

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS

PUBLIC UTILITIES COMMISSION

IN RE: UNITED WATER RHODE ISLAND
GENERAL RATE FILING

DOCKET NO. 2873

Report and Order

On January 29, 1999, United Water Rhode Island, Inc. ("United" or "Company"), a wholly-owned subsidiary of United Water Resources ("UWR"),¹ filed an application with the Rhode Island Public Utilities Commission ("Commission") pursuant to R.I.G.L. §39-3-11 for authority to increase its rates and charges for water service rendered within its service area. The Company requested an overall increase in annual revenues of \$492,000, or 23.3%, to be effective March 1, 1999, for a total cost of service of \$2,601,334.

At an open meeting on February 18, 1999, the Commission rejected the January 29, 1999 rate filing because it failed to include a cost of service ("COS") study as directed by the Commission in Docket No. 2006, Order No. 13762 (issued October 28, 1991). On February 26, 1999, United filed a Motion to Cure Non-Conformance and Amendment of its General Rate Filing ("Motion to Cure"). In its Motion to Cure, the Company requested reinstatement of the rate application

¹ UWR is the second largest investor-owned water services company in the United States and operates more than 30 water/wastewater utilities in 13 states. Prior to its acquisition by UWR in 1995, United was the former Wakefield Water Company. United recently informed the Commission that its parent company, UWR, expects to be acquired by Suez Lyonnaise des Eaux in 2000, and will become a wholly owned subsidiary of that company.

by filing a supplemental COS study not later than April 30, 1999, and also stipulated that the applicable suspension period would commence thirty days after the submission of the supplemental COS study. At an open meeting on March 3, 1999, the Commission reconsidered its previous dismissal of the rate case, and granted the Company's Motion to Cure.

On April 2, 1999, United filed supplemental testimony including a COS in accordance with the Commission's directive in Docket 2006, and a revised rate design to be effective May 3, 1999. The Company indicated that these revisions were designed to move its rates towards cost of service.

The instant general rate filing represents the Company's fourth general rate filing over the last twenty years. The following table provides a brief history:

Year <u>Filed</u>	Docket <u>Number</u>	Amount <u>Requested</u>	Amount <u>Granted</u>
1980	1547	\$ 312,934	\$ 187,458
1983	1734	\$ 359,802	\$ 149,824
1991	2006	\$ 439,608	\$ 320,626

Motions to intervene by the Towns of South Kingstown ("South Kingstown") and Narragansett ("Narragansett"), which purchase water at wholesale from United, and the Union Fire District ("Union"), which rents fire hydrants from United, were granted. Other than the Company, the only the Division of Public Utilities and Carriers ("Division") submitted evidence in this proceeding

On June 18, 1999, the Company, the Division, and Union submitted a proposed settlement agreement in this proceeding ("Settlement"). The Settlement stipulated to an overall increase in annual revenues of \$440,000, for a total

annual cost of service of \$2,529,334. The settling parties also proposed a rate design similar to that contained in the Company's original rate filing, with two exceptions for public fire hydrants and five-eighths inch quarterly service charges. Under the Settlement, the public fire hydrant rate would change from a *monthly* service charge of \$69.00, as originally proposed, to a *quarterly* service charge of \$65.00. The quarterly service charge for five-eighths inch customers would decrease from the originally proposed charge of \$18.87 to \$17.26. The Settlement provided the Company with a 10.4% overall return on equity.

The Division's consultant, Mr. Thomas Catlin of Exeter Associates, filed testimony in support of the Settlement on June 18, 1999. Mr. Catlin explained the various adjustments contained in the Settlement, including the correction of two calculation errors by the Company. The first error was a failure to deduct federal income taxes from income before income taxes in calculating the net operating income. The second related to the Company's calculation of depreciation expense.² These errors caused the increase in the Company's revenue requirement to be understated by \$145,000.

On June 22, 1999, a public hearing was held at the Narragansett Town Hall to receive public comments on the Company's requested rate increase.³

² See Division Ex. 1 (Catlin testimony at pp. 5-6).

³ Those commenting included Marion Xenides; Eric Wood; John Schock, Public Services Director for the Town of South Kingstown; Ronald Denelle, president of a local homeowners association; Allison Richardson; Maurice J. Loontjens, Jr., Town Manager of the Town of Narragansett; and David J. Crook, Sr., a member of the Narragansett Town Council.

Some private fire service customers expressed dissatisfaction with their current rates as compared to the lower rates for public fire service. Under the Company's current rates, the annual public hydrant rate is \$168.00, while the analogous private hydrant rate is \$480.00, resulting in a public/private hydrant rate differential of \$312.00. United's COS study estimated the annual cost of both public and private hydrants served by six-inch lines to be in the \$700.00 range. Clearly, the current rates for both public and private fire hydrants are less than the cost of service.

Under the filed Settlement, the annual public hydrant rate would increase by 55%, or \$92.00, to \$260.00, while the analogous private hydrant rate would increase by 12%, or \$58.00, to \$538.00, thereby decreasing the public/private hydrant rate differential to \$278.00. Based on the public comments, however, the Commission directed the Division and United to further explore this differential. As a result, on July 23, 1999, the Division and United submitted alternative rates under an alternative rate design proposal ("Alternative").

Under the Alternative, the annual public hydrant rate would remain at the filed Settlement amount of \$260.00, while the analogous private hydrant rate would be further reduced to \$400.00, thereby cutting the public/private hydrant rate differential under the filed Settlement by approximately one-half, to \$140.00. However, this reduction in private fire hydrant rates would require the reallocation of approximately \$20,000 in revenue requirement from private fire hydrant customers to other customer classes.

Following public notice, on July 27, 1999, the Commission conducted a hearing at its offices, to examine United's rate filing as well as the proposed Settlement and Alternative rate proposals. The following appearances were entered:

FOR UNITED:	Dennis Duffy, Esq. Kevin McNeely, Esq. Partridge Snow & Hahn LLP
FOR THE DIVISION:	Elizabeth Kelleher Special Assistant Attorney General
FOR SOUTH KINGSTOWN:	Michael Ursillo, Esq. Nancy Giorgi, Esq. Ursillo, Teitz & Ritch, Ltd.
FOR NARRAGANSETT:	Mark McSally, Esq. Kelly, Kelleher, Reilly & Simpson
FOR UNION:	Margaret Hogan, Esq. Hogan & Hogan
FOR THE COMMISSION:	Adrienne G. Southgate General Counsel

At the hearing, Stanley J. Knox, United's General Manager, Joseph Dwyer, United's Manager of Rates, and consultant Christopher Woodcock of Woodcock and Associates testified on behalf of the Company. Thomas Catlin testified of behalf of the Division. In Mr. Catlin's opinion, the revenues authorized under the Settlement would allow the Company to achieve a reasonable rate of return.⁴ The settling parties each affirmed that the Settlement was fair and reasonable and in the public interest.

⁴T. 7/27/99, at p. 134.

The Commission questioned Mr.Knox concerning the Company's customer bill format and explanatory information.⁵ The Commission also questioned witnesses concerning the two calculation errors identified by the Division which caused the Company's revenue requirement to be understated by \$145,000. Both Company and Division witnesses testified that these were good faith, unintentional calculation errors.⁶ Although correction of the calculation errors has the effect of increasing the Company's revenue requirement by \$145,000; it was emphasized that, even with this increase, the settled revenue requirement is still lower than the revenue increase proposed in the Company's original rate filing.

Nevertheless, the Commission expressed concern that acceptance of the filed Settlement might encourage utilities to understate requested revenue requirements which, in turn, could potentially discourage public comment, or result in insufficient notice to all affected parties in the event that the actual rate increase were to exceed the amount specified in the notice of filing. While this event did not occur in this proceeding (because the settled revenue increase is less than the increase originally requested by the Company), the Commission indicated that it would be appropriate for the Company to bear some responsibility for the calculation errors.

⁵ Ibid., pp. 18-22.

⁶ Ibid., p. 136.

On July 30, 1999, United submitted post-hearing comments in which the Company proposed to amortize its rate case expenses of \$120,000 over a period of five years instead of three years, as proposed in the Settlement. The longer amortization period would result in a \$16,000 reduction to the Company's annual revenue requirement for rate case expenses, thereby reducing the annual recovery amount to \$24,000.

At an open meeting on August 31, 1999, the Commission considered United's proposal to extend its rate case expense amortization period from three to five years. After further review, the Commission requested that the Company consider absorbing an additional \$4,000 per year in rate case expenses, for a total reduction in rate case expenses of \$20,000. This reduction would, in turn, allow the Commission to approve the Alternative private fire service rates without the need for any reallocation of revenue requirement to other customer classes. On September 7, 1999, the Company submitted a letter indicating its agreement with the Commission's proposal. The Division supported United's agreement, and no other party commented or objected. The effect of this addit(di)-6.y submiit hjrectt(di)6.4(o3()106

moving toward cost of service based rates. The residential rate design continues with a two-step *increasing* block rate structure. The non-residential retail rate is changed from a two-step *declining* block rate to a flat rate. This change is consistent with the legislative policy of the state's Water Supply Management Act, which provides that declining block rates are not conducive to good water supply management, and the prior directives of this Commission.

After review of the record, the Commission approved the Settlement's overall increase in annual revenues of \$420,000, or a 21% increase over current revenues, effective October 1, 1999, for a total cost of service of \$2,529,334. The Commission concluded that these rates were supported by the evidence, just and reasonable, and in the interest of ratepayers. The Commission also approves the agreed-upon return on equity of 10.4% and the return on rate base of 8.76%, as reflected in the settlement position of the parties. Applying the return of 8.76% to the rate base amount of \$5,904,281⁷ results in a net operating income of \$517,068.⁸

In addition, the Commission approved collection of the approved cost of service through the rates proposed in the Settlement, as modified by the reduction in private fire service rates set forth in the rate design Alternative filed on July 23, 1999. Compliance tariffs were filed by the Company on September 24,

⁷ See Commission Ex. 1.

⁸ Approved cost of service and rate base schedules are incorporated in this order as Attachments 1 and 2.

1999 and October 1, 1999. Following review, these were approved by the Commission at an open meeting on October 5, 1999.

Accordingly, it is hereby

(16024) ORDERED:

1. The tariff filed by United Water Rhode Island, Inc. on January 29, 1999, designed to produce additional revenues in the amount of \$492,000, is hereby denied and dismissed;
2. United Water Rhode Island, Inc. is authorized to collect additional annual revenues in the amount of \$420,000 for a total cost of service of \$2,529,334, pursuant to the terms of the Settlement Agreement filed on June 18, 1999 among the Company, the Division and Union Fire District, as modified by the rate design Alternative filed on July 23, 1999 and further modified by the Company's letter agreement filed on September 7, 1999;
3. As modified, the Settlement Agreement is found to be just and reasonable and in the interest of ratepayers;
4. The compliance rates filed on September 24, 1999 and October 1, 1999 are hereby approved for application to service rendered on and after October 1, 1999;
5. United Water Rhode Island shall consult with the Commission and the Division within the next sixty days to revise the Company's customer billing format and accompanying explanatory information; and

6. United Water Rhode Island shall comply with all other findings and instructions contained in this Report and Order.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND ON OCTOBER 1, 1999, PURSUANT TO OPEN MEETING DECISIONS ON AUGUST 31, SEPTEMBER 8, AND OCTOBER 5, 1999. WRITTEN ORDER ISSUED DECEMBER 15, 1999.

PUBLIC UTILITIES COMMISSION

*

James J. Malachowski, Chairman

Kate F. Racine, Commissioner

Brenda K. Gaynor, Commissioner

*Chairman Malachowski concurs with this decision, but is unavailable for signature.