



State of Rhode Island and Providence Plantations

DEPARTMENT OF ATTORNEY GENERAL

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Patrick C. Lynch, Attorney General

July 26, 2004

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02889

Re: Docket No. 3592

Dear Ms. Massaro,

Enclosed please find an amended version of the Division's Surrebuttal Testimony with a complete set of exhibits. (I inadvertently failed to attach Schedule TSC-2 through TSC-11 to the filing that was due Friday, July 23, 2004.) Kindly substitute the enclosed testimony and exhibits for those submitted for the 23rd.

Very truly yours,

Leo J. Wold
Special Assistant Attorney General

cc: Service List

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

**THE NARRAGANSETT) DOCKET NO. 3592
BAY COMMISSION)**

SURREBUTTAL TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

JULY 2004

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

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1 Q. WHAT ISSUES HAVE BEEN ELIMINATED AND WHAT ISSUES REMAIN
2 BETWEEN THE DIVISION AND NBC WITH REGARD TO NBC'S
3 REVENUE REQUIREMENT?

4 A. In its rebuttal testimony, NBC accepted the adjustments which I proposed for Worker's
5 Compensation-Old Claims and insurance expense and incorporated those adjustments in
6 its rebuttal testimony. Similarly, I have accepted the revised adjustment to overtime
7 which NBC proposed in its rebuttal testimony in place of the adjustment to overtime
8 which I recommended in direct. In addition, based on the additional information
9 provided by NBC in its rebuttal testimony and in response to follow-up discovery
10 requests, I am no longer proposing an adjustment to equipment maintenance contracts
11 expense. Accordingly, no issue remains between NBC and the Division on these four
12 issues. The remaining areas where a difference still exists between my recommendation
13 and the position set forth in NBC's rebuttal testimony include sludge disposal costs,
14 unfilled employee positions and the operating reserve allowance.

15
16 **Sludge Disposal Costs**

17 Q. PLEASE SUMMARIZE THE ADJUSTMENT THAT YOU MADE TO
18 SLUDGE DISPOSAL COSTS IN YOUR DIRECT TESTIMONY AND HOW
19 THIS COMPARES TO NBC'S REBUTTAL POSITION.

20 A. In my direct testimony, I adjusted NBC's filed claim to recognize that the outsourcing of
21 sludge handling at the Fields Point Wastewater Treatment Facility (WWTF) will not
22 occur until the end of 2005, subsequent to the rate year in this proceeding. I based my
23 adjustment on cost estimates provided in response to Division Data Request, Set II,
24 question 11 (DIV 2-11). In its rebuttal, NBC adjusted its claim consistent with cost
25 figures which I utilized in my direct, except for minor refinements to certain costs. These

1 refinements resulted in a small additional reduction in sludge disposal costs beyond that
2 reflected in my direct testimony.

3 Q. WHAT ISSUE REMAINS WITH REGARD TO SLUDGE DISPOSAL
4 EXPENSE?

5 A. As I noted in my direct testimony, I received the response to DIV 2-11 just prior to
6 completing that testimony and did not have time to fully investigate those estimates
7 before finalizing my testimony and schedules. After conducting additional discovery, I
8 have identified one adjustment which I propose to make to NBC's estimated sludge
9 disposal costs.

10 In its estimate of natural gas costs, NBC added a 5 percent contingency of
11 \$30,201 to its projection of costs based on four-year average quantities and current
12 contract prices. All of the costs of sludge disposal have been based on estimated
13 quantities and/or other projections which may prove to be too high or too low. It is
14 inappropriate to single out natural gas costs and add 5 percent to that cost estimate.
15 Accordingly, I am proposing to eliminate this contingency from rate year costs.

16
17 **Unfilled Employee Positions**

18 Q. WHAT ADJUSTMENT DID YOU MAKE FOR UNFILLED EMPLOYEE
19 POSITIONS?

20 A. In my direct testimony, I adjusted salaries and related payroll costs to eliminate the costs
21 associated with four employees which NBC was not actively seeking to fill. These
22 positions included a part-time legal counsel, a security guard, a mason and an O&M
23 supervisor.

1 Q. WHAT POSITION DID NBC TAKE IN REBUTTAL WITH REGARD TO
2 THIS ADJUSTMENT?

3 A. NBC disagreed with my adjustment. In his rebuttal testimony, Mr. Edge acknowledged
4 that NBC was not actively seeking to fill the positions because sufficient funding was not
5 available. He noted, however, that NBC believes that all four of those positions or
6 similar positions are viewed as necessary by NBC.

7 Q. WHAT IS THE CURRENT STATUS OF THOSE POSITIONS?

8 A. At the time the response to Division 3-1 showing the status of the employees included in
9 NBC's FY 2005 budget was submitted on June 23, the part-time legal position was
10 unfilled and was scheduled to be posted in July 2004. The mason, security guard and
11 O&M supervisor were no longer included in the budget. Instead, those positions were
12 eliminated in favor of new Operator I, Mechanic I and Operator III positions. (Response
13 to DIV 4-9.) Only the Operator III position was currently filled.

14 Q. ARE YOU PROPOSING TO MODIFY YOUR ADJUSTMENT BASED ON
15 THESE CHANGES?

16 A. No. Based on the data used to prepare the response to DIV 3-1 (late May or early June),
17 NBC had 13 employee vacancies. These vacancies included five posted openings and
18 eight openings which were scheduled to be posted in July 2004.¹ This overall level of
19 employee vacancies exceeds the eight vacancies accounted for by the employee turnover
20 adjustment which NBC has recognized. Moreover, even with the removal of four
21 positions (3.5 full time equivalents or FTEs), the Division's recommendation in this
22 proceeding includes 258 positions and 257.875 FTEs. This is an increase of eight
23 employees compared to the 250 FTEs approved by the Commission in Docket No. 3483.

¹ As of the end of June the number of vacancies was 15.

1 Accordingly, I have continued to include my adjustment for unfilled positions in
2 developing my recommended cost of service on behalf of the Division.

3
4 **Operating Reserve Allowance**

5 Q. DO YOU HAVE ANY COMMENTS WITH REGARD TO THE DIFFERENCE
6 BETWEEN THE DIVISION AND NBC WITH REGARD TO THE
7 OPERATING RESERVE ALLOWANCE?

8 A. NBC has requested that the operating reserve allowance be increased to the historical
9 level of 1.5 percent of operating expenses, excluding debt service, which existed prior to
10 NBC's general rate case in Docket No. 3483. In my determination of the Division's
11 recommended cost of service, I have included an operating reserve equal to 1.0 percent of
12 operating expense excluding debt service amounts based on the Commission's findings in
13 its September 2003 Report in Order in Docket No. 3483.

14 In his rebuttal Mr. Edge states that: "NBC fails to see how such a small operating
15 reserve ("over \$250,000") is adequate for a \$55,000,000 operation." In response, I would
16 only point out for the record that \$26 million of the overall cost of service is for debt
17 service items and that amount includes a \$6.1 million debt service allowance. The
18 existence of that separate coverage requirement is the reason why debt service is no
19 longer included in this base used to calculate the operating reserve allowance. This, in
20 turn, is a primary reason why the operating allowance is as low as it is.

21
22 **Updated Recommendation**

23 Q. PLEASE SUMMARIZE YOUR UPDATED FINDINGS AND
24 RECOMMENDATIONS.

1 A. As shown on updated Schedule TSC-1, I have determined the NBC's overall revenue
2 requirement to be \$54,240,634. This represents an increase over revenues at present rates
3 of \$2,744,059. The revenue increase which I have identified is \$2,223,624 less than the
4 revenue increase of \$4,967,683 initially requested by NBC. This recommendation is also
5 \$414,355 less than NBC's revised claim presented in its rebuttal testimony.

6 Q. HAVE YOU UPDATED YOUR SCHEDULES SHOWING YOUR
7 RECOMMENDATIONS?

8 A. Yes. A complete set of updated Schedules TSC-1 through TSC-11 is attached to my
9 surrebuttal testimony. Several of the adjustments which I reflected in my direct
10 testimony are no longer applicable for the reasons explained above. However, to be
11 complete, I have included the original schedule showing that an adjustment is no longer
12 applicable.

13 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

14 A. Yes, it does.

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

**THE NARRAGANSETT)
BAY COMMISSION) DOCKET NO. 3592**

**SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY**

OF

THOMAS S. CATLIN

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

JULY 2004

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at
 Present and Proposed Rates
 Rate Year Ended June 30, 2005

	Test Year Amount Per NBC	NBC Rate Year Adjustments	Filed Rate Year Amount Per NBC	Effects of NBC Updates to Rate Year Adjustments	Updated Rate Year Amount Per NBC Rebuttal	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
Revenue									
User Fee Revenue	\$ 48,388,711	\$ -	\$ 48,388,711	\$ -	\$ 48,388,711	\$ -	\$ 48,388,711	\$ 2,739,710	\$ 51,128,421
Other Service Revenue	2,367,664	-	2,367,664	-	2,367,664	-	2,367,664	4,349	2,372,013
Miscellaneous	740,200	-	740,200	-	740,200	-	740,200	-	740,200
Total Revenue	\$ 51,496,575	\$ -	\$ 51,496,575	\$ -	\$ 51,496,575	\$ -	\$ 51,496,575	\$ 2,744,059	\$ 54,240,634
Expenses									
Personnel Services	14,330,645	1,549,392	15,880,037	(230,987)	15,649,050	(240,184)	15,408,866	-	15,408,866
Operating Supplies & Expenses	8,939,998	3,179,474	12,119,472	(1,554,108)	10,565,364	(30,201)	10,535,163	-	10,535,163
Special Services	1,988,111	40,928	2,029,039	-	2,029,039	-	2,029,039	-	2,029,039
Capital Outlays	-	-	-	-	-	-	-	-	-
Amortization	9,690	-	9,690	-	9,690	-	9,690	-	9,690
Debt Service	21,909,888	-	21,909,888	-	21,909,888	-	21,909,888	-	21,909,888
Carry Forward from 2003	(2,025,910)	-	(2,025,910)	-	(2,025,910)	-	(2,025,910)	-	(2,025,910)
Debt Coverage	6,094,071	-	6,094,071	-	6,094,071	-	6,094,071	-	6,094,071
Total Expenses	\$ 51,246,493	\$ 4,769,794	\$ 56,016,287	\$ (1,785,095)	\$ 54,231,192	\$ (270,385)	\$ 53,960,807	\$ -	\$ 53,960,807
Operating Reserve	252,684	197,889	450,574	(26,776)	423,797	(143,970)	279,828	-	279,828
Total Cost of Service	\$ 51,499,177	\$ 4,967,683	\$ 56,466,861	\$ (1,811,871)	\$ 54,654,989	\$ (414,355)	\$ 54,240,634	\$ -	\$ 54,240,634
Revenue Surplus/(Deficiency)	\$ (2,602)	\$ (4,967,683)	\$ (4,970,286)	\$ 1,811,871	\$ (3,158,414)	\$ 414,355	\$ (2,744,059)	\$ 2,744,059	\$ -

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to
Rate Year Revenues and Expenses at Present Rates
Rate Year Ending June 30, 2004

<u>Description</u>	<u>Amount</u>	<u>Source</u>
NBC Updates and Revisions	\$ -	Schedule TSC-3
<u>Division Adjustments</u>		
Unfilled Employee Positions	\$ (240,184)	Schedule TSC-4
Worker's Comp-Old Claims	-	Schedule TSC-5
Sludge Disposal Costs	(30,201)	Schedule TSC-6
Overtime Payroll Savings	-	Schedule TSC-7
Insurance Premiums	-	Schedule TSC-8
Equipment Maintenance Agreements	-	Schedule TSC-9
Operating Reserve	(143,970)	Refer to Testimony
Total Division Adjustments	<u>(414,355)</u>	
Total Expense Adjustments	<u>\$ (414,355)</u>	

THE NARRAGANSETT BAY COMMISSION

Adjustment to the Rate Year Cost of Service
to Reflect NBC Updates and Revisions
Rate Year Ending June 30, 2005

	Filed <u>Adjustments (1)</u>	Updated <u>Adjustments (2)</u>	<u>Difference</u>
Personnel Services	\$ -	\$ -	\$ -
Operating Supplies & Expenses	-	-	-
Special Services	-	-	-
Capital Outlays	-	-	-
Amortization	-	-	-
Debt Service	-	-	-
Carry Forward from 2003	-	-	-
Debt Coverage	-	-	-
Total Expenses	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Operating Reserve	<u>-</u>	<u>-</u>	<u>-</u>
Total Cost of Service	<u>\$ -</u>	<u>\$ -</u>	<u><u>\$ -</u></u>

Notes:

(1) NBC has reflected all updates in its rebuttal filing.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Salaries and Benefits for
 Unfilled Employee Positions
 Rate Year Ending June 30, 2005

	<u>Salary (1)</u>	<u>Cost Savings</u>
<u>Unfilled Positions</u>		
Legal Counsel-Part Time	\$ 36,709	
Security Guard	31,194	
Mason	33,468	
O&M Supervisor	<u>59,175</u>	
Reduction in FY 2004 Salaries		\$ 160,546
Adjustment for Wage Increases in FY 2005 (2)		<u>6,422</u>
Adjustment to Rate Year Salaries and Wages		\$ 166,968
	<u>Rate (3)</u>	
Health, Dental and Vision Cost per Employee	10,185	40,740
FICA	7.65%	12,773
Pension-Union (4)	11.51%	14,254
Pension-Non-union (4)	10.00%	3,671
Retiree Health-Union (4)	1.30%	1,610
Disability-Non-union (4)	0.46%	<u>169</u>
Adjustment to Payroll Related Costs		73,216
Total Adjustment to Rate Year Wage Related Expense		<u><u>\$ 240,184</u></u>

Notes:

(1) Per response to DIV 1-1.

(2) Reflects 4% claimed increase per Revised Schedule WEE-5 in response to DIV 1-40.

(3) Per Revised Schedule WEE-5 provided in response to DIV 1-40.

(4) Part-time legal counsel treated as non-union. All others treated as union.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Worker's Compensation-Old Claims
Rate Year Ending June 30, 2005

Current Allowance for Worker's Comp-Old Claims (1)	\$ 50,000
Adjusted Amount per NBC Filing (2)	<u>50,000</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Notes:

(1) Per Docket No. 3483.

(2) Per Schedule WEE-R1, this current allowance has been incorporated in NBC's rebuttal claim.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Sludge Handling Expense
 at Fields Point Treatment Facility
 Rate Year Ending June 30, 2004

	<u>Amount Per NBC Rebuttal (1)</u>	<u>Division Amount</u>	<u>Adjustment to Exclude Contingencies</u>
Sludge Disposal-Bucklin Point	\$ 1,519,783	\$ 1,519,783	\$ -
Electricity	142,195	142,195	-
Natural Gas	638,806	608,605	(30,201)
Incinerator/Solids Handling Repairs	354,850	354,850	-
Fuel Oil No. 2	16,053	16,053	-
Chemicals-Lime	12,422	12,422	-
Chemicals-Polymer	87,553	87,553	-
Incinerator Supplies	4,000	4,000	-
Labor Reduction	-	-	-
Total Costs	<u>\$ 2,775,662</u>	<u>\$ 2,745,461</u>	<u>\$ (30,201)</u>

Notes:

- (1) Per Revised Schedules WEE-4, 8 and 9 provided in response to DIV 1-40.
- (2) Per response to DIV 2-11.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Recognize Overtime Savings
Rate Year Ending June 30, 2005

Adjustment to Overtime due to Increase in Employees (1)	\$ -
FICA Taxes at 7.65%	<u>-</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Note:

(1) Reflects Division acceptance of revised allowance claimed in NBC Rebuttal.

THE NARRAGANSETT BAY COMMISSION

Analysis of Insurance Premiums and
 Adjustment to Insurance Expense
 Rate Year Ending June 30, 2004

Policy Type	Actual FY 2003 (1)	Docket 3483 Projected FY 2004 (1)	Actual FY 2004	Percentage Increase 2004 vs 2003
Commercial Property	\$ 83,052	\$ 103,815	\$ 82,481	-0.7%
Contractor's Equipment	3,761	4,701	3,754	-0.2%
Business Auto	53,299	66,624	53,182	-0.2%
General Liability	51,670	64,588	46,335	-10.3%
Crime Insurance	1,164	1,455	1,280	10.0%
Fire Insurance (Watercraft)	5,550	6,938	6,200	11.7%
Public Officials E & O	24,804	31,005	13,925	-43.9%
Flood	15,374	19,218	16,553	7.7%
Umbrella	39,446	49,308	51,699	31.1%
Pollution (2)	27,656	34,570	25,866	-6.5%
Subtotal	\$ 305,776	\$ 382,222	\$ 301,275	-1.5%
TPA	5,000	6,250	-	
Employment Related Practice	-	-	13,054	
Marine Insurance	-	-	5,000	
Boiler & Machinery	-	-	24,865	
Total Premiums	\$ 310,776	\$ 388,472	\$ 344,194	
Rate Year Claim per NBC (3)			344,194	
Adjustment to Rate Year Expense			\$ -	

Notes:

- (1) Per Schedule WEE-12 in Docket No. 3483 excluding Workers Compensation.
- (2) FY 2004 amount reflects premium of \$51,732 per Schedule WEE-14 divided by 2 because that premium was the total for two years including FY 2004 and FY 2005.
- (3) Per Schedule WEE-R1, this current allowance has been incorporated in NBC's rebuttal claim.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Equipment Maintenance Agreements Expense
Rate Year Ending June 30, 2005

Amount per Division (1)	\$ 471,451
Rate Year amount per NBC (2)	<u>471,451</u>
Adjustment to Rate Year Expense	<u><u>\$ -</u></u>

Notes:

- (1) Reflects Division acceptance of NBC's claimed allowance.
- (2) Per Schedule WEE-4.

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates
Required to Generate Additional Revenues
Rate Year Ending June 30, 2004

Overall Revenue Increase Required (1)	<u>\$ 2,744,059</u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	8,913,649
Measured Fees-Residential	17,370,637
Flat Fees-Commercial and Industrial	5,780,891
Measured Fees-Commercial	13,719,069
Measured Fees-Industrial	2,604,465
Discharge Permit Fees	-
Connection Permit Fees	76,820
BOD/TSS Surcharge	-
Septage Fees	-
Total Revenues from Services Subject to Increase	<u>48,465,531</u>
Uniform Percentage Increase	<u>5.66%</u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule WEE-4

THE NARRAGANSETT BAY COMMISSION

Calculation of Proposed Rates and
 Proof of Revenues at Proposed Rates
 Rate Year Ending June 30, 2005

	<u>Current Rate</u>	<u>Percent Increase</u>	<u>Proposed Rate</u>	<u>Billing Units (1)</u>	<u>Revenue at Proposed Rates</u>
Flat Fees					
Residential	\$ 79.00	5.66%	\$ 83.47	112,831	\$ 9,418,004
Commercial & Industrial					
Meter Size					
5/8"	177.00	5.66%	187.00	3,828	715,836
3/4"	265.00	5.66%	280.00	880	246,400
1"	442.00	5.66%	467.00	1,045	488,015
1.5"	884.00	5.66%	934.00	832	777,088
2"	1,415.00	5.66%	1,495.00	1,799	2,689,505
3"	2,652.00	5.66%	2,802.00	73	204,546
4"	4,420.00	5.66%	4,670.00	51	238,170
6"	8,841.00	5.66%	9,342.00	57	532,494
8"	14,145.00	5.66%	14,946.00	13	194,298
10"	20,334.00	5.66%	21,485.00	1	21,485
Total Commercial & Industrial Flat Fees					\$ 6,107,837
Measured Fees					
Residential	1.625	5.66%	1.717	10,689,623	18,354,083
Commercial	2.355	5.66%	2.488	5,825,507	14,493,861
Industrial	1.515	5.66%	1.601	1,719,119	2,752,310
Total Measured Fees					\$ 35,600,254
Other Revenue					
Discharge Permit Fees	-	5.66%			-
Connection Permit Fees	76,820	5.66%			81,169
BOD/TSS Surcharge	-	5.66%			-
Septage Fees	-	5.66%			-
	<u>76,820</u>				<u>\$ 81,169</u>
Total Service Revenue					\$ 51,207,264
Target Revenue (2)					<u>51,209,590</u>
Variance					\$ (2,327)

Notes:

(1) Per Schedule WEE-21.

(2) Per Schedule TSC-10. Target equals revenue at present rates plus required increase.