

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: WOONSOCKET WATER DIVISION :
ABBREVIATED RATE APPLICATION : DOCKET NO. 3512

REPORT AND ORDER

I. Introduction

On March 27, 2003, the City of Woonsocket Water Division (“WWD”), a non-investor owned utility, filed with the Public Utilities Commission (“Commission”) an abbreviated rate application filing. WWD requested a rate increase of 24.9% for the collection of \$1,093,451 in additional operating revenues for a total cost of service of \$5,646,330.

Under the Commission’s Rules of Practice and Procedure, Rule 2.10, allows increases on certain accounts for known and measurable expenses only when the pro forma amount is at least 10% greater than the test year. Certain of WWD’s requested increases were for less than 10% over the test year levels: Telephone, Education/Training, Printing & Reproduction, Light & Power, Clothing & Shoes, Clothing Allowance, and City Services. On April 8, 2003, WWD filed a Motion for Waiver from Restriction on Increases to Certain Accounts. On April 10, 2003, WWD filed a letter indicating that WWD and the Division agreed to remove six of the seven accounts, leaving only Light and Power in the filing. On April 24, 2003, at an open meeting, the Commission approved the agreement between WWD and the Division and suspended the effective date of the original filing for a period of six months.

The instant general rate case filing represents WWD’s third such filing in the last ten years. The following table provides a brief history:

<u>Docket No.</u>	<u>Filing Date</u>	<u>Amount Requested</u>	<u>Amount Allowed</u>
2099	4/9/93	\$2,335,532	\$1,999,026
2904	3/25/99	\$1,232,142	\$ 800,544
3512	3/27/03	\$1,093,451	\$ 970,596

II. Woonsocket Water Department’s Pre-Filed Testimony

In support of this filing, WWD filed the testimony of Emerson J. Marvel, Water Division Superintendent for the City of Woonsocket (“City”) Department of Public Works, and WWD’s consultant, Christopher P. N. Woodcock. In his prefiled testimony, Mr. Marvel discussed requested increases for salary and benefits, sewer assessments, roads and walks, and property taxes. He testified that WWD has complied with all prior Commission orders relating to periodic filing requirements.¹

Addressing the requested increase in salary and benefits, he explained that with the exception of his position, all employees of WWD are union members. Therefore, with that exception, all requested salary and benefit increases are the result of contractual arrangements between the City and the union.² There is no request for funding of additional employees.³

Turning to the increases in sewer assessments and consumption adjustments, Mr. Marvel indicated that WWD has recently lost two of its largest customers, Ocean State

¹ WWD Exhibit 1 (Pre-filed testimony of Emerson J. Marvel), p. 7.

² Id. at 4.

³ Id.

Finishing and Seville Dye. Therefore, consumption has dropped and the City of WWD had to recalculate sewer assessments to recover the lost revenue.⁴

With regard to the requested increase in the Roads and Walks account, Mr. Marvel indicated that in FY 2003, the City of Woonsocket instituted a full-width paving requirement for patches in roads that have been resurfaced within five years of the patch. According to Mr. Marvel, this requirement has resulted in significant increases in paving costs for 2003.⁵

Addressing the increase in property taxes, Mr. Marvel explained that the increase is a result of the completion of the Crook Fall Brook Pipeline Project, which included land purchase, installation of raw water transmission main and the construction of a blending chamber. The completion of the blending chamber created a taxable structure.⁶

Mr. Woodcock discussed WWD's pro forma revenue requirements for the rate year July 1, 2003 through June 30, 2004 by making adjustments to the test year July 1, 2001 through June 30, 2002.⁷ As a result of his adjustments to the test year, Mr. Woodcock proposed an across-the-board increase of approximately 24.9% to all rates and charges.⁸ He attributed the proposed increase to increases in the following costs: personnel costs, maintenance and servicing costs, maintenance and repairs to roads and walks, electricity, property tax assessments, operating supplies, general charges, and insurance costs.⁹

Mr. Woodcock noted that since WWD's last rate filing, the City has retired a series of bonds and has refinanced the 1988 series of bonds to realize further savings,

⁴ Id. at 4-5.

⁵ Id. at 5.

⁶ Id. at 6.

⁷ WWD Exhibit 2 (Pre-filed testimony of Christopher P.N. Woodcock), p. 3.

thus reducing the debt service to less than the restricted amount. However, he also indicated that the City is expecting to close on its loans with the Clean Water Finance Agency (“CWFA”), which will increase the debt service during construction that is expected to be \$150,000 during the rate year. Mr. Woodcock stated that WWD is requesting the Commission allow an increase in IFR costs, noting that the IFR report shows spending during the first five years to be at a level in excess of the current authorization of \$650,605. In order to complete the projects, WWD has been using a mix of cash and borrowing. He testified that WWD is requesting the restricted IFR authorization be increased to \$825,000 to pay the CWFA loan as payments become due. However, in the meantime, WWD would like to use the IFR funds to pay for IFR projects. According to Mr. Woodcock, such a plan will allow WWD to continue improvements in accordance with its IFR program, use funds to satisfy debt when it becomes due, and have rates in place that can be used to pay for the loan as required under the Trust Indenture.¹⁰

Finally, Mr. Woodcock addressed three other restricted accounts: Renewal and Replacement (“R&R”), chemical fund, and rate case fund. WWD is seeking a 25% reduction in the R&R account. However, although the chemical fund and rate case fund have more funds than absolutely necessary, Mr. Woodcock recommended keeping funding at current levels in order to avoid the need for increases related to such expenses in the future.¹¹

⁸ Id. at 7.

⁹ Id. at 4-5.

¹⁰ Id. at 5.

¹¹ Id. at 6.

III. Division's Pre-Filed Testimony

In response to WWD's filing, the Division of Public Utilities and Carriers ("Division") submitted the pre-filed testimony of John Bell, a Public Utilities Analyst. Mr. Bell made adjustments to WWD's claims for the following expenses: personnel costs (including benefits), postage, light and power, sewer assessment, insurance, non-IFR debt service and operating reserve, test year expenses and consumption levels.¹² He recommended a total net revenue requirement from rates of \$5,084,494, an increase of \$631,631, or 14.18% over current rates.¹³

Although Mr. Bell did not recommend any reduction in the number of authorized employees, he indicated that union contracts call for wage increases of 3% for FY 2002 and FY 2003. Therefore, he reduced WWD's claim for a 5% increase over the test year to 3%. He also adjusted related taxes accordingly.¹⁴

With regard to postage, Mr. Bell adjusted out the cost of postage relative to notifying customers of the instant rate case. Rather, Mr. Bell argued that this postage expense should be charged directly to the restricted rate case account.¹⁵

Addressing the light and power expense, Mr. Bell maintained that WWD's method of arriving at its pro forma expense was inappropriate. He indicated that WWD annualized six months of actual expenses. However, because electricity usage fluctuates seasonally based on water production and demand, annualizing six months of actual bills does not adequately account for the fluctuations. Furthermore, WWD obtains its power supply from a marketer at a fixed rate through the end of 2003. Because there is no

¹² Schedule JB-1, pp. 1-2.

¹³ Division Exhibit 1 (Pre-filed testimony of John Bell), p. 14, Schedule JB-1, p. 2.

¹⁴ Division Exhibit 1, p. 3.

¹⁵ Id. at 8.

evidence to show what WWD's rate will be commencing January 1, 2004, Mr. Bell recommended matching the pro forma requirement for power and light to the test year.¹⁶ Mr. Bell also adjusted WWD's sewer assessment expense for the same reason. WWD had based the rate year expense on the December 2002 sewer bill. Mr. Bell indicated that annualizing expenses based on one quarter does not take into account seasonal fluctuations. Therefore, Mr. Bell recommended using the FY 2003 actual sewer expense for the rate year.¹⁷

With regard to insurance costs, Mr. Bell recommended using the actual expenses in FY 2003 for the rate year because the costs upon which WWD based its figures is not known and measurable, but rather, are estimates. However, Mr. Bell noted that if WWD provided evidence of increased insurance expenses, he would revise his recommendation.¹⁸

Addressing debt service expenses, Mr. Bell recommended that WWD use IFR funds to make interest payments on the CWFA loan during the rate year. He indicated that it was his understanding that WWD has not begun a meter change out program to date and therefore, all payments on the loan will relate to IFR projects.¹⁹

Additionally, Mr. Bell made two proposals to mitigate WWD's rate increase. The first was to reduce Operating Reserves from 1.5% to 1%. He indicated that he was following the Commission's recent action in Narragansett Bay Commission's rate case. Second, Mr. Bell proposed a five-year amortization period in place of WWD's proposed three-year amortization period for rate case expenses. Mr. Bell indicated that WWD has

¹⁶ Id. at 5.

¹⁷ Id. at 6.

¹⁸ Id. at 12.

¹⁹ Id. at 10.

a history of infrequent rate filings, the most recent occurring in 1999, with the one prior to that in 1993. Additionally, according to Mr. Bell, the Division engaged only one expert for the instant case at a much lower cost than WWD's estimate. Finally, the Attorney General's Office does not bill out any costs to the Division relative to its participation in the rate case. Therefore, Mr. Bell removed the Attorney General costs and \$18,000 of the Division costs and added the \$3,517 in postage costs addressed above, for a total rate case expense of \$75,517. The net effect of the adjustments plus the extended amortization period results in a rate case expense of \$15,103, or \$4,897 off of WWD's claim.²⁰

Mr. Bell also indicated the test year consumption data is not a good indicator of typical residential customer usage, noting that 2002 was unusually high. He recommended using the average consumption for the years 1997, 1998, 1999 and 2001, for a result of 1,146,250 HCF. However, he made no adjustment to WWD's proposed consumption level for the non-residential customers, given the fact that it has declined consistently over the last three years, something which was addressed by Mr. Woodcock.²¹

IV. Woonsocket Water Department's Rebuttal Testimony

On August 6, 2003, WWD submitted the pre-filed rebuttal testimony of Christopher Woodcock. Mr. Woodcock responded to the Division's proposed adjustments and indicated that WWD actually needed \$77,167 more in rates than

²⁰ Id. at 9-10.

²¹ Id. at 13-14.

originally requested, for a total requested increase in revenues of 26.5%, in excess of the amount allowed through an abbreviated rate case.²²

Mr. Woodcock indicated that WWD agreed with the Division's adjustments to postage, sewer, and light and power. Also, WWD agreed in part with the Division's adjustments to rate case expenses and to IFR. However, WWD disagreed with the Division's adjustments to labor, present revenues and operating reserve. Additionally, WWD updated its request for maintenance of roads and walks and insurance costs.²³

Beginning with the labor expenses, Mr. Woodcock indicated that despite Mr. Bell's position that the union contracts allowed for a 3% annual pay increase, the salary levels proposed by WWD are those which are currently in place. Therefore, WWD argued that they should be fully funded.²⁴

Turning to insurance costs, Mr. Woodcock indicated that WWD received updated insurance information for the current year, resulting in an increase of \$113,087 over the test year. Because the insurance costs are now known and measurable, WWD asked that these adjusted amounts be allowed in rates.²⁵

Addressing rate case expenses, Mr. Woodcock indicated that WWD is not in substantial disagreement with the Division's estimates of the instant case. However, WWD disagrees with the Division's proposed amortization schedule to spread the costs

²² WWD Exhibit 3 (Pre-filed Rebuttal Testimony of Christopher Woodcock), pp. 3-4, 12. According to Mr. Woodcock, WWD made the conscious decision in its original filing not to request a sufficient increase to cover its pro forma revenue requirement. *Id.* at 11-12. Despite Mr. Woodcock's contention that WWD filed an abbreviated rate case to receive even more expedited treatment from the Commission than it has been receiving, nowhere in the record or at the pre-hearing conference, did WWD object to the Commission's schedule.

²³ *Id.* at 1-4, 8. Mr. Woodcock also noted that WWD hopes to be able to fund through a 1.5% operating reserve the items in its original request that did not fall within the Commission's rules regarding Abbreviated Rate Filings. *Id.* at 1.

²⁴ *Id.* at 4.

²⁵ *Id.* at 4, Schedule 1, p. 2.

over five years rather than three. Mr. Woodcock stated that WWD will have to file for a rate increase shortly in order to cover increased debt service payments resulting from a recent bond sale with the RICWFA. He noted that the City has entered into a bond covenant to ensure sufficient revenues in the Water Department to cover the debt service. Given this pledge, Mr. Woodcock argued that three years is more reasonable than five, stating that “Woonsocket cannot go without a rate increase for five years and still meet its bond covenants.”²⁶

Regarding this new debt, Mr. Woodcock indicated that WWD agrees with the Division’s proposal to move the debt service on these bonds into the IFR line item, but disagrees with the fact that the Division did not also increase the allowance for IFR. Mr. Woodcock indicated that this proposal would reduce the available IFR funds from \$825,000 to \$675,000 per year. In light of the fact that the Division did not challenge any of the projects to be funded, he did not believe that there was any evidence to reduce the overall funding. Furthermore, Mr. Woodcock indicated that WWD’s IFR funding is \$6 million short of what it needs to complete the first five years of its IFR plan. He conceded that this was due, in part to the fact that WWD had not requested sufficient funding, but was also due, in part, to projects not originally included in the plan. Therefore, he argued that the Commission should authorize full funding as requested.²⁷

With regard to the fact that WWD was seeking more IFR funding in its rebuttal testimony than in its direct case, Mr. Woodcock testified that WWD restricted its requests to keep the total proposed increase below 25% in order to make an abbreviated filing. However, in order to collect sufficient funds to meet higher debt service payments in

²⁶ Id. at 4-5.

²⁷ Id. at 5-6.

2005, he maintained that WWD needed funding approval in the amount of \$1.15 million annually. Additionally, not only has WWD not collected sufficient funds to avoid a revenue shortfall in its first five years of its IFR plan, it expects to realize a deficit in years six through ten, even if the IFR funding were increased to \$1.15 million annually.²⁸

Turning to WWD's requested 1.5% operating reserve, Mr. Woodcock argued that although the power costs for the rate year are not known and measurable and although WWD had agreed to strike the increases in education, clothing and footwear allowances and had not requested inflationary adjustments, WWD expects there will be increases that will have to be taken from the operating reserve. Additionally, Mr. Woodcock argued that the WWD situation is not analogous to the Narragansett Bay Commission situation where Narragansett Bay has an additional debt service reserve fund for all of its debt, whereas WWD only has a debt service reserve fund for only 16% of its debt. Therefore, Mr. Woodcock requested that the Commission approve the continued collection of a 1.5% operating reserve for WWD.²⁹

Addressing Mr. Bell's adjustments to current revenues and water sales, Mr. Woodcock argued that "despite an increase in the number of customers each year, the residential water sales have continued to drop every year since 1998 with the one exception in 2000...Following this trend would suggest a further drop in 2003 and 2004, yet we have not sought such an adjustment." Therefore, Mr. Woodcock expressed concern with using averages to derive sales for rate purposes as he believed it would ensure an undercollection by WWD. Therefore, he recommended the Commission approve WWD's sales values adjusted for lost industrial customers. Finally, Mr.

²⁸ *Id.* at 7-8. WWD's IFR plan anticipates the construction of a new treatment plant during years six through ten.

Woodcock noted that between the filing of WWD's direct case and its rebuttal testimony, three large customers were put out of business by a fire. He indicated that the three customers represented 3.7% of WWD's total sales volume, or \$126,610 in annual revenues. Therefore, he argued that proper rates should be at least 3% higher than the noticed rates.³⁰

V. SETTLEMENT

On August 26, 2003, the parties filed a proposed Settlement Agreement ("Settlement"), resolving all issues between them. The parties agreed that WWD's net revenue requirement is \$5,307,221, representing an increase of \$970,596 or an across-the-board increase of 22.38% over current rates. The impact on a typical residential customer using 100 hcf per year will be an increase of \$52.92 per year, or \$26.46 on each semi-annual bill.³¹

The parties agreed to base the rates on the Division's residential consumption figure and WWD's commercial/industrial consumption figure, which is the known and measurable test year sales volumes adjusted for projected sales volumes losses associated with the fire. Therefore, the parties agreed to total rate year revenues at current rates to be \$4,336,625.³²

WWD agreed to accept the Division's adjustments to Postage, Sewer Assessment, Light & Power and IFR. The Division agreed to WWD's rebuttal figures for Insurance, Permanent Services and Rate Case Expense. WWD agreed to use funds within its Rate

²⁹ Id. at 8-10.

³⁰ Id. at 10-13.

³¹ Joint Ex. 1 (Settlement Agreement), p. 2, Settlement Schedule 3.0. The parties maintained that absent the fire, the increase in the revenue requirement would have been \$843,987, or 18.91% over current rates. On August 28, 2003, the parties submitted another copy of the Settlement containing typographical corrections. A copy of the Settlement dated 8/28/03 is attached as Appendix A.

³² Id. at 2-3.

Case Expense Account for customer notification regarding the instant rate case. The rate case expenses are to be recovered over three years at \$20,000 per year. The parties agreed to continue calculating the operating reserve at 1.5% of WWD's total expenses.³³

With regard to debt service, the parties agreed to a level of \$837,688, indicating that over the next two years, WWD's debt service requirement is expected to increase but approximately \$320,000 for the recently closed RICWFA loan. In order to cover this increased level of debt service, the Settlement contemplated increasing the debt service currently built into rates by \$75,000, resulting in the settlement amount. Additional funds necessary to cover the RICWFA loan will be obtained by using \$158,000 currently in the Debt Service Account plus transferring \$50,000 into the Debt Service Account from the Rate Case Expense account.³⁴

Additionally the parties agreed that the following accounts will remain restricted and funded as follows: R&R Fund - \$150,000; Rate Case Expense - \$20,000; IFR - \$825,000; Chemicals - \$213,884; and Debt Service - \$837,688.³⁵

VI. HEARING

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on August 28, 2003 to assess the propriety of the Settlement.³⁶

The following appearances were entered:

FOR WOONSOCKET WATER	Craig Eaton, Esq.
FOR THE DIVISION :	Leo Wold, Esq. Special Assistant Attorney General

³³ Id. at 3.

³⁴ Id.

³⁵ Id.

³⁶ A previous hearing was held in the City of Woonsocket on June 18, 2003 at 7:00 p.m. for the purposes of taking public comment.

FOR THE COMMISSION:

Cynthia G. Wilson, Esq.
Senior Legal Counsel

In support of the Settlement, WWD presented Mr. Marvel and Mr. Woodcock. The Division presented Mr. Bell. Mr. Marvel, Mr. Woodcock and Mr. Bell stated that the Settlement was reasonable and in the best interest of ratepayers.³⁷ Mr. Marvel testified that residential customers are billed on a semi-annual basis and agreed that the Settlement produced an increase to the average residential ratepayer using 100 HCF per year of \$52.92 per year from the current annual bill of \$237.30 to \$290.22.³⁸

Mr. Marvel noted that a fire in Woonsocket had caused the loss of three commercial customers he did not expect WWD to bring back on line. In support of a September 1, 2003 effective date, Mr. Marvel testified that WWD is in serious need of the requested increase and that the date will allow WWD to collect three-quarters of the commercial billing at the new rate and seven months of the residential billing at the new rate during the fiscal year.³⁹

Elaborating on the need for additional funds, Mr. Woodcock added that the current revenues versus expenses had put WWD in a slight deficit position for the FY 2003 and that the forecast for FY 2004 at current rates is a significant deficit.⁴⁰ Additionally, Mr. Woodcock added that Woonsocket closed on RICWFA bonds in May 2003 and part of the trust indenture was a promise by the City of Woonsocket to do all it could to establish water rates that not only met the expenses but also provided certain

³⁷ Tr. 8/28/03, pp. 11-12, 56.

³⁸ Id. at 17-18. With regard to the proposed tariff change for private fire service, Mr. Marvel testified that changing the charge from an annual bill to a quarterly bill would simplify the billing and tracking process. He explained that typically fire service customers are billed quarterly for consumption. Id. at 58.

³⁹ Id. at 12.

⁴⁰ Id. at 14.

coverage requirements. He stated that as a new borrower, it is important to meet those promises.⁴¹

With regard to the power costs that were in dispute prior to the Settlement, counsel to WWD indicated that the current power contract runs out at the end of 2003. At the time of the hearing, WWD had identified three potential marketers who may be interested in providing service. However, WWD was concerned regarding the Last Resort Service price for January 2004, which is almost double of WWD's current contract.⁴²

Mr. Marvel testified that he expected WWD would file a full rate case within twelve months primarily addressing debt service and infrastructure replacement. He indicated that WWD is currently on track with its IFR program "for the most part." However, he conceded that WWD "should be doing significantly more replacement in the distribution system than [it] currently [is]" in order to meet EPA requirements in 2010.⁴³ He clarified that WWD has completed nearly every item listed in its first five year plan except for the pipe replacement, putting WWD approximately 4-5 years behind at a cost of approximately \$1.5 million per year.⁴⁴

In addition to discussion related directly to the Settlement, the Commission posed questions regarding union contracts and health care insurance. Mr. Marvel indicated that the union contracts are negotiated by the Mayor and the City Solicitor. Mr. Marvel has no role in the contract negotiations, but is sent the final document just before it is signed and therefore, while he has no input on the benefit packages, he does have some input

⁴¹ Id. at 14-15. The CWFA bonds were for the construction of three water tanks, a pump station, and a water meter change out. Id. at 26.

⁴² Id. at 49-51.

⁴³ Id. at 28-29.

with respect to employee salary upgrades.⁴⁵ However, he has gone before the City Administration to request pay increases for certain positions whose salaries he believed were below market. With regard to health insurance costs, Mr. Marvel indicated that he believes the increase in health care insurance is expected to be 14-15% next year. He noted that employees hired after 1995 pay one percent of their gross salaries toward health care costs.⁴⁶

VII. COMMISSION FINDINGS

After hearing and considering all of the evidence, the Commission rendered a Bench Decision approving the Settlement, finding it to be in the best interest of ratepayers. The Commission finds that WWD is in need of the rate increase for purposes of debt service and IFR costs. Additionally, WWD suffered the loss of three large commercial customers due to a fire in the summer of 2003. The Commission is not changing WWD's reporting requirements at this time.⁴⁷

The Commission is concerned with the status of WWD's IFR projects, in particular, the fact that WWD is five years behind on its pipe replacement project. The Commission believes that this is an important project and is hopeful that WWD can make an attempt to catch up on its program. The Commission notes that Mr. Marvel testified

⁴⁴ Id. at 33.

⁴⁵ Id. at 22-23. Although the most recent union contract called for 3% salary increase, Mr. Marvel testified that some of the employees in the Water Department whose salaries were extremely low were given 7% salary increases in an attempt to make the positions more competitive. Id. at 35.

⁴⁶ Id. at 22-24.

⁴⁷ In Order No. 16025 (issued November 15, 1999), the Commission determined that it would be in the best interest of the ratepayers for WWD to report three times per calendar year to the Commission regarding the status of the restricted accounts. Such reports shall indicate the amount of funds set aside; the amounts expended for the period; the interest earned; and the balance of the restricted accounts. The Commission also determined that it would be in the best interest of the ratepayers for WWD to report once every calendar year to the Commission on the status of WWD's short-term debt. Such reports shall indicate the amount of debt previously outstanding; the amount currently outstanding after the current year's pay-down; the interest rate on the debt; and the identity of the lender.

that he hoped this was something WWD will address as part of its next rate filing, which he expects to be a full rate case to be filed within twelve months.

Accordingly, it is hereby

(17594) ORDERED:

1. Woonsocket Water Division's Abbreviated Rate Filing of March 27, 2003, is hereby denied and dismissed.
2. The Settlement filed on August 28, 2003 by and between Woonsocket Water Division and the Division of Public Utilities and Carriers providing for a revenue increase of \$970,596 or an across-the-board increase of 22.38% over current rates, resulting in a total cost of service of \$5,486,370, is hereby approved.
3. The compliance tariffs filed as part of the Settlement are hereby approved for consumption on and after September 1, 2004.
4. The funding provided to the Woonsocket Water Division for the chemicals (\$213,884), debt service (\$837,688), rate case expense (\$20,000), infrastructure replacement (\$825,000), and renewal and replacement capital (\$150,000) accounts shall be set aside in interest-bearing restricted receipt accounts.
5. The Woonsocket Water Division shall comply with the reporting requirements set forth in this Report and Order, and furthermore shall abide by all other terms and conditions imposed by the Settlement Agreement and by this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND ON SEPTEMBER 1, 2003,
PURSUANT TO A BENCH DECISION ON AUGUST 28, 2003. WRITTEN
DECISION ISSUED OCTOBER 28, 2003.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Kate F. Racine, Commissioner

Robert B. Holbrook, Commissioner

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: WOONSOCKET WATER DIVISION) DOCKET NO. 3512
ABBREVIATED RATE FILING)

SETTLEMENT AGREEMENT

This Settlement Agreement is entered into by and between Woonsocket Water Division (“WWD”) and the Division of Public Utilities and Carriers (“Division” and referred to collectively with WWD as the “Parties”) in order to resolve the issues pending in the above-captioned proceeding. The Parties jointly request approval of this Settlement Agreement by the Rhode Island Public Utilities Commission (“Commission”).

I. RECITALS

Pursuant to R.I.G.L. § 39-3-11, on March 27, 2003, WWD filed with the Commission an Abbreviated Filing For Rate Change. In the initial filing, WWD requested approval of new rates designed to collect additional revenues in a 12-month period equal to \$1,093,451 over the current rates and charges, or an increase of approximately 24.9%. The increase was designed to apply equally to all customer classes. On April 8, 2003, WWD filed a motion requesting that certain accounts that it included in its filing and whose increase was less than 10% be allowed to be included in the case for consideration. Subsequent to this filing, the Division and WWD undertook discussions regarding the accounts whose increase would be less than 10%. As a result of these discussions, WWD and the Division agreed that the following accounts should be removed from the Abbreviated Filing: Telephone, Education/Training, Printing and Reproduction, Clothing and Shoes, Clothing Allowance, and City Services. Further, WWD and the Division agreed that Light and Power should remain in the Abbreviated Filing. On April 10, 2003, WWD filed an amendment to its motion explaining the agreement it reached with the Division. At a subsequent open meeting, the Commission approved WWD’s amended motion. As a result, the initial Abbreviated Filing for Rate Change was modified to seek \$1,075,564 in additional revenues, a 24.52% rate increase over WWD’s present rate revenue of \$4,386,677. The filed total net revenue requirement was \$5,462,241.

In response to WWD's filing, the Division conducted an investigation of WWD's proposed rate request through sets of data requests, by the aid of its public utilities rate analyst, John Bell, C.P.A. Mr. Bell examined the revenue requirement aspect of WWD's rate filing. The Division filed direct testimony recommending a revenue increase of \$631,630 or a 14.18% increase over present rates.

On August 6, 2003, WWD filed Rebuttal Testimony. Most significantly, the Rebuttal Testimony identified a fire that occurred at the ACS Industries Complex after the initial filing, that resulted in a further erosion of revenues. ACS Industries is located in Woonsocket and is a major customer of WWD.

After due consideration of the Parties' testimony, exhibits and other documentation included in the filings of WWD and the Division, the Parties have now agreed to a settlement which resolves all issues relating to WWD's Abbreviated Rate Filing. Schedules reflecting the agreed to Revenue Requirements, Comparison of Current and Proposed Rates and Proof of Revenues are attached hereto and marked as "Schedule 1", "Schedule 3" and "Schedule 4", respectively. Schedules 1, 3 and 4 are restated and incorporated in this Settlement Agreement by reference. The Parties believe that this settlement, as a whole, constitutes a just and reasonable resolution of the issues in this proceeding, and jointly request its approval by the Commission.

II. TERMS OF SETTLEMENT

1. The Parties agree to a net revenue requirement of \$5,307,221 which is an increase of \$970,596 or 22.38% over WWD's present rate revenues.¹ See Schedule 1.
2. The increase shall be applied to all WWD customer classes equally. The rate design changes that were made in Docket 2904 as the result of a full cost allocations study shall remain in effect.
3. The Parties agree to the Division's residential consumption figure of 1,146,250 HCF.

¹ Absent the ACS Industries fire, this revenue requirement would have been \$843,987 or 18.91% of present rate revenues.

The Parties agree to WWD's Commercial/Industrial consumption figure of 625,143 HCF, the known and measurable test year sales volumes adjusted for projected sales volumes losses associated with the fire at the ACS Industries Complex. Total rate year Revenues at current rates are settled at \$4,336,625.

4. WWD agrees to accept the Division's Rate Year Position as reflected in its Direct Testimony for Postage (\$11,699), Sewer Assessment (\$111,254), Light & Power (\$202,331), and IFR (\$825,000).

5. The Division agrees to accept WWD's Rate Year Position as reflected in its Rebuttal Testimony for Insurance (\$537,784), Permanent Services (\$1,079,581) and Rate Case Expense (\$20,000).

6. Funds within WWD's Rate Case Expense account shall be used to cover the cost of the notification concerning this rate case.

7. WWD's Rate Case Expense shall be recovered over 3 years at \$20,000 per year.

8. WWD's Operating Reserve shall be calculated based on 1.5% of WWD's total expenses (*i.e.*, the same method utilized by the Commission in Docket 2904).

9. The Parties agreed to a debt service level of \$837,688. Over the next 2 years WWD's debt service requirement for its recently closed Rhode Island Clean Water Finance Agency Loan is estimated at approximately \$320,000. To pay this anticipated increased level of debt service, the settlement contemplates increasing the \$762,688 level of debt service currently built into rates by \$75,000, resulting in a settlement amount of \$837,688. The additional funds required to pay the debt service on the Clean Water Finance Agency Loan will be obtained by using the \$158,000 currently in the Debt Service account and transferring \$50,000 from WWD's Rate Case Expense account to the Debt Service account.

10. The parties agree that the funding levels provided on Schedule 1 for chemicals, debt service, rate case expense, infrastructure replacement (IFR) and renewal and replacement will continue to be maintained in a separate interest bearing restricted receipt accounts.

11. All other accounts shall be funded at levels in the Rate Year as reflected in Schedule 1.

12. This Settlement Agreement is the product of negotiation and compromise. The making of this agreement establishes no principles or precedents. This agreement shall not be deemed to foreclose any party from making any contention in any future proceeding or investigation.

13. The acceptance of this agreement by the Commission shall not in any respect constitute a determination by the Commission as to the merits of any issue in any subsequent rate proceeding.

14. In the event that the Commission (i) rejects this Settlement Agreement, (ii) fails to accept this Settlement Agreement as filed, or (iii) accepts the Settlement Agreement subject to conditions unacceptable to any party hereto, then this Settlement Agreement shall be deemed withdrawn and shall be null and void in all respects.

15. The undersigned signatories hereby attest that each believes that the settlement is reasonable, in the public interest and in accordance with law and regulatory policy.

DIVISION OF PUBLIC UTILITIES
AND CARRIERS
By its attorney,

PATRICK C. LYNCH
ATTORNEY GENERAL

WOONSOCKET WATER DIVISION
By its attorney,

ADLER, POLLOCK & SHEEHAN, P.C.

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Special Assistant Attorney General
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Providence, RI 02903
401-274-4400, ext. 2218

REVENUE REQUIREMENTS

	Test Year <u>- 6/30/02</u>	Rate Year <u>- 6/30/2004</u>
Personnel Costs		
Permanent Services	\$893,457	\$1,079,581
Long Term Worker's Comp	0	\$0
Temporary Labor	15,191	\$15,191
Overtime Pay	142,182	\$156,699
Out Of Class Pay	901	\$993
Longevity Pay	25,409	\$39,923
Medical Buy Back	2,000	\$4,000
Sick Leave Reimbursement	16,718	\$16,718
Comp Time Reimbursement	501	\$501
Non-sick/Injury Bonus	1,500	\$1,500
Bonus for Course	14,500	\$19,155
Shift Differential	<u>9,756</u>	<u>\$11,745</u>
Subtotal	\$1,122,115	\$1,346,006
Maintenance & Servicing		
Postage	10,750	\$11,699
Telephone	36,152	\$36,152
Dues & Subscriptions	1,370	\$1,370
Advertising	2,942	\$2,942
Travel Within City	0	\$0
Travel Out of City	1,999	\$2,300
Education Training	9,553	\$9,553
Printing & Reproducing	10,827	\$10,827
General Maint. & Upkeep	62,866	\$62,866
Vehicle & Outside Equip. Upkeep	11,598	\$11,598
Maintenance - Office Equipment	2,228	\$2,228
Maintenance - Roads & Walks	77,679	\$150,686
Computer Software	1,081	\$1,081
Rental - Vehicles & Outside Equip.	0	\$0
Land Rental Charges	2,043	\$2,043
Other Rentals	1,500	\$1,500
Heating	10,675	\$10,675
Light & Power	202,331	\$202,331
Property & Fire Tax	138,124	\$167,698
Sewer Assessment	88,487	\$111,254
State Pollution Monitoring Prgm	16,917	\$16,917
Regulatory Assessments	25,290	\$25,290
Conservation Services	0	\$1,135
Police Details	8,423	\$8,423
Other Independent Service	10,729	\$7,029
Medical Exams	166	\$472
Audit Service	6,532	\$6,532
Engineering Service	<u>61,943</u>	<u>\$61,943</u>
Subtotal	\$802,205	\$926,543

REVENUE REQUIREMENTS

	Test Year <u>- 6/30/02</u>	Rate Year <u>- 6/30/2004</u>
Operating Supplies		
Office Supplies & Expenses	3,991	\$3,991
Gas & Diesel Fuel	9,202	\$15,000
Tires & Batteries	1,899	\$2,695
Chemicals For Water Supply	213,884	\$213,884
Tools & Implements	1,724	\$1,724
Cleaning & Housekeep. Supplies	2,937	\$2,937
Other Supplies	80,355	\$80,355
Lab Supplies	22,094	\$25,000
Clothing & Footwear - Crew	6,855	\$6,855
Medical Supplies	689	\$2,403
Clothing Allowance	<u>3,467</u>	<u>\$3,467</u>
Subtotal	\$347,097	\$358,311
General Charges		
Fiscal Certification	4,488	\$4,488
Pensions	0	\$26,786
FICA/Medicare Employer Cost	85,857	\$102,969
City Services Charge	265,022	\$265,022
Insurance - Vehicles	19,282	\$22,088
Insurance - Worker's Comp.	57,306	\$64,567
Insurance - Liability	69,457	\$80,145
Insurance - Group Life	5,528	\$6,225
Health Insurance	252,512	\$339,204
Dental Insurance	20,612	\$25,555
<i>Restricted Accounts</i>		
Renewal & Replacement Fund	200,000	\$150,000
Rate Case Expense	20,000	\$20,000
IFR	650,605	\$825,000
Chemicals - Net		\$0
Debt Service	919,241	\$837,688
Claims	<u>4,693</u>	<u>\$4,693</u>
Subtotal	\$2,574,603	\$2,774,430
	=====	=====
TOTAL EXPENSES	\$4,846,020	\$5,405,290
Plus Operating Reserve	15,703	\$81,079
Less Misc. Income		
New Services & Repairs	-64,194	-\$82,758
Misc. Income	0	\$0
Interest on Bills	-85,049	-\$85,049
Interest on Investments	-28,382	-\$11,341
Other	0	\$0
	=====	=====
Total Net Revenue Requirement	\$4,684,098	\$5,307,221

		<u>Current</u>	<u>New</u>
Public Fire Protection			
	4 inch	\$77.57	\$94.93
	6 inch	\$225.33	\$275.76
	per bill	\$6.27	\$7.67
Private Fire Protection			
	2 inch	\$7.66	\$9.37
	3 inch	\$7.66	\$9.37
	4 inch	\$27.17	\$33.24
	6 inch	\$68.82	\$84.22
	8 inch	\$140.74	\$172.24
	10 inch	\$244.92	\$299.73
Minimum/Service Charges *			
Semiannual	5/8	\$22.15	\$27.11
	3/4	\$28.81	\$35.26
	1	\$34.18	\$41.83
	1 1/2	\$58.00	\$70.98
	2	\$78.89	\$96.55
	3	\$106.68	\$130.56
	4	\$158.52	\$194.00
	6	\$274.22	\$335.59
	8	\$475.62	\$582.07
	10	\$680.18	\$832.41
Quarterly	5/8	\$14.21	\$17.39
	3/4	\$17.54	\$21.47
	1	\$20.23	\$24.76
	1 1/2	\$32.13	\$39.32
	2	\$42.58	\$52.11
	3	\$56.48	\$69.12
	4	\$82.40	\$100.84
6	\$140.25	\$171.64	

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PROOF OF REVENUES

<u>Revenue Category</u>	<u>Size/Use</u>	<u>Number</u>	<u>Rate</u>	<u>Proposed Revenues</u>	<u>Current Revenues</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Public Fire Protection							
	4 inch	55	\$94.93	\$5,221	\$4,266	\$955	22.38%
	6 inch	1,492	\$275.76	\$411,434	\$336,192	\$75,242	22.38%
	Bills	3	\$7.67	\$23	\$19	\$4	22.33%
				\$416,678	\$340,478	\$76,201	22.38%
Private Fire Protection							
	2 inch	11	\$9.37	\$412	\$337	\$75	22.32%
	3 inch	5	\$9.37	\$187	\$153	\$34	22.32%
	4 inch	42	\$33.24	\$5,584	\$4,564	1,021	22.36%
	6 inch	78	\$84.22	\$26,277	\$21,472	4,805	22.38%
	8 inch	15	\$172.24	\$10,334	\$8,445	1,890	22.38%
	10 inch	4	\$299.73	\$4,796	\$3,919	877	22.38%
				<u>\$47,591</u>	<u>\$38,889</u>	<u>\$8,702</u>	<u>22.38%</u>
Subtotal Fire Protection				\$464,269	\$379,367	\$84,902	22.38%
Service Charges							
Semiannual							
	5/8	15,850	\$27.11	\$429,694	\$351,078	\$78,616	22.39%
	3/4	414	\$35.26	\$14,598	\$11,927	2,670	22.39%
	1	288	\$41.83	\$12,047	\$9,844	2,203	22.38%
	1 1/2	2	\$70.98	\$142	\$116	26	22.38%
	2	2	\$96.55	\$193	\$158	35	22.39%
	3	0	\$130.56	\$0	\$0	0	---
	4	0	\$194.00	\$0	\$0	0	---
	6	0	\$335.59	\$0	\$0	0	---
	8	0	\$582.07	\$0	\$0	0	---
	10	0	\$832.41	\$0	\$0	0	---
				\$456,673	\$373,122	\$83,551	
Quarterly							
	5/8	1,740	\$17.39	\$30,259	\$24,725	\$5,533	22.38%
	3/4	292	\$21.47	\$6,269	\$5,122	1,148	22.41%
	1	896	\$24.76	\$22,185	\$18,126	4,059	22.39%
	1 1/2	248	\$39.32	\$9,751	\$7,968	1,783	22.38%
	2	496	\$52.11	\$25,847	\$21,120	4,727	22.38%
	3	48	\$69.12	\$3,318	\$2,711	607	22.38%
	4	128	\$100.84	\$12,908	\$10,547	2,360	22.38%
	6	264	\$171.64	\$45,313	\$37,026	8,287	22.38%
	8	152	\$294.91	\$44,826	\$36,629	8,197	22.38%
	10	4	\$420.04	\$1,680	\$1,373	307	22.38%
				<u>\$202,355</u>	<u>\$165,347</u>	<u>\$37,008</u>	<u>22.38%</u>
Subtotal Service Charge				\$659,029	\$538,470	\$120,559	22.39%
Metered Rates							
Wholesale	mill gal	0	\$2,401.67	\$0.00	\$0	\$0	---
Retail	100 cu ft	1,771,393	\$2.36	\$4,180,487	\$3,418,788	\$761,699	22.28%
Subtotal Metered Rates				<u>\$4,180,487</u>	<u>\$3,418,788</u>	<u>\$761,699</u>	
Total Rates and Charges				\$5,303,785	\$4,336,625	\$967,160	22.3021%
Misc. Revenues				<u>179,148</u>	<u>177,625</u>	<u>1,523</u>	0.8577%
Grand Total Revenues				\$5,482,933	\$4,514,250	\$968,684	21.4584%
Revenue Required				\$5,486,370			
Difference					-\$3,436	-0.06%	