,055</u> ^{2/}
3		
4	Adjustment to Property Taxes	<u>\$ (5,204)</u>

Notes:

1/ Company Filing Schedule DGB-RY-7.

CITY OF WOONSOCKET WATER DIVISION
 Adjustment to Medical Insurance Expense
 For the Rate Year Ending December 31, 2019

Line No.	Description	Health Insurance ^{1/}	Dental Insurance ^{1/}
1	Adjusted Test Year Health & Dental Expenses	\$ 533,637	\$ 27,860
2	Health & Dental Expenses for Employees not included in Rate Year	<u>(126,755)</u>	<u>(9,554)</u>
3	Net Health & Dental Insurance Expense	406,882	18,306
4	Increase in Insurance Costs	<u>108.56% ^{2/}</u>	<u>105.78%</u>
5			
6	Adjusted Health & Dental Insurance Expense per Division	\$ 441,711	\$ 19,363
7	Health & Dental Insurance Expense per WWD	<u>582,718</u>	<u>29,470</u>
8			
9	Adjustment to Insurance Expense	<u>\$ (141,007)</u>	<u>\$ (10,107)</u>

Notes:

1/ Company Filing Schedule DGB-RY-8.

2/ Response to Division 2-18

CITY OF WOONSOCKET WATER DIVISION
Adjustment to City Services
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	FY 2014	<u>\$ 63,167</u> ^{1/}
2		
3	Rate Year Adjustment	<u>\$ (63,167)</u>
4		

Notes

1/ Attachment to the Response to DIV 4-14.

CITY OF WOONSOCKET WATER DIVISION
Adjustment to Rate Case Expenses
For the Rate Year Ending December 31, 2019

Line No.	Description	Amount
1	Division Estimated Rate Case Expense	\$ 150,000
2	Normalization Period	<u>5</u>
3		
4	Division Annual Rate Case Expense	\$ 30,000
5		
6	WWD Estimated Rate Case Expense	\$ 250,000
7	Normalization Period	<u>4</u>
8		
9	WWD Annual Rate Case Expense	<u>62,500</u>
10		
11	Adjustment to Rate Case Expense	<u>\$ (32,500)</u>

CITY OF WOONSOCKET WATER DIVISION
 Adjustment to DBO Contract Service Fees
 For the Rate Year Ending December 31, 2019

Line No.	Description	Rate Year CY 2019	1 st Step Increase CY 2020	2 nd Step Increase CY 2021	3 rd Step Increase CY 2022	4 th Step Increase CY 2023
1	Fixed O&M Component	\$ 1,881,000	\$ 1,931,787	\$ 1,852,771	\$ 1,901,314	\$ 1,949,607
2						
3	Fixed Corrective Maintenance and Repair	60,000	\$ 61,620	32,496	33,347	34,194
4						
5	Fixed Renewal and Replacement Plan ^{1/}	-	-	-	3,500	13,000
6						
7	Annual Expense per Division	<u>\$ 1,941,000</u>	<u>\$ 1,993,407</u>	<u>\$ 1,885,267</u>	<u>\$ 1,938,161</u>	<u>\$ 1,996,801</u>
8						

Notes

1/ Attachment to the Response to DIV 4-14.

CITY OF WOONSOCKET WATER DIVISION
Summary of Step Increases
For the Rate Year Ending December 31, 2019

Line No.	Description	WWD Amount	Division Amount	Difference
1	Rate Year Increase (CY 2019)	\$ 799,205	\$ 515,635	\$ (283,570)
2				
3	1 st Step Increase (CY 2020)	445,221	430,822	(14,399)
4				
5	2 nd Step Increase (CY 2021)	633,928	286,177	(347,751)
6				
7	3 rd Step Increase (CY 2020)	1,363,132	1,278,687	(84,444)
8				
9	4 th Step Increase (CY 2021)	<u>1,341,568</u>	<u>1,259,520</u>	<u>(82,048)</u>
10				
11	Total	<u>\$ 4,583,054</u>	<u>\$ 3,770,841</u>	<u>\$ (812,213)</u>

CITY OF WOONSOCKET WATER DIVISION
 Calculation of 1st Step Increase
 For the Rate Year Ending December 31, 2019

Line No.	Description	Amount	Amount
1	YEAR 2 - RY 2020		
2			
3	Rate Year (FYE 12/31/19) Revenue Requirement		\$ 8,641,776
4			
5	<u>Step Increases for 2020</u>		
6	New Debt Reserve Funding	\$ 170,000	
7	Plant Op Contract (existing plant)	52,407	
8	Remove one time Chemical Credit	145,717	
9	Light & Power Increase	-	
10	Property & Fire Taxes Increase	1,998	
11	Inflation Labor @ 2%	22,049	
12	Inflation Non-Labor @ 2.1%	34,797	
13	Operating Reserve Increase 1.5%	<u>3,855</u>	
14		\$ 430,822	
15			
16	Rate Year (FYE 12/31/20) Revenue Requirement		<u>\$ 9,072,598</u>
17			
18	Proposed Step Increase (FYE 12/31/20) Revenue Requirement		<u>4.99%</u>

CITY OF WOONSOCKET WATER DIVISION
 Calculation of 2nd Step Increase
 For the Rate Year Ending December 31, 2019

Line No.	Description	Amount	Amount
1	YEAR 3 - RY 2021		
2			
3	Rate Year (FYE 12/31/20) Revenue Requirement		\$9,072,598
4			
5	<u>Step Increases for 2021</u>		
6	New Debt Reserve Funding	\$ 335,000	
7	Plant Op Contract (New plant)	(108,140)	
8	Remove one time Chemical Credit	-	
9	Light & Power Increase	-	
10	Property & Fire Taxes Increase	2,020	
11	Inflation Labor @ 2%	22,490	
12	Inflation Non-Labor @ 2.1%	35,527	
13	Operating Reserve Increase 1.5%	(722)	
14		<u>\$ 286,177</u>	
15			
16	Rate Year (FYE 12/31/21) Revenue Requirement		<u>\$9,358,775</u>
17			
18	Proposed Step Increase (FYE 12/31/21) Revenue Requirement		<u>3.15%</u>

CITY OF WOONSOCKET WATER DIVISION
 Calculation of 3rd Step Increase
 For the Rate Year Ending December 31, 2019

Line No.	Description	Amount	Amount
1	YEAR 4 - RY 2022		
2			
3	Rate Year (FYE 12/31/21) Revenue Requirement		\$ 9,358,775
4			
5	<u>Step Increases for 2022</u>		
6	New Debt Reserve Funding	1,225,000	
7	Plant Op Contract (New plant)	52,894	
8	Remove one time Chemical Credit	-	
9	Light & Power Increase	-	
10	Property & Fire Taxes Increase	-	
11	Inflation Labor @ 2%	-	
12	Inflation Non-Labor @ 2.1%	-	
13	Operating Reserve Increase 1.5%	793	
14		<u>1,278,687</u>	
15			
16	Rate Year (FYE 12/31/22) Revenue Requirement		\$ 10,637,462
17			
18	Proposed Step Increase (FYE 12/31/22) Revenue Requirement		13.66%

CITY OF WOONSOCKET WATER DIVISION
 Calculation of 4th Step Increase
 For the Rate Year Ending December 31, 2019

Line No.	Description	Amount	Amount
1	YEAR 5 - RY 2023		
2			
3	Rate Year (FYE 12/31/22) Revenue Requirement		\$ 10,637,462
4			
5	<u>Step Increases for 2023</u>		
6	New Debt Reserve Funding	1,200,000	
7	Plant Op Contract (New plant)	58,640	
8	Remove one time Chemical Credit	-	
9	Light & Power Increase	-	
10	Property & Fire Taxes Increase	-	
11	Inflation Labor @ 2%	-	
12	Inflation Non-Labor @ 2.1%	-	
13	Operating Reserve Increase 1.5%	880	
14		<u>1,259,520</u>	
15			
16	Rate Year (FYE 12/31/23) Revenue Requirement		\$ 11,896,982
17			
18	Proposed Step Increase (FYE 12/31/23) Revenue Requirement		11.84%