STATE OF RHODE ISLAND

BEFORE THE

PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF	)	Docket No. 3660
THE KENT COUNTY WATER AUTHORITY	)	
FOR AN INCREASE IN RATES FOR	)	
WATER SERVICE	)	

DIRECT TESTIMONY OF

ANDREA C. CRANE

REGARDING REVENUE REQUIREMENTS

ON BEHALF OF

THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

April 15, 2005

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I. STATEMENT OF QUALIFICATIONS

Q. Please state your name and business address.

A. My name is Andrea C. Crane and my business address is P.O. Box 810, One North Main Street, Georgetown, Connecticut 06829.

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

A. I am Vice President of The Columbia Group, Inc., a financial consulting firm that specializes in utility regulation. In this capacity, I analyze rate filings, prepare expert testimony, and undertake various financial studies regarding utility rates and regulatory policy.

Q. Please summarize your professional experience in the utility industry.

A. Prior to my association with The Columbia Group, Inc., I held the position of Economic Policy and Analysis Staff Manager for GTE Service Corporation, from December 1987 to January 1989. From June 1982 to September 1987, I was employed by various Bell Atlantic subsidiaries. While at Bell Atlantic, I held assignments in the Product Management, Treasury, and Regulatory Departments.

Q. Have you previously testified in regulatory proceedings?

A. Yes, since joining The Columbia Group, Inc., I have testified in over 180 regulatory proceedings in the states of Arizona, Arkansas, Connecticut, Delaware, Hawaii, Kansas, Kentucky, Maryland, New Jersey, New Mexico, New York, Oklahoma, Pennsylvania, Rhode

Island, South Carolina, Vermont, West Virginia and the District of Columbia. These proceedings involved water, wastewater, gas, electric, telephone, solid waste, cable television, and navigation utilities. A list of dockets in which I have filed testimony is included in Appendix A. I have also been engaged to provide testimony as an expert witness in several civil proceedings.

Q. What is your educational background?

A. I received a Masters degree in Business Administration, with a concentration in Finance, from Temple University in Philadelphia, Pennsylvania. My undergraduate degree is a B.A. in Chemistry from Temple University.

Q. Do you have any additional relevant experience?

A. Yes, from January 1991 until January 1998, I served as Vice Chairman of the Water Pollution Control Commission in Redding, Connecticut. This Commission was charged with designing, constructing, and operating a sewage collection and treatment facility for the Town of Redding.

II. PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony?

A. The Columbia Group, Inc. was engaged by The Division of Public Utilities and Carriers ("Division") to review the recent abbreviated base rate filing by The Kent County Water

Authority ("KCWA" or "Authority") and to provide revenue requirement recommendations to the Public Utilities Commission ("PUC" or "Commission"). In developing my revenue requirement recommendations, I reviewed KCWA's testimony and exhibits and the responses to data requests propounded upon the Authority by the Division and by the Staff of the Commission.

III. SUMMARY OF CONCLUSIONS

Q. What are your conclusions concerning the Authority's revenue requirement?

A. Based on my review, my conclusions and recommendations are as follows:

1. Based on the rate year ending June 31, 2006, KCWA has pro forma operating revenue (including miscellaneous revenues) at present rates of $13,561,649 (see Schedule ACC-1).
2. KCWA has total pro forma costs of $15,751,929. This includes the Authority's revised claim for infrastructure rehabilitation ("IFR") program costs of $4,080,000.
3. Based on these determinations, a rate increase of $2,190,280 is appropriate. This represents an increase of 16.2% over pro forma operating revenue at present rates, and of 16.5% over metered sales revenue.
4. The Division is not opposing KCWA's request for a total rate increase of $3,172,665. The difference between the Authority's requested increase of $3,172,665 and the required increase of $2,190,280 discussed above should be restricted and used for IFR projects.

5. The Division's recommendation results in a total IFR project funding amount of $5,062,385, which includes the $4,080,000 requested in the Authority's Supplemental Filing, $820,865 in revenue and expense adjustments recommended by the Division, and the surplus of $161,520 that was included in the KCWA's Supplemental Filing.

IV. DISCUSSION OF THE ISSUES

A. Introduction

Q. Please summarize KCWA's request for rate relief in this case.

A. On January 14, 2005, KCWA filed an abbreviated rate filing requesting a rate increase of $3,172,794. The amount of the requested rate increase was based on the Commission's requirement that an abbreviated filing may only be used if the rate increase is no greater than 25%. The Authority's initial filing included IFR funding of $3,400,000. In that filing, KCWA requested that if the Commission were to make any revenue or expense adjustments that reduced the Authority's revenue requirement, then its IFR funding should be correspondingly increased. Therefore, regardless of any adjustments adopted by the Commission, the Authority requested a rate increase of $3,172,794.

On February 28, 2005, the Authority filed Supplemental Testimony requesting a rate increase of $3,172,665. In its Supplemental Testimony, the Authority made several corrections to its revenue requirement. These corrections reduced its rate year expenses by $818,160. However, in its Supplemental Testimony, the Authority increased its IFR claim by

$680,000. Its requested rate increase remained virtually unchanged. Therefore, even after increasing its IFR claim to $4,080,000, the Authority's requested rate increase still resulted in a surplus of $161,520 of revenues over total costs, as shown on Schedule 11 of Mr. Woodcock's Supplemental Testimony.

B. <u>Pro Forma Operating Revenue</u>

Q. How did the KCWA develop its pro forma revenue claim?

A. In order to develop its pro forma revenue claim, the KCWA used the actual number of customers at June 30, 2004. Consumption was based on actual test year sales, adjusted to eliminate usage from one large customer, On Semiconductor, that shut down its production facility and left the system in March 2005.

Q. How should pro forma revenues for a water utility be determined?

A. In order to determine pro forma revenue, it is necessary to first examine metered consumption, i.e. sales per customer. Consumption fluctuates from year-to-year due to a variety of factors. The most significant factors that influence the variations in annual water consumption from year-to-year are temperature and rainfall. Given that metered consumption fluctuates, it is common to use an average consumption over a period of time to determine a "normalized" level of consumption for ratemaking purposes.

I used the Authority's Annual Reports to the Commission as the source of my sales data. First, I examined the Company's residential consumption figures during the past five years, as shown below:

Residential Consumption	Total Sales (CCFs)	Customers	Average Consumption
FY 2004	2,793,777	24,637	113
FY 2003	3,101,715	24,519	127
FY 2002	3,181,964	24,344	131
FY 2001	2,969,091	24,125	123
FY 2000	3,138,259	23,954	131
Three Yr. Average			124
Five Year Average			125

I next examined industrial consumption over the same period, as shown below:

Commercial Consumption	Total Sales (CCFs)	Customers	Average Consumption
FY 2004	1,411,312	1,458	968
FY 2003	1,203,463	1,440	836
FY 2002	1,218,934	1,415	861
FY 2001	1,146,461	1,396	821
FY 2000	1,106,793	1,389	797
Three Yr. Average			888
Five Yr. Average			857

I also examined total KWCA sales (Ccfs), excluding sales for resale to Warwick, as shown below:

FY 2004	4,357,898
FY 2003	4,470,480
FY 2002	4,566,681
FY 2001	4,273,424
FY 2000	4,415,094
Three-Year Average	4,465,019
Five-Year Average	4,416,715

The test year in this case had total sales that were lower than sales in three out of the past five years. Moreover, residential consumption was significantly lower in fiscal year 2004 than in any of the other years that I examined. Residential fiscal year's 2004 consumption per residential customer was almost 10% lower than either the three-year or five-year average over this period. Therefore, I do not believe that it is reasonable to assume that the test year sales accurately represents prospective, normalized sales.

Q. How did the Authority determine pro forma sales in its last case?

A. As stated by Mr. Woodcock at page 13 of his Initial Testimony, "[t]he rate year sales used in Docket 3311 were a three year average of calendar years 1988, 1999, and 2000. They resulted in sales of 4,350,173 hundred cubic feet that were used in that filing and the basis for the settlement in that case. In 2002 we used these same values for the pass through increase approved by the Commission."

Q. Did the Authority explain why it did not utilize a three-year average in this case?

A. No, it did not. Mr. Woodcock stated on page 13 of his Initial Testimony that "[t]he test year sales in this case are 4,204,409 hundred cubic feet, are in the range of historic sales, and I believe are an appropriate basis for the docket." However, he did not provide a three-year or five-year average nor did he explain why he believes that the use of test year sales is necessarily appropriate.

Q. What do you recommend?

A. Based on all of the information available to me at this time, I am recommending an adjustment to KCWA's pro forma revenue to reflect an average of total sales over three years, consistent with the practice followed in Docket 3311. Moreover, this methodology is also consistent with the recent decision of the Commission in the Woonsocket Water Division base rate case, Docket No. 3626.

Q. Did you deduct the lost sales from On Semiconductor in developing your recommendation?

A. Yes, I did. As shown in Schedule ACC-2, I first calculated a three-year average of KCWA sales, excluding sales for resale to Warwick. This resulted in sales of 4,465,020 Ccfs. I then made an adjustment to eliminate sales to On Semiconductor, based on a three-year average of sales to that customer. After adjusting for these lost sales, my recommended pro forma sales are 4,220,038 Ccfs.

Q. Is there some question as to whether data in the Annual Reports to the Commission, used as the source for the Authority's historic sales, are unadjusted numbers and therefore inconsistent with the volumes used by Mr. Woodcock?

A. Based on informal discussions with Mr. Woodcock, as well as the Authority's response to COMM 1-11, I understand that the volumes shown in the 2004 Annual Report may be "unadjusted", i.e., these volumes may not include all subsequent billing adjustments. Unfortunately, the volumes reported in the Annual Reports to the Commission are the best source of data available to me for the three fiscal years in question. Moreover, I believe that it is reasonable to rely upon information contained in the Annual Reports to the Commission. Therefore, I have used this historic data to quantify my pro forma revenue adjustment. If additional information is provided by the Authority regarding any adjustments made to sales over the past three years, I will review this data and modify my recommendation if appropriate.

Q. In addition to your consumption adjustment, are you recommending any other pro forma revenue adjustment?

A. Yes, I am. KCWA based its pro forma revenue claim on the number of customers at June 30, 2004. However, the rate year in this case is the twelve months ending June 30, 2006. Based upon my review of the Annual Reports to the Commission, residential customer growth has been fairly consistent over the past five years. From fiscal year 2000 to fiscal year 2004, the number of residential customers increased, on average, by 171 customers per year. Therefore, basing pro forma revenues on the number of customers at June 30, 2004 is likely to understate the actual average number of customers in the rate year.

Q. What do you recommend?

A. I recommend that the Commission adopt a revenue adjustment to reflect an additional 256 residential customers. Assuming annual growth of 171 residential customers, my adjustment reflects 18 months of growth, from June 30, 2004 to January 1, 2006, the middle of the rate year. My adjustment is shown in Schedule ACC-3. I have included usage per customer for these incremental customers based on the three-year residential average usage.

Q. Are you making a similar customer adjustment relating to industrial customers?

A. No, I am not. While the Annual Reports to the Commission demonstrate that the number of industrial customers has also grown each year, I recognize that this growth has been much slower than the growth in the residential class. Since 2000, the number of industrial customers has increased from 1,389 to 1,458, or by approximately 17 customers per year. However, usage among customers in the industrial class typically varies much more than usage among customers in the residential class, and is largely dependent upon the parameters of the specific industrial customer. Therefore, I am not recommending any adjustment to the actual test year number of industrial customers used in the Authority's filing. However, it should be noted that there very well may be non-residential customers added between the end of the test year and the rate year. For example, I understand that Home Depot is in the process of building a new facility in Coventry and that this facility is expected to be operational shortly.

Q. In quantifying your adjustments, did you consider incremental variable costs associated with increased sales?

A. Yes, I did. I included incremental cost adjustments relating to power costs, chemical costs, and purchased water costs, as shown in Schedules ACC-4, ACC-5, and ACC-7 respectively.

With regard to power costs, as shown in Schedule ACC- 4, I first calculated the ratio of total power costs to total sales, as determined by the Authority. This resulted in a unit power cost of $0.10 per Ccf sold. I then multiplied my recommended sales (volume) adjustment, in Ccfs, by the incremental power cost to determine the total incremental power costs associated with these incremental sales. The adjustments to incremental chemical and purchased water costs are discussed in more detail below.

C. Chemical Costs

Q. How did the Authority determine its claim for chemical costs?

A. As described in the Initial Testimony of Mr. Woodcock at page 9, the Authority determined its claim based on the actual test year usage of each chemical and the most recent unit cost. In addition, the Authority included an adjustment for a new sequestering agent that was not used in the test year. Finally, the Authority included a "4% allowance...to reflect the fact that chemical costs and delivery have been increasing lately with the increased cost of fuel."

Q. Are you recommending any adjustment to the Authority's claim?

A. Yes, I am recommending two adjustments. First, as previously stated, I have made an adjustment at Schedule ACC-5, to increase the Company's costs, consistent with my recommended adjustment to pro forma sales. I first calculated a per unit chemical cost of $0.01 per Ccf of water sold. I then multiplied this per unit cost by my recommended volumetric sales adjustment to determine the total incremental pro forma chemical costs.

Q. What is your second adjustment to the Authority's chemical costs?

A. My second adjustment is to disallow the Authority's 4% inflationary increase to chemical costs.

Q. Why are you recommending disallowance of this 4% inflationary adjustment?

A. The Authority has not demonstrated that the price of chemicals is dependent on the price of fuel. Moreover, if one assumes that there is a relationship, the Authority has not demonstrated that its 4% adjustment accurately reflects that relationship. The Authority did not provide details in its testimony for the rationale supporting this 4% adjustment. We asked for supporting documentation in DIV 1-14. In that response, which is included in Appendix C to this testimony, the Authority first claims that "the base annual costs for chemicals shown on Schedule 1D were predicated on the costs as of June 30, 2004." This contradicts Mr. Woodcock's testimony that the most recent unit costs were used. Moreover, KCWA's data request response provides no empirical evidence regarding the relationship between energy prices and chemical costs. Thus, while the Authority has provided in its data request response information on past increases in fuels and utilities, it has not supported its proposed chemical cost adjustment with either historic data or with empirical data showing the interrelationship between chemical costs and energy prices. Accordingly, I recommend that KCWA's inflation increase be rejected. My adjustment is shown in Schedule ACC-6.

D. <u>Purchased Water Costs</u>

Q. How did the Company determine its claim for costs for purchased water ?

A. The Authority's claim is based on its pro forma rate year sales projection. Moreover, the Authority assumed that its own internal production would be limited to the amount pumped in the test year. Therefore, its rate year claim in this case is based on the sale volumes of purchased water that were experienced in the test year, adjusted only to eliminate the water associated with its On Semiconductor revenue adjustment.

Q. Are you recommending any adjustment to the Authority's claim for purchased water costs?

A. I am not recommending any adjustment to the Authority's assumption that its internal production will be limited to the amount pumped in the test year. According to Al Mancini of the Division, this assumption appears reasonable.

However, I am recommending two adjustments, both of which are incorporated at Schedule ACC-7. First, as previously stated, I have made an adjustment to reflect incremental costs associated with incremental purchases of water that will be necessary as a result of increasing pro forma sales. Therefore, at Schedule ACC-7, I began by developing the Authority's total purchased water requirement based on the level of pro forma sales that I recommend be adopted. Assuming that my pro forma revenue adjustments relating to normalized usage and customer growth are adopted, then I recommend total pro forma system sales of 4,341,607 Ccfs, and that is the level of sales on which purchased water volumes should be based. Second, in order to develop a pro forma level of purchased water, I have reflected an unaccounted-for water percentage of 10%, rather than the 16% included in the Authority's claim.

Q. What is the basis for your unaccounted-for water adjustment?

A. My adjustment is based on a review of the actual unaccounted-for water percentage experienced over the past several years. As demonstrated below, the Authority's unaccounted-for water percentage has consistently been below 10%:

Unaccounted-for Water Percentage

FY 2004	8.4%
FY 2003	5.9%
FY 2002	5.2%
FY 2001	9.7%
FY 2000	3.1%
FY 1999	7.2%
FY 1998	7.4%

However, in this case, the Authority has included total supply of 4,748,309 Ccfs (or 3,551,735 mg) and sales of 3,984,152 Ccfs, for an unaccounted-for water percentage of 16.1%. This has the effect of inflating the purchased water requirements and therefore the associated costs. At Schedule ACC-7, I have made an adjustment to purchased water costs to reflect an unaccounted-for water percentage of 10%. This percentage is still greater than the Authority's actual results over the past seven years, but is more reasonable than the 16.1% included in the Authority's claim.

E. Maintenance of Mains

Q. Please describe the Company's claim for Maintenance of Mains.

A. KCWA has included $497,024 in its filing for Maintenance of Mains. This represents an increase of $29,005 over the actual test year cost. The $29,005 increase that the Authority has included in this account is the increase attributable to labor increases.

Although the Company is requesting only a modest increase in this expense item relative to test year actual costs, the test year costs appear abnormally high relative to prior year levels, as shown below:

Maintenance of Mains

FY 2004	$468,020
FY 2003	$395,163
FY 2002	$374,859
Three Year Average	$412,681

Q. What do you recommend?

A. I recommend that an average of the last three fiscal years be used to establish the pro forma level of maintenance costs in this proceeding. This would result in a base cost of $412,681 instead of the $468,020 included in the Authority's filing. My adjustment is shown in

Schedule ACC-8. In quantifying my adjustment, I have added the entire rate year increase of $29,005 included in the Authority's filing to the three-year average base cost, to reflect the labor increase allocated to this account. This results in a total expense for Maintenance of Mains of $441,686 instead of the $497,024 claimed by KCWA.

F. <u>Office Supplies and Expenses</u>

Q. Are you recommending any adjustments to the Company's claim for Office Supplies and Expenses?

A. Yes, I am. Similar to the discussion regarding Maintenance of Mains, the Authority's actual test year cost for Office Supplies and Expenses was also quite high relative to historic levels, as shown below:

Office Supplies and Expenses

FY 2004	$136,477
FY 2003	$88,801
FY 2002	$92,570
Three Year Average	$105,949

The Authority did not make any adjustment to its test year actual costs. However, these costs certainly do not appear to be typical based upon a review of historic data.

Q What do you recommend?

A. Similar to my recommendation with regard to Maintenance of Mains, I recommend that a three-year average of Office Supplies and Expenses be used in the Authority's revenue requirement. My adjustment is shown in Schedule ACC-9. It does not appear that the test year actual cost was representative of normal, prospective operations and therefore a pro forma adjustment is appropriate.

G. <u>Operating Revenue Allowance</u>

Q. What is an operating revenue allowance?

A. In the past, the Commission has permitted certain non-investor water utilities to collect an operating revenue allowance of 1.5% of expenses in order to mitigate cash flow problems, and to provide for unforeseen expenditures or reduced revenue. KCWA originally included an operating revenue allowance of 1.5% of its total costs in its revenue requirement claim. In his Supplemental Testimony at page 3, Mr. Woodcock revised the Authority's claim to reflect an operating revenue allowance based on 1.5% of the Authority's non-capital costs, recognizing that "in some recent cases the Commission has ruled that the 1.5% operating reserve will only be applied to non-capital costs. This was recently affirmed in Docket 3626."

Q. Has the Commission traditionally permitted KCWA to include an operating revenue allowance in rates?

A. No, it has not. In Docket No. 2098, the Commission addressed the Authority's request for an operating revenue allowance, finding that:

> Historically, the Commission has authorized the inclusion of a 1.5 percent operating reserve allowance into the cost of service of municipal water utilities. This reserve has previously been allowed in order to mitigate cash flow problems, provide for unforeseen expenditures, or lost revenue due to water use curtailment...However, the Commission finds the Authority's inclusion of a proposed operating and maintenance reserve in this filing, a reserve which ostensibly makes KCWA bonds more appealing to potential bond purchasers, negates the need for a traditional operating reserve allowance...We find that the Authority's proposed operating and maintenance reserve serves an identical function to our operating reserve allowance...we shall deny the KCWA's additional operating reserve allowance request.[1]

Q. Does the Authority still have an operating and maintenance reserve, which the Commission found negated the need for an additional operating revenue allowance?

A. Yes, it does. At the end of the test year, the operating and maintenance reserve had a balance of $1,898,250, as shown in Schedule 1D, page 1, of Mr. Woodcock's Supplemental Testimony. Moreover, the Authority projected that this reserve would increase to $2,079,825 by the beginning of the rate year. Mr. Woodcock concluded that this operating and maintenance reserve would be fully funded at that point and that the Authority would not be

1 Order in Docket No. 2098-pages 72-73. In that case, the term "Operating Reserve Allowance" was used instead of

required to make any additional payments to the reserve during the rate year.

Q. What do you recommend?

A. Given that the Commission has previously found that the operation and maintenance reserve negates the need for an additional operating allowance, and given that that the Authority has provided no new support for such an allowance in this case, I recommended that the Authority's request for an operating revenue allowance be disallowed. My adjustment is shown in Schedule ACC-10.

H. Additional Revenue Requirement Issues

Q. Are there any additional revenue requirement issues that you would like to address?

A. Yes, there are two issues. First, in response to COMM 1-18, the Authority provided copies of minutes from its Board meetings. At the meeting of January 21, 2004, the Board voted to re-engage the lobbyist services of Gail Wolf, Esq. at a rate of $150.00 per hour. Therefore, it appears that the test year contains at least some costs relating to lobbying activities. At this time, I do not know the amount of lobbying costs included in the Authority's test year claim and I have asked additional discovery in this area. However, lobbying costs are not an appropriate revenue requirement component for a regulated utility and these costs should be disallowed.

"Operating Revenue Allowance".

Lobbying expenses are not necessary for the provision of safe and adequate utility service. Moreover, the lobbying activities of a regulated utility may be focused on policies and positions that may not benefit, and may even harm, individual ratepayers. Regulatory agencies generally disallow costs involved with lobbying, since ratepayers have the ability to lobby on their own through the legislative process. Moreover, lobbying activities have no functional relationship to the provision of safe and adequate utility service. For all these reasons, I recommend that lobbying activities be disallowed. Therefore, I will make an additional adjustment to eliminate lobbying costs once the test year costs are quantified by the Authority.

Q. Has this Commission disallowed lobbying costs in the past?

A. Yes, they have. In a recent Order issued August 23, 2004 in Docket No. 3548, involving New England Gas Company, the Commission reiterated its position that "[i]t is a ratemaking principle that lobbying expenses and private membership dues are not legitimate ratepayer expenses." In that Order, the Commission also referenced Order Nos. 9411, 9069, and 9062 as support for its finding. Hence, the Commission has determined in several cases that lobbying costs should be not be passed through to ratepayers.

Q. What is the second issue that you would like to discuss?

A. The second issue is health insurance costs. As shown in the response to DIV 1-9, the Authority is paying a significant amount for health insurance costs, ranging from $448.40 per month for a single employee to $1,188.27 per month for a family plan. These costs are only for medical insurance and do not include premiums for dental insurance, which is also provided to Authority employees. Moreover, not only do employees receive medical benefits, but the Authority's Board members receive them as well. Employees and Board members do not pay any of their medical insurance costs, according to the response to DIV 1-11.

In response to DIV 1-10, the Authority stated that over the past three years, it has not undertaken any efforts to investigate alternative medical benefit plans. Given the significant costs being incurred for health insurance programs, the Authority should periodically review its coverage and solicit bids for service from other providers. This is especially critical since the Authority pays 100% of these costs for both employees and Board members. The Authority apparently does solicit bids for other types of insurance, as discussed in the minutes of its Board meetings. Therefore, I recommend that the Commission require the KCWA to undertake a review of its medical benefits and associated costs, and to report back to the Commission in the Authority's next base rate case.

V. SUMMARY

Q. What is the result of the adjustments that you are recommending in this case?

A. My adjustments reduce the KCWA's revenue requirement from the $15,977,499 included in Mr. Woodcock's Supplemental Testimony to $15,751,929, as summarized in Schedule ACC-1. Based on my pro forma operating revenue at present rates of $13,561,649, a rate increase of

$2,190,280, or approximately 16%, would be required. However, the Division is not opposing the KCWA's request for an increase of $3,172,665 or approximately 25%, provided that all amounts over the revenue requirement of $15,751,929 are restricted and used to fund IFR projects.

Q. Does this complete your testimony?

A. Yes, it does.

Schedule ACC-1

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

REVENUE REQUIREMENT SUMMARY

		KCWA Claim (A)	Recommended Adjustments		Recommended Position
	Operating Expenses:				
1.	Source of Supply	$3,628,937	($52,949)	(B)	$3,575,988
2.	Pumping	567,939	30,161	(C)	598,100
3.	Water Treatment	181,885	1,608	(D)	183,493
4.	Transmission and Distribution	843,883	(55,338)	(E)	788,545
5.	Customer Accounts	285,878			285,878
6.	Administrative and General	2,065,082	(30,528)	(F)	2,034,554
7.	Total Operating and Maintenance	$7,573,604	($107,046)		$7,466,558
	Fixed Charges:				
8.	Debt Service	$3,895,931			$3,895,931
9.	O&M Reserve	0			0
10.	R&R Reserve	51,013			51,013
11.	Renewal and Replacement	100,000			100,000
12.	Infrastructure Replacement	4,080,000			4,080,000
13.	Payroll Taxes	135,255			135,255
14.	PILOT	23,172			23,172
15.	Operating Revenue Allowance	118,524	(118,524)	(G)	0
16.	Total Fixed Charges	$8,403,895	($118,524)		$8,285,371
17.	Total Revenue Requirement	$15,977,499	($225,570)		$15,751,929
18.	Water Sales Revenues	$12,687,340	$595,295	(H)	$13,282,635
19.	Miscellaneous Revenues	279,014			279,014
20.	Total Operating Revenues	$12,966,354	$595,295		$13,561,649
21.	Required Rate Increase	$3,011,145	($820,865)		$2,190,280
22.	Requested Rate Increase	3,172,665	0		3,172,665
23.	Additional IFR Funding	$161,520	$820,865		$982,385
24.	Requested IFR Funding	4,080,000	0		4,080,000
25.	Total Restricted IFR Funding	$4,241,520	$820,865		$5,062,385

Sources:
(A) Supplemental Testimony of Mr. Woodcock, Schedule 1, pages 1-3 and Schedule 1A.
(B) Schedule ACC-7.
(C) Schedule ACC-4.
(D) Schedules ACC-5 and ACC-6.
(E) Schedule ACC-8.
(F) Schedule ACC-9.
(G) Schedule ACC-10.
(H) Schedules ACC-2 and ACC-3.

Schedule ACC-2

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

PRO FORMA REVENUES - CONSUMPTION

1.	FY 2004 Sales (Ccfs)	4,357,898	(A)
2.	FY 2003 Sales (Ccfs)	4,470,480	(A)
3.	FY 2002 Sales (Ccfs)	4,566,681	(A)
4.	Three Year Average (Ccfs)	4,465,020	
5.	Adjustment for On Semiconductor	(244,982)	(B)
6.	Pro Forma Recommendation	4,220,038	
7.	Company Claim	3,964,152	(C)
8.	Recommended Adjustment CCFs	255,886	
9.	Current Retail Rate / Ccf	$2.047	(D)
10.	Gross Revenue Adjustment	**$523,798**	

Sources:
(A) Response to DIV 1-20.
(B) Based on informal data request response.
(C) Supplemental Testimony of Mr. Woodcock, Schedule 2.
(D) Supplemental Testimony of Mr. Woodcock, Schedule 9.

Schedule ACC-3

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

CUSTOMER GROWTH

1.	Average Annual Customer Growth	171	(A)
2.	18 Months of Customer Growth	256	(B)
3.	Average Residential Usage (Ccfs)	123.54	(C)
4.	Incremental Sales (Ccfs)	31,626	(D)
5.	Current Retail Rate / Ccf	$2.047	(E)
6.	Total Volumetric Revenue	$64,739	
7.	Total Service Charge Revenue	6,758	(F)
8.	Total Revenue Adjustment	**$71,497**	

Sources:
(A) Based on growth from 2000 through 2004, per information provided in the Annual Reports to the Commission, per the response to DIV 1-20.
(B) Line 1 X 1.5 years.
(C) Based on usage from 2000 through 2004, per information provided in the Annual Reports to the Commission, per the response to DIV 1-20.
(D) Line 2 X Line 3.
(E) Supplemental Testimony of Mr. Woodcock, Schedule 9.
(F) Quarterly rate for 5/8 inch meter of $6.60, per the Supplemental Testimony of Mr. Woodcock, Schedule 11, page 1, multiplied by 4 quarters, multiplied by the customers per Line 2.

Schedule ACC-4

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

INCREMENTAL POWER COSTS

1.	Authority Claimed Costs	$415,850	(A)
2.	Authority Claimed Sales	3,964,152	(B)
3.	Unit Power Cost	$0.1049	(C)
4.	Pro Forma Sales Adjustments	287,512	(D)
5.	Pro Forma Power Adjustment	**$30,161**	

(A) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 1.
page 1.
(B) Supplemental Testimony of Mr. Woodcock, Schedule 2.
(C) Line 1 / Line 2.
(D) Schedules ACC-2 and ACC-3.

Schedule ACC-5

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

INCREMENTAL CHEMICAL COSTS

1.	Authority Claimed Costs	$51,411	(A)
2.	Chemical Inflation Adjustment	($1,977)	(B)
3.	Pro Forma Chemical Costs	$49,434	
4.	Authority Claimed Sales	3,964,152	(C)
5.	Unit Chemical Costs	$0.0125	(D)
6.	Pro Forma Sales Adjustment	287,512	(E)
7.	Pro Forma Chemical Adjustment	**$3,585**	

(A) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 1.
page 1.
(B) Schedule ACC-6.
(C) Supplemental Testimony of Mr. Woodcock, Schedule 2.
(D) Line 3 / Line 4.
(E) Schedules ACC-2 and ACC-3.

Schedule ACC-6

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

CHEMICAL COSTS - INFLATION ADJUSTMENT

1.	Company Claimed Inflation Adjustment	$1,977	(A)
2.	Pro Forma Adjustment	**($1,977)**	

Sources:
(A) Supplemental Testimony of Mr. Woodcock, Schedule 1D.

Schedule ACC-7

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

PURCHASED WATER EXPENSE

1.	Pro Forma Sales Exc. Sales for Resale	4,220,038	(A)
2.	Customer Growth Adjustment	31,626	(B)
3.	Sales for Resale (Ccfs)	89,943	(C)
4.	Total Pro Forma Sales (Ccfs)	4,341,607	
5.	Pro Forma Unaccounted For Water @ 10%	434,161	(D)
6.	Total Pro Forma Supply Requirement (Ccfs)	4,775,768	(E)
7.	Total Pro Forma Supply Requirement (Tgs)	3,572,274	(F)
8.	Company Claim (Tgs)	3,619,012	(G)
9.	Recommended Adjustment (Tgs)	46,738	
10.	Current Retail Rate / Tgs	$1.13	(H)
11.	Recommended Expense Adjustment	**$52,949**	

Sources:
(A) Schedule ACC-2.
(B) Schedule ACC-3.
(C) Test Year Actual, per the Annual Report to the Commission provided in response to DIV 1-20.
(D) 10% of Line 4.
(E) Line 4 + Line 5.
(F) Line 6 * .748 tgs/Ccf.
(G) Supplemental Testimony of Mr. Woodcock, Schedule 1C.
(H) Rate of $1,132.89 per million gallons, per Supplemental Testimony of Mr. Woodcock, Schedule 1C, divided by 1000.

Schedule ACC-8

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

MAINTENANCE OF MAINS

1.	FY 2004	$468,020	(A)
2.	FY 2003	395,163	(A)
3.	FY 2004	374,859	(A)
4.	Three Year Average	$412,681	
5.	Adjustment for Labor Increase	29,005	(B)
6.	Total Pro Forma Costs	$441,686	
7.	Authority Claim	497,024	(B)
8.	Recommended Adjustment	**($55,338)**	

Sources:

(A) Response to DIV 1-1.

(B) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 1.

Schedule ACC-9

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

OFFICE SUPPLIES AND EXPENSES

1.	FY 2004	$136,477	(A)
2.	FY 2003	88,801	(A)
3.	FY 2004	92,570	(A)
4.	Three Year Average	$105,949	
5.	Authority Claim	136,477	(B)
6.	Recommended Adjustment	**($30,528)**	

Sources:
(A) Response to DIV 1-1.
(B) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 2.

Schedule ACC-10

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

OPERATING REVENUE ALLOWANCE

1.	Company Claim	$118,524	(A)
2.	Recommended Adjustment	**($118,524)**	

Sources:
(A) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 3.