

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)

SURREBUTTAL TESTIMONY OF
ANDREA C. CRANE
REGARDING REVENUE REQUIREMENTS

ON BEHALF OF
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

May 13, 2005

1 **Q. Please state your name and business address.**

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

4

5 **Q. Did you previously file Direct Testimony in this case?**

6 A. Yes, on April 15, 2005, I filed Direct Testimony on behalf of the Division of Public
7 Utilities and Carriers (“Division”). In my Direct Testimony, I found that the Kent County
8 Water Authority (“KCWA” or “Authority”) had a revenue requirement deficiency of
9 \$2,190,280. I also stated that the Division is not opposing KCWA’s request for a total rate
10 increase of \$3,172,665, provided that the difference between the Authority’s requested
11 increase of \$3,172,665 and the required increase of \$2,190,280 be restricted and used for
12 Infrastructure Rehabilitation (“IFR”) projects.

13

14 **Q. Have you received any additional information since your Direct Testimony was filed?**

15 A. Yes, I received responses to supplemental discovery requests that had been served upon the
16 Authority. These responses provide additional information that is relevant to several of the
17 adjustments recommended in my Direct Testimony.

18

1 **Q. Did the Authority provide revised historic usage data since the filing of your Direct**
2 **Testimony?**

3 A. Yes, in response to DIV 2-5 (Revised), the Authority provided adjusted water sales for each of
4 the past three years. In my Direct Testimony, I recommended that a three-year average of
5 consumption be used to develop the Authority's revenue requirement. I also noted in my
6 Direct Testimony that there was some uncertainty as to whether the data in the Annual Report
7 to the Commission, which I used to develop my pro forma revenue adjustment, was adjusted or
8 unadjusted data. The Authority has now confirmed that the information provided to the
9 Commission in the Annual Report is unadjusted data, which can vary from the actual booked
10 sales. Accordingly, at Schedule ACC-2S, I have updated my adjustment to reflect a three-year
11 average of consumption based on the adjusted data that has now been provided by the
12 Authority.

13 It should be noted that the information being provided to the Commission in the
14 Authority's Annual Reports might not present an accurate representation of the Authority's
15 sales, since these sales figures are subject to adjustments, which can be significant in certain
16 cases. Accordingly, the Commission may want to require that in the future KCWA revise its
17 practice of reporting unadjusted sales numbers in its Annual Report.

18
19 **Q. Did the Authority provide updated usage data since the end of the test year?**

20 A. Yes, in response to DIV 2-2, the Authority provided metered water sales from July 2004
21 through March 2005.

1
2 **Q. Did you compare this monthly data with the monthly data included in the Authority's**
3 **claim?**

4 A Yes, I did. Mr. Woodcock had provided me with his workpaper showing actual adjusted
5 metered sales, by month, that were used by the Authority to develop its pro forma revenue
6 claim in this case. The Authority's consumption was based on actual test year sales, adjusted
7 to eliminate usage from one large customer, On Semiconductor that shut down its production
8 facility and left the system in March 2005. As demonstrated below, metered sales for the first
9 nine months of the current fiscal year have generally been higher than the test year sales
10 included in the Authority's claim:

11

	Test Year Per Woodcock Work paper	Fiscal Year 2005
July	31,312,899	38,491,326
August	23,652,776	31,997,418
September	55,882,690	77,235,087
October	36,570,058	38,382,473
November	27,487,515	28,342,950
December	48,341,492	38,796,976
January	32,108,435	26,403,020
February	26,132,410	24,993,712

March	41,606,609	35,410,514
Total	323,094,884	340,053,476

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This data indicates that actual fiscal year consumption has been approximately 5.25% higher than the actual consumption experienced during the test year, providing further support for my pro forma consumption adjustment shown at Schedule ACC-2S of my Direct Testimony.

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Moreover, in response to DIV 2-3, the Authority indicated that the new Home Depot facility in Coventry was expected to open May 1, 2005. No usage from this facility was included in the Authority's filing. The Home Depot facility is expected to use approximately 1,886 gallons per day.

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Q. Please comment on the statement at page 2, lines 20-22 of Mr. Woodcock's Rebuttal Testimony that the recent dockets in Pawtucket, Newport and Woonsocket all demonstrate that water utilities throughout Rhode Island have generally experienced a reduction in sales from prior years.

12

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14

A. Utility rates are set based on normal, prospective operating conditions, not necessarily on actual test year results. Accordingly, the issue is not what consumption was in any one particular year, but more specifically what normal consumption is expected to be prospectively. I note that in the most recently litigated water utility proceeding (Docket No. 3626), the Commission found that a three-year average was appropriate for determining the

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1 pro forma consumption for the Woonsocket Water Division.

2 Moreover, Mr. Woodcock's statement that water sales have declined over the past few
3 years is at odds with his statement that my three-year average is flawed because fiscal year
4 2002 "was much higher than the other two years."¹ In fact, Mr. Woodcock states that fiscal
5 year 2002 sales were the highest sales experienced since 1996. Mr. Woodcock goes on to
6 state that "...the sales in FY 2002 and FY 2003 were both above recent historic averages,
7 tending to cause a higher result than is normal or to be expected."² Mr. Woodcock's statement
8 that sales are declining and his statement that FY 2002 and FY2003 were higher than normal
9 are inconsistent. Mr. Woodcock is attempting to achieve a desired result of depressing pro
10 forma water sales in order to increase the Authority's revenue requirement. My
11 recommendation, on the other hand, is to consistently use a multi-year average.

12
13 **Q. Did the Authority also provide updated customer count information?**

14 A. Yes, it did. In response to DIV 2-4, the Authority provided the most recent number of
15 customers, showing 24,787 residential customers, 1,399 industrial/commercial customers, and
16 321 governmental customers, for a total of 26,507 customers. The total number of customers
17 used in the Authority's pro forma revenue claim is 26,334, per Schedule 11 of Mr.
18 Woodcock's Supplemental Testimony. Thus, this data request response provides further
19 support for the adjustment shown at Schedule ACC-3S, relating to new customers added since
20 the end of the historic test year. At Schedule ACC-3S, I have updated my customer count

1 Rebuttal Testimony of Mr. Woodcock, page 3, lines 11-12.

1 adjustment to reflect revised historic consumption provided in response to DIV 2-5.

2
3 **Q. Did the Company provide additional support for its chemical inflation adjustment in its**
4 **Rebuttal Testimony?**

5 A. No, it did not. In his rebuttal testimony, Mr. Woodcock stated that the chemical
6 manufacturing industry is one of the six industries that consume three quarters of all industrial
7 energy and he also stated that chemical companies had been adding an energy or fuel
8 surcharge on their bills.³ However, he failed to demonstrate why either of these two facts
9 supports his proposed inflation adjustment for chemicals. In fact, Mr. Woodcock
10 acknowledges that even though this case was filed in January 2005 and updated in February
11 2005, “the costs on June 30, 2004 were the most recent costs.” If the Company can provide
12 data about actual cost increases that it has experienced since June 30, 2004, then I will review
13 this information and determine if any adjustment to my Direct Testimony is warranted. But
14 the generalizations presented by Mr. Woodcock provide no new support for his chemical
15 inflation adjustment, and I continue to recommend that the Authority’s inflation adjustment be
16 rejected by the Commission.

17
18 **Q. Do you agree with Mr. Woodcock that your unaccounted-for water adjustment should be**
19 **revised to take into account Authority use and unmetered water usage, as discussed on**

2 Id., lines 13-15.

3 Mr. Woodcock did not specify how much was used by the chemical industry relative to the other five industries in this group.

1 **page 7 of his Rebuttal Testimony?**

2 A. Yes, I do. However, I disagree with Mr. Woodcock regarding the impact of this change on my
3 revenue requirement recommendation. As stated in my Direct Testimony, the Authority's
4 unaccounted-for water percentage, as reported in its Annual Report to the Commission, has
5 ranged from 3.1% to 9.7% since fiscal year 1998. If this percentage is adjusted to include
6 Authority use and unmetered water usage, the percentages increase slightly but not
7 significantly. As shown in the Annual Reports, the Authority use and unmetered water usage
8 has generally ranged from 3,000 to 6,000 HCF, although higher levels were experienced in
9 fiscal year 2004 and fiscal year 2001. However, even when these two years are considered,
10 the 10% unaccounted-for water percentage that I included in my Direct Testimony is still
11 reasonable, as shown below:

12 Unaccounted-for Water Percentage

13

	Original	Revised	
14			
15	FY 2004	8.4%	10.1%
16	FY 2003	5.9%	6.0%
17	FY 2002	5.2%	5.3%
18	FY 2001	9.7%	9.8%
19	FY 2000	3.1%	3.2%
20	FY 1999	7.2%	7.7%
	FY 1998	7.4%	7.5%

1 As shown in Schedule ACC-7S, my adjustment results in unaccounted-for water (including
2 Authority use and unmetered water usage) of 426,936 HCF, which is more than the Company
3 actually experienced in six out of the last seven years.
4

5 **Q. Does Mr. Woodcock provide any explanation in his Rebuttal Testimony for the high level**
6 **of Maintenance of Mains or Office Supplies and Expenses experienced in the test year?**

7 A. No, he does not. Mr. Woodcock criticizes my adjustments, but he provides no explanation as
8 to why these costs were so high in the test year. Nor does he provide any evidence that the
9 costs experienced in the test year are representative of future expenditures. The purpose of a
10 test year is to examine a twelve-month period that is representative of normal operating
11 conditions and operating results. To the extent that a test year is not representative of future
12 operating conditions or operating results, then it is reasonable to make adjustments to that test
13 year, as I have recommended in my Initial Testimony.
14

15 **Q. Please comment on Mr. Woodcock's statement at page 8, lines 19-21 of his Rebuttal**
16 **Testimony that "[i]f the Division believes that the Authority spent too much on the**
17 **Maintenance of Mains or Office Supplies in the test year they should provide some basis**
18 **other than it looks high compared to some other years."**

19 A. It is the Authority, not the Division, that bears the burden of proof in this proceeding. Thus,
20 the Authority must demonstrate that its test year costs are representative of prospective
21 operating conditions and financial results. While the Division has accepted the actual test year

1 costs for the majority of expense accounts, we have questioned two accounts that appear
2 significantly higher than historic levels would indicate. If the Authority cannot demonstrate
3 that the test year costs in these two accounts are representative of the future, then the
4 Commission should accept the adjustments proposed by the Division in my Direct Testimony.
5

6 **Q. Did the Company provide updated information regarding its lobbying costs?**

7 A. Yes, it did. In my Direct Testimony, I expressed concerns regarding the inclusion of lobbying
8 costs in the Company's test year claim. At the time that I filed my Direct Testimony, I did not
9 know the actual amount of lobbying costs included in the Company's test year actual results.
10 According to the response to DIV 2-1, the Authority incurred \$10,115 during the test year
11 relating to lobbying activities. These costs should be disallowed, for the reasons expressed in
12 my Direct Testimony. I have included this adjustment in Schedule ACC-11S.
13

14 **Q. Regarding the issue of the Operating Revenue Allowance, should Mr. Woodcock be**
15 **surprised that “that a docket that is now over a dozen years old can be viewed as**
16 **guiding”, as stated on page 8, line 28 of his Rebuttal Testimony?**

17 A. No, he should not. Mr. Woodcock is experienced enough to know that a utility's last litigated
18 case is a guide for Commission ratemaking decisions. This does not mean that the
19 Commission can't make a different determination in a subsequent case. However, the most
20 recent litigated case often serves as a starting point to determine the Commission's position on
21 a particular topic.

1 In addition, Mr. Woodcock acknowledges that the O&M Reserve Fund, which has
2 been funded by the Authority's ratepayers through their utility rates, can be used to make
3 interest and principal payments and "to make payments for operation and maintenance if the
4 amounts in the operation and maintenance fund is insufficient." Thus, the O&M Reserve
5 Fund, which is projected to have a reserve of over \$2 million by the beginning of the rate year,
6 is available to the Authority to meet unanticipated shortfalls. Mr. Woodcock goes on to state
7 that the O&M Reserve Fund cannot be used for shortfalls in the IFR fund, but the Division is
8 already providing for a significant increase in IFR funding in this case, from \$3,464,000 in the
9 test year to \$4,9161,962 (see Schedule ACC-1S).

10
11 **Q. Do you also have a correction to make to your Direct Testimony?**

12 A. Yes, I do. In Schedule ACC-2 of my Direct Testimony, I show the Authority's claimed
13 consumption as 3,964,152 Ccfs. The correct number, as shown in Schedule 2 to Mr.
14 Woodcock's Supplemental Testimony, is 3,984,152 Ccfs. This change will increase my
15 revenue requirement deficiency by approximately \$40,000.

16
17 **Q. As a result of this correction, as well as the updated consumption information and the**
18 **quantification of the lobbying expense adjustment, what is the rate increase that the**
19 **Division is recommending?**

20 A. As shown in Schedule ACC-1S, based on the recommendations contained in my Direct and
21 Surrebuttal Testimonies, the Authority has a revenue requirement deficiency of

1 \$2,290,703. If the Commission awards the Authority its requested rate increase of
2 \$3,172,665, then the surplus of \$881,962 should be used for additional IFR funding,
3 bringing the total annual IFR funding amount to \$4,961,962.

4

5 **Q. Does this complete your testimony?**

6 A. Yes, it does.

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	(\$120,289) (B)		\$3,508,648
2. Pumping	567,939	20,381 (C)		588,320
3. Water Treatment	181,885	446 (D)		182,331
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	(40,643) (F)		2,024,439
7. Total Operating and Maintenance	\$7,573,604	(\$195,443)		\$7,378,161
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	(\$313,967)		\$15,663,532
18. Water Sales Revenues	\$12,687,340	\$406,474 (H)		\$13,093,814
19. Miscellaneous Revenues	279,014			279,014
20. Total Operating Revenues	\$12,966,354	\$406,474		\$13,372,828
21. Required Rate Increase	\$3,011,145	(\$720,442)		\$2,290,703
22. Requested Rate Increase	3,172,665	0		3,172,665
23. Additional IFR Funding	\$161,520	\$720,442		\$881,962
24. Requested IFR Funding	4,080,000	0		4,080,000
25. Total Restricted IFR Funding	\$4,241,520	\$720,442		\$4,961,962

Sources:

- (A) Supplemental Testimony of Mr. Woodcock, Schedule 1, pages 1-3 and Schedule 1A.
- (B) Schedule ACC-7S.
- (C) Schedule ACC-4S.
- (D) Schedules ACC-5S and ACC-6S.
- (E) Schedule ACC-8S.
- (F) Schedule ACC-9S and ACC-11S.
- (G) Schedule ACC-10S.
- (H) Schedules ACC-2S and ACC-3S.

Schedule ACC-2S

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

PRO FORMA REVENUES - CONSUMPTION

1. FY 2004 Sales (Ccfs)	4,204,463	(A)
2. FY 2003 Sales (Ccfs)	4,428,016	(A)
3. FY 2002 Sales (Ccfs)	<u>4,546,336</u>	(A)
4. Three Year Average (Ccfs)	4,392,938	
5. Adjustment for On Semiconductor	<u>(244,982)</u>	(B)
6. Pro Forma Recommendation	4,147,956	
7. Company Claim	<u>3,984,152</u>	(C)
8. Recommended Adjustment CCFs	163,804	
9. Current Retail Rate / Ccf	<u>\$2.047</u>	(D)
10. Gross Revenue Adjustment	<u>\$335,307</u>	

Sources:

(A) Response to DIV 2-5.

(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-3S

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)	<u>122.91</u>	(C)
4. Incremental Sales (Ccfs)	31,465	(D)
5. Current Retail Rate / Ccf	<u>\$2.047</u>	(E)
6. Total Volumetric Revenue	\$64,409	
7. Total Service Charge Revenue	<u>6,758</u>	(F)
8. Total Revenue Adjustment	<u>\$71,167</u>	

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 consumption per the response to DVI 2-5 (Revised) and customer counts provided in the Annual Report 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-4S

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

INCREMENTAL POWER COSTS

1. Authority Claimed Costs	\$415,850	(A)
2. Authority Claimed Sales	<u>3,984,152</u>	(B)
3. Unit Power Cost	\$0.1044	(C)
4. Pro Forma Sales Adjustments	<u>195,269</u>	(D)
5. Pro Forma Power Adjustment	<u>\$20,381</u>	

(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-2S and ACC-3S.

Schedule ACC-5S

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

INCREMENTAL CHEMICAL COSTS

1. Authority Claimed Costs	\$51,411	(A)
2. Chemical Inflation Adjustment	<u>(\$1,977)</u>	(B)
3. Pro Forma Chemical Costs	\$49,434	
4. Authority Claimed Sales	<u>3,984,152</u>	(C)
5. Unit Chemical Costs	\$0.0124	(D)
6. Pro Forma Sales Adjustment	<u>195,269</u>	(E)
7. Pro Forma Chemical Adjustment	<u>\$2,423</u>	

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

(B) Schedule ACC-6S.

(C) Supplemental Testimony of Mr. Woodcock, Schedule 2.

(D) Line 3 / Line 4.

(E) Schedules ACC-2S and ACC-3S.

Schedule ACC-6S

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	<u>(\$1,977)</u>	

Sources:

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

Schedule ACC-7S

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

PURCHASED WATER EXPENSE

1. Pro Forma Sales Exc. Sales for Resale	4,147,956	(A)
2. Customer Growth Adjustment	31,465	(B)
3. Sales for Resale (Ccfs)	<u>89,943</u>	(C)
4. Total Pro Forma Sales (Ccfs)	4,269,364	
5. Pro Forma Unaccounted For Water @ 10%	<u>426,936</u>	(D)
6. Total Pro Forma Supply Requirement (Ccfs)	4,696,300	(E)
7. Total Pro Forma Supply Requirement (Tgs)	3,512,833	(F)
8. Company Claim (Tgs)	<u>3,619,012</u>	(G)
9. Recommended Adjustment (Tgs)	106,179	
10. Current Retail Rate / Tgs	<u>\$1.13</u>	(H)
11. Recommended Expense Adjustment	<u>\$120,289</u>	

Sources:

(A) Schedule ACC-2S.

(B) Schedule ACC-3S.

(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-8S

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	<u>374,859</u>	(A)
4. Three Year Average	\$412,681	
5. Adjustment for Labor Increase	<u>29,005</u>	(B)
6. Total Pro Forma Costs	\$441,686	
7. Authority Claim	<u>497,024</u>	(B)
8. Recommended Adjustment	<u>(\$55,338)</u>	

Sources:

(A) Response to DIV 1-1.

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

Schedule ACC-9S

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	<u>92,570</u>	(A)
4. Three Year Average	\$105,949	
5. Authority Claim	<u>136,477</u>	(B)
6. Recommended Adjustment	<u>(\$30,528)</u>	

Sources:

(A) Response to DIV 1-1.

(B) Supplemental Testimony of Mr. Woodcock, Schedule 1, page 2.

Schedule ACC-10S

KENT COUNTY WATER AUTHORITY
RATE YEAR ENDING JUNE 30, 2006
OPERATING REVENUE ALLOWANCE

1. Company Claim	\$118,524	(A)
2. Recommended Adjustment	<u>(\$118,524)</u>	

Sources:

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

Schedule ACC-11S

KENT COUNTY WATER AUTHORITY

RATE YEAR ENDING JUNE 30, 2006

LOBBYING COSTS

1. Amount included in Authority's Test Year	\$10,115	(A)
2. Recommended Adjustment	<u>(\$10,115)</u>	

Sources:

(A) Response to DIV 2-1.