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May 11, 2020

Ms. Luly Massaro, Clerk  
RI Public Utilities Commission  
89 Jefferson Blvd.  
Warwick, RI 02888

RE: Providence Water Docket No. 4994

Dear Ms. Massaro:

Please find enclosed herewith Kent County Water Authority's Prefiled Direct Testimony in the above-referenced Docket along with 9 copies. Should you have any questions, please contact me. Thank you.

Sincerely,

  
Mary B. Shekarchi  
Attorney at Law

MBS/mdc  
Enclosure

Cc: Docket 4994 Service List (via electronic mail)

**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**DOCKET 4994**

**Providence Water**

**Prefiled Direct Testimony**

**of**

**David G. Bebyn CPA**

**On Behalf of**

**Kent County Water Authority**

**May 11, 2020**

1 **INTRODUCTION**

2  
3 **Q. Please state your name and business address for the record.**

4 **A.** My name is David G. Bebyn, CPA, and my business address is 21 Dryden Lane,  
5 Providence, Rhode Island 02904.  
6

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

8 **A.** I am the President of B&E Consulting LLC. (B&E). B&E is a CPA firm that  
9 specializes in utility regulation, expert rate and accounting testimony, tax and accounting  
10 services.  
11

12 **Q. Mr. Bebyn, have you testified as an expert accounting witness prior to this docket?**

13 **A.** Yes. I have provided testimony on several rate-related matters before utility regulatory  
14 authorities in Rhode Island and Connecticut. Before the Rhode Island Public Utilities  
15 Commission (the Commission), I: (i) submitted pre-filed testimony and gave oral testimony in  
16 A&R Marine's general rate filing (Docket No. 4586), (ii) submitted pre-filed testimony and  
17 gave oral testimony on behalf of the Pascoag Utility District in Docket No. 4341 in support of  
18 the adjusted test year, rate year and rate design, (iii) submitted pre-filed testimony and gave oral  
19 testimony regarding revenue requirement and rate design on behalf of intervenors the Towns of  
20 Narragansett and South Kingstown in the rate case filed by SUEZ Water-RI and United Water  
21 (predecessor of SUEZ) – Docket No. 4800 and Docket No. 4435; (iv) submitted pre-filed  
22 testimony and gave oral testimony in support of the adjusted test year, rate year and rate design  
23 in Woonsocket Water Division's multi-year rate filing in Docket No. 4879.  
24

25 **Q. What is your educational background?**

26 **A.** I received my Bachelor of Science Degree in Accounting (BSA) from Rhode Island  
27 College. I became a Certified Public Accountant in 2000 after successfully passing the CPA  
28 exam.  
29

30 **Q. Who do you represent in this matter?**

31 **A.** Kent County Water Authority (KCWA)

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**Q. What is the purpose of your testimony?**

A. My testimony reflects the results of my review of the Providence Water Supply Board's ("Providence Water") rate filing submitted on December 12, 2019, in this docket, as well as my review of the responses to data requests submitted to date. My testimony presents recommended revisions to Providence Water's request based on my review.

**Q. What is Providence Water's request in this docket?**

A. Providence Water seeks to implement a multi-year rate plan pursuant to R.I.G.L. § 39-15.1-4. This proposed multi-year rate plan would increase rates in two phases. In the first phase of the increase, proposed to take effect on January 2, 2020, Providence Water proposes to collect additional operating revenue in the amount of \$13,311,349 to support a total revenue requirement of \$84,567,403. The increase proposed by Providence Water would result in a 19.07% increase in the annual revenues.

In the second phase of the increase, proposed to take effect on July 1, 2021, Providence Water proposes to collect additional operating revenue of \$6,131,341 to support a total revenue requirement of \$92,063,489. This second phase increase would increase Providence Water's annual revenues by 7.26%.

In the third phase of the increase, proposed to take effect on July 1, 2022, Providence Water proposes to collect additional operating revenue of \$3,574,759 to support a total revenue requirement of \$95,638,248. This second phase increase would increase Providence Water's annual revenues by 3.94%.

**Q. How would Providence Water's request impact KCWA?**

A. Providence Water included a cost of service study in this docket, which calculated new rates would have different impacts for each customer class. The rates for KCWA, along with the other wholesale customers, would increase by 20.67% in the first phase, which is a higher increase than any other class. The second phase would increase KCWA's rates by an additional 7.26%. The third phase would increase KCWA's rates by an additional 3.94%.

1 **Q. What is your overall impression of Providence Water's rate proposal?**

2 A. Providence Water's proposed increase comes less than three years since its last increase  
3 in Docket No. 4618. The rates from that docket went into effect on February 17, 2017. In  
4 Docket No. 4618, Providence Water initially requested additional revenues of \$8,328,042 for a  
5 total cost of service of \$77,728,472. Following discovery, a public comment hearing, and  
6 evidentiary hearings, on January 24, 2017, January 25, 2017, January 31, 2017, and February 1,  
7 2017, the Commission approved only \$5,821,862 in additional revenue, to support a total cost of  
8 service of \$75,821,862.

9  
10 **Q. Can you summarize your testimony?**

11 A. I will address the following matters in my testimony:

- 12 • City Service
- 13 • Property Taxes
- 14 • Academy Avenue facility
- 15 • Wholesale Base, Maximum day and Maximum Hour allocators
- 16 • Allocation of Unidirectional Flushing Program
- 17 • Increase of Lead Service Replacement fund during Step increase year

18  
19 KCWA will be looking to the Division's witnesses to address most of the revenue  
20 requirement issues.

21  
22 **City Service**

23 **Q. Please discuss the City Services expenses you mentioned in the list of revenue**  
24 **requirement issues?**

25 A. In the last Docket, 4618, Providence simply added an inflation factor to previous city  
26 service. In that Docket, Providence Water acknowledged that it had no detailed analysis of City  
27 Services expense allocable to Providence Water. Therefore, the Commission rejected Providence  
28 Water's increased funding request for City Services finding that Providence Water had not  
29 complied with the Commission's prior directive that a cost allocation manual would be required.  
30 In this Docket, Providence Water did complete a City Services analysis, the finding of which is  
31 presented in Mr. Smith's testimony starting on page 31. The total impact of what Providence is

1 proposing is an increase of \$651,167 for a total expense of \$1,490,693. This is a sizable increase  
2 from the Test Year.

3  
4 **Q. Mr. Bebyn, what are your opinions of what Providence Water is proposing for City  
5 Services?**

6 **A.** Mr. Smith has prepared a very detailed and thoughtful analysis of the services provided  
7 by the City of Providence to the Providence Water. For the most part, I can  
8 agree with the methodology of what Mr. Smith has recommended, such as allocating the  
9 personal Department based upon Providence Water employees vs. total City employees. While  
10 the method seems sound for some areas, for others there are flaws, for example:

- 11 1. One of the main areas of concern is the allocation of the Mayor's office. Providence  
12 Water had allocated the Mayor's office budget based upon an allocation of Providence  
13 Water employees vs. total City employees. Under this method, Providence proposed the  
14 allocated cost of \$270,363. This method does not take into consideration of actual time  
15 spent. The Commission in data request PUC 1-4 asked what estimated for the cost of the  
16 time spent. Providence estimated the cost would only be \$59,099.93 using the allocation  
17 based upon time spent. This is what I am recommending for the allocation.
- 18 2. The other area of concern is the Finance Department. Providence Water had allocated the  
19 Finance Department budget based upon an allocation of Providence Water expenditures  
20 vs. total City expenditures. Under this method, Providence proposed the allocated cost of  
21 \$94,584. City Finance Department may very well provide some service to Providence  
22 Water; however, the financial capabilities of Providence Water do not require the same  
23 levels of effort as other City agencies that are due to Providence Water's finance  
24 department. In response to BCWA 1-31, Providence Water answered that they have four  
25 employees that provide oversight and approval of their own financial transactions.  
26 Providence Water also stated that another four employees provide review and approval of  
27 purchase orders. Given that Providence Water has its own oversight, the proposed  
28 allocation is excessive.

29 Furthermore, while Providence Water has responded to some of the data requests covering City  
30 Service, a significant number of the discovery responses which would aid in the evaluation of the  
31 City Services expense have not been filed to date. This lack of response is due to the City being

1 unable to provide the information to Providence Water because the City Administration is  
2 dealing with the Coronavirus Pandemic.

3  
4 **Q. Mr. Bebyn, what are you recommending for City Services?**

5 **A.** Since Providence Water is unable to support its City Services expense claim fully, I  
6 recommend that the City Service expense remain at Providence Water's most recently approved  
7 balance of \$839,167.

8  
9 **Property Taxes**

10 **Q. Please discuss your concern with the claimed revenue requirement for property**  
11 **taxes?**

12 **A.** Mr. Smith has projected a 4% per year increase in property taxes (page 13). He has  
13 indicated that he will update the taxes this summer when the tax bills become available. I am in  
14 full agreement with this proposal to update the claimed amounts; however, I remain concerned  
15 that adding the maximum rate of 4% for the balance of the rate year and subsequent rate years  
16 for the step increase years is too much. An analysis of past property taxes using Schedule HJS-9  
17 and Providence Water Exhibit-1 calculate an average increase of 3.3% per year for Scituate taxes  
18 and less than 1% for all other communities.

19  
20 **Academy Avenue facility**

21 **Q. Please discuss your concerns regarding the proceeds of any potential sale of Academy**  
22 **Avenue. Wouldn't these just go to the City?**

23 **A.** This was a significant issue that Mr. Woodcock raised during Docket #4618. Mr. Woodcock  
24 cited that Providence Water had maintained that Providence Water does not own the Academy  
25 Avenue facility and therefore was not entitled to any proceeds from the sale. He further  
26 highlighted inconsistencies with Providence Water's filing on the issue of ownership of the  
27 Academy Avenue office. Providence Water still maintains this position as evidenced in response  
28 to Commission data request Comm 1-2. Providence Water cites in Comm 1-2 their response to  
29 KCWA (KCWA 1-4) in Docket 4618. The Commission, however, in order 23666 that the review  
30 and shall be deferred to Providence Water Supply Board's next general rate case, with the caveat  
31 that Providence notify the Commission of any sale and report on the specifics of that sale.

1 While the Academy Avenue office has not been sold to date, thus requiring a review.  
2 Providence has not made any additional effort to support their position, as evidenced by their  
3 response to the Commission in Commission data request Comm 1-2.  
4

5 **Q. Mr. Bebyn, if the property has not been sold, isn't the property unripe for review?**

6 A. Not necessarily. While the property has not been sold, ownership of the property has now  
7 become an issue. Providence Water indicated in Commission data request Comm 1-2 that  
8 Providence Water has turned over the property to the City, which is to their knowledge, is being  
9 used by the City. If this is an asset of Providence Water, as Mr. Woodcock raised during Docket  
10 #4618 when he highlighted inconsistencies with Providence Water's filing on the issue of  
11 ownership of the Academy Avenue office, then the City should be compensating Providence  
12 Water. This compensation would be no different than the payment Providence Water provides to  
13 the City for its expenses covered under the City Service charge.  
14

15 **Wholesale Base, Maximum day and Maximum Hour allocators**

16 **Q. What has Providence Water proposed regarding the cost of service analysis?**

17 A. Mr. Smith has proposed a cost of service model using the "Base-extra Capacity Method" as  
18 outlined in the American Water Works Association Manual M1: "Principles of Rates, Fees and  
19 Charges." This model is an improvement from the prior dockets since, in those dockets,  
20 Providence Water would just submit a cost of service study where the allocators would only  
21 reference factors from previous cases. In developing this study, new Maximum day and  
22 maximum hour factors for wholesale were developed in this Docket.  
23

24 **Q. What are your concerns with the Maximum Day and Maximum Hour?**

25 A. While base consumption is shared equally, there is little concern for the inequities between  
26 how the individual wholesale customers contribute to base costs. The same cannot be said in how  
27 the costs are allocated based upon wholesale maximum day and maximum hour demand rates.  
28 The individual factors presented in response to DIV 2-2 show that one of the wholesale  
29 customers is controlling the overall rate for the group.  
30



1 **Q. If individual rates for each wholesale customer could solve this issue, what impact**  
2 **would it have on KCWA?**

3 That solution would be a problem for KCWA since KCWA and Warwick have agreements in  
4 place for wheeling water between the two systems. The agreement sets the charge between each  
5 other at the current Providence Water rate. This would cause funding issues if each had different  
6 rates between what they were wheeling and receiving.

7  
8 **Allocation of Unidirectional Flushing Program**

9 **Q. How does Providence Water explain that it appropriate to allocate Unidirectional**  
10 **Flushing Program to wholesale customers?**

11 A. Mr. Giasson explains in response to Division Data request DIV 5-1 that it is appropriate  
12 since the program covers flushing all mains that are 12 inches and below and that there  
13 wholesale customers who are fed by 8-inch and 12-inch lines. Mr. Giasson supports his position  
14 by listing the wholesale customers by service line in the attachment to Division Data request  
15 DIV 2-8.

16  
17 **Q. How Does Providence Water allocate this cost to wholesale?**

18 A. Mr. Smith addresses this allocation in response to the Bristol County Water Authority  
19 (BCWA) data request BCWA 1-2. He explains that the costs are embedded in the T&D Salaries,  
20 Benefits, and Contract Services and are allocated with either factor 13 or factor 14. Mr. Smith  
21 does also provides an attachment to BCWA 1-2, which just shows the impact of the flushing  
22 program.

23  
24 **What are your concerns with this approach?**

25 A. First, I would like to address that of the nine wholesale service lines listed on the attachment  
26 to Division Data request DIV 2-8 that all the 8-inch lines, which make up half of the total nine  
27 lines, are connections with Johnston which are transferred to the retail class during the FY 2021  
28 Rate Year. Second, no provision is made in the calculations for the flow between service lines  
29 greater than 12 inches or those 12 inches and below. Per Mr. Smith's calculation on the  
30 attachment to BCWA 1-2, all wholesale units vs. total units are used to allocate CTA Base costs  
31 for the flushing program.

1 **Q. What do you propose to solve this issue?**

2 A. I recommend that the units used in the calculation on the attachment to BCWA 1-2 be only  
3 from the service lines used to justify allocating the flushing program to wholesale.  
4

5 **Increase of Lead Service Replacement fund during Step increase year**

6 **Q. Please discuss your concerns regarding an increase of the Lead Service Replacement  
7 fund during step increase year.**

8 A. Certainly. Providence Water is proposing to increase Lead Service Replacement funding in  
9 rate year 2 (FY 2022) by \$2,750,000. Providence is also proposing an across-the-board increase  
10 for Rate Year 2 in the amount of 7.26%. Since rates are set with an across-the-board increase,  
11 wholesale sales will end up paying for a portion of the Lead Service Replacement funding. The  
12 funding increase of \$2,750,000 is almost half of the increase for rate year 2.  
13

14 **Q. Mr. Bebyn, why is wholesale funding the Lead Service Replacement fund an issue?**

15 A. This expenditure line item is neither an expense that wholesale customers cause nor is it an  
16 expense which they receive any benefit. Wholesale customer class should not fund the Lead  
17 Service Replacement fund. Providence Water correctly acknowledges this fact in the base Rate  
18 Year FY 2021 allocation. Mr. Smith, in his Allocation of Rate Year FY 2021 Revenue  
19 Requirement Schedule HJS-14a, correctly allocates Lead Service Replacement funding only to  
20 the "Retail Only Billings and Collections" category.

21 **Q. Does this issue only impact Rate Year 2?**

22 A. No. Since the Rate Year 2 rate increase sets the base for the Rate Year 3 rates, the increase  
23 for Rate Year 3 is compounding the error from Rate Year 2.  
24

25 **Q. What do you propose to solve this issue?**

26 A. The best solution would be to address this in Rate Year 1 (FY 2021) since this will allow for  
27 across-the-board increases for the subsequent step years to be utilized. I am recommending that  
28 the Lead Service Replacement funding increase be done in FY 2021 and that \$2,750,000 of  
29 funding between the IFR and/or Vehicle-Equipment funds be shifted to FY 2022. Using this  
30 approach will also prevent an issue of exceeding published net revenue requirement that would  
31 occur if only lead service replacement funding were shifted to FY 2021. Furthermore, moving

1 IFR and/or Vehicle-Equipment funding increases to FY 2022 will not cause an issue with using  
2 across-the-board increases since wholesale does contribute to both the IFR and Vehicle-  
3 Equipment funds.

4

5 **Q. Does that conclude your testimony?**

6 A. Yes.

CERTIFICATION OF SERVICE

I hereby certify that on this 11 th day of May, 2020, I sent a copy of within to the Parties listed on the attached service list.

A handwritten signature in black ink, appearing to be 'M.B.S.', is written above a horizontal line.

**Docket No. 4994 - Providence Water Supply Board – General Rate Filing  
Service List updated 12/31/2019**

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