

September 6, 2005

Luly Massaro, Clerk
Public Utilities Commission
89 Jefferson Blvd.
Warwick, RI 02888

Re: Docket 3674

Dear Ms. Massaro,

Enclosed please find for filing with the Commission the Surrebuttal Testimony of Andrea C. Crane. Please observe that Thomas S. Catlin adheres to the positions contained in his Direct Testimony, and therefore, will not be filing Surrebuttal Testimony.

Very truly yours,

Leo J. Wold
Special Assistant Attorney General

cc: Service List
John Bell, Public Utility Rate Analyst, DPUC

STATE OF RHODE ISLAND
BEFORE THE
PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION)	Docket No. 3674
OF THE PAWTUCKET WATER SUPPLY)	
BOARD 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

September 6, 2005

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

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

4
5 **Q. Did you previously file testimony in this proceeding?**

6 A. Yes, on July 26, 2005, I filed Direct Testimony on behalf of the Division of Public
7 Utilities and Carriers (“Division”). In that Direct Testimony, I recommended a revenue
8 increase for the Pawtucket Water Supply Board (“PWSB”) of \$1,342,795, or
9 approximately 8.03%.

10
11 **Q. What is the purpose of your Surrebuttal Testimony?**

12 A. The purpose of my Surrebuttal Testimony is to respond to the Rebuttal Testimony
13 submitted on August 23, 2005 on behalf of the PWSB by David G. Bebyn, Pamela M.
14 Marchand, and Christopher P.N. Woodcock.

15
16 **Q. Based on your review of the PWSB’s Rebuttal Testimony, do you continue to**
17 **recommend that residential and commercial pro forma sales be established based**
18 **on a five year average?**

19 A. Yes, I do. The fact is that residential and commercial sales do fluctuate from year to
20 year, as shown on the analysis of water sales by customer class for fiscal years 1997-
21 2005, which was attached to Mr. Woodcock’s Rebuttal Testimony. The Commission has
22 recognized this fact in the past and has adopted a policy of normalizing sales, based on

1 average sales over a period of time. While I recommend that a five-year average be used
2 in this case, I have no objection to the use of a three-year average, if the Commission
3 believes that a three-year average is more representative of prospective sales. As stated
4 in my Direct Testimony, the important point is that there should be some recognition of
5 fluctuations in sales from year to year, based on variations in weather conditions and
6 other factors.

7
8 **Q. Has the Commission already heard, considered, and rejected the arguments made**
9 **by PWSB that pro forma sales should reflect the actual level of sales experienced in**
10 **the test year?**

11 A. Yes, it has. The Commission has already addressed this issue in several cases, as
12 acknowledged by Mr. Woodcock on page 2, lines 12-14 of his Rebuttal Testimony,
13 where he states,

14 I understand that many of these issues have been presented to the Commission
15 and discussed in other Dockets. As the Commission is well aware; however, the
16 Commission is not bound by precedent in prior decisions.
17

18 From a ratemaking perspective¹, regulatory commissions generally do not deviate from
19 past precedent unless there is a compelling reason for doing so. No such compelling
20 reason exists in this case.
21

1 I am not an attorney and my comments are not meant to address legal issues relating to Commission precedents.

1 **Q. Please comment on Mr. Woodcock’s statement at page 3, line 3 of his Rebuttal**
2 **Testimony that the Division’s sales estimates have been “high”.**

3 A. The Division’s pro forma sales have traditionally been normalized. My intent has not
4 been to have “high” estimates, but rather to recognize the fact that sales fluctuate from
5 year to year. Therefore, the use of actual sales in any one twelve month period is not
6 necessarily representative of normalized sales, i.e., sales during a prospective period of
7 normal operating conditions and operating results.

8 While reasonable people can disagree regarding the methodology that should be
9 used to normalize sales, I believe that it is obvious that sales should be normalized when
10 establishing perspective rates. In this case, I have normalized residential and small
11 commercial sales, as well as wholesale sales, based on a five-year average.

12
13 **Q. Has the PWSB proposed an alternative method for normalizing sales?**

14 A. No, it has not. While the PWSB has criticized my methodology, it has not proposed any
15 alternative approach. The PWSB simply continues to argue that actual test year sales
16 should be used to set prospective rates, ignoring the annual fluctuations that are likely to
17 occur. Normalizing sales is a regular practice used by regulatory commissions to
18 determine pro forma sales. It is used not only for water utilities, but also for gas and
19 electric utilities as well. The PWSB’s proposal to assume that sales in any one-year are
20 “normal”, and are not impacted by the weather or other factors, is inconsistent with sound
21 regulatory practice and should be rejected in this case.

1 **Q. Do you agree with Mr. Woodcock's contention that your methodology gives no**
2 **consideration to factors other than weather, such as conservation or price elasticity?**

3 A. No, I do not agree. The use of a relatively short average period, such as three or five
4 years, reflects the impact of other factors that tend to influence water sales over time. For
5 example, the use of a five year average will capture changes in technology that have
6 occurred in plumbing fixtures, demographics, even economic factors. There are a host of
7 factors that influence water sales and these factors are taken into account through the use
8 of a multi-year average.

9
10 **Q. Please comment on Mr. Bebyn's update to your pro forma revenue consumption**
11 **adjustment based on actual sales for fiscal year 2005.**

12 A. Conceptually, I agree that it is appropriate to incorporate the most recent available data
13 into the normalization adjustment and therefore I have no problem updating my
14 adjustment to include the fiscal year 2005 data provided by Mr. Bebyn. However, in this
15 regard, I also recognize that the summer of 2005 has been especially dry and hot and I
16 expect that water sales were relatively high during the summer of 2005. Therefore, I
17 recommend that the PWSB be required to provide water sales data for the summer
18 months of 2005, and that the most recent five years of data, including the summer of
19 2005, be used to determine pro forma consumption.

20
21 **Q. Please comment on Mr. Bebyn's contention on page 3 of his Rebuttal Testimony**
22 **that the Commission should ignore wholesale sales in fiscal years 2002 and 2005,**

1 **since sales in those years were inflated due to drought conditions and problems with**
2 **Cumberland’s wells.**

3 A. Mr. Bebyn suggests that, out of the past five years, the two years with the lowest
4 wholesale sales are the “most representative”, and argues that we should ignore the
5 remaining three years with relatively high wholesale sales. He specifically cites a
6 drought in 2002 and well problems in 2005 that resulted in high wholesale sales in these
7 years. His recommendation ignores the fact that there are a variety of factors that
8 influence wholesale sales from year to year. For example, wholesale sales can be
9 impacted by fluctuations in seasonal weather conditions if the wholesale sales are
10 ultimately used to serve residential and small commercial customers. However,
11 wholesale sales can also be influenced by other factors, such as the extent to which the
12 wholesale purchaser has access in any given year to other sources of supply, e.g., a
13 reservoir or wells as noted by Mr. Bebyn. The fact remains that it is not unusual for
14 wholesale sales to fluctuate because of factors such as droughts and the loss of alternative
15 supply resources. It would therefore be inappropriate for the Commission to ignore sales
16 in 2002 and 2005 as recommended by Mr. Bebyn.

17 Similar to my discussion above with regard to residential and small commercial
18 sales, I recommend that the PWSB provide data regarding wholesale sales in the summer
19 of 2005, and that the latest five years of data be used to normalize wholesale sales in this
20 case.

21
22 **Q. Please comment on Mr. Bebyn’s argument on page 4 of his Rebuttal Testimony that**

1 **your pro forma service installation revenue was overstated.**

2 A. It should be noted that I have included pro forma service installation revenue of
3 \$116,378, based on a five-year average, while the PWSB had included only \$106,352 of
4 service installation revenue in its filing. My adjustment already represents a significant
5 decrease over the fiscal year 2004 test year revenue of \$241,670. In fact, my
6 recommended service installation revenue of \$116,378 was also well below the actual
7 fiscal year 2005 revenue of \$163,950. I continue to recommend that the Commission
8 utilize a five year average of service installation revenue to set rates in this proceeding. It
9 should be noted that if the Commission decides to update my five year average with the
10 fiscal year 2005 data, my pro forma service installation revenue would increase from
11 \$116,378 to \$140,820.

12
13 **Q. Please comment on Mr. Bebyn's statement at page 4 of his Rebuttal Testimony that**
14 **you should have excluded wholesale sales from your revenue surcharge adjustment.**

15 A. If wholesale sales are not subject to the surcharge, as stated by Mr. Bebyn, then my
16 revenue surcharge adjustment is overstated. The revenue surcharge adjustment should
17 therefore be recalculated based on the level of pro forma retail sales found by the
18 Commission to be appropriate.

19
20 **Q. Please comment on Ms. Marchand's discussion of employee positions on pages 1-9**
21 **of her Rebuttal Testimony.**

22 A. Ms. Marchand provides a history of employee positions and Commission-approved

1 funding, but she does not rebut my contention that the PWSB seems to be backtracking
2 on certain representations previously made to the Commission. On page 2 at lines 14-16,
3 she criticizes me for focusing “too much on the ‘number’ of employees the PWSB should
4 have” and detracting from the “real issue - what does the PWSB require to safely and
5 properly operate its system.” Her argument ignores the fact that the PWSB requested
6 approval of a Design, Build, Operate (“DBO”) Treatment Plant based on representations
7 made regarding the impact of the DBO process on the number of PWSB employees and
8 associated costs. If conditions have changed, or if those representations were made in
9 error, the PWSB should say so and explain to the Commission the reasons for any
10 discrepancy.

11
12 **Q. Does Ms. Marchand’s Rebuttal Testimony actually rebut the arguments raised in**
13 **your Direct Testimony regarding employee positions?**

14 A. No, it does not. First, Ms. Marchand states on page 6 that only 16 positions, and not
15 seventeen, were transferred to Earth Tech, because one position became vacant and was
16 subsequently eliminated. However, if a position was designated as being transferred to
17 Earth Tech, the status of whether that position was filled or not should not impact on the
18 transfer. Moreover, Ms. Marchand states that this position was subsequently eliminated,
19 so this position should have no net impact on the number of positions remaining at the
20 PWSB.

21 Second, while I agree with Ms. Marchand’s statement on page 6 of her Rebuttal
22 Testimony that “the actual number of approved positions/employees has been a matter of

1 confusion”, that doesn’t change the fact that the Commission approved funding in the last
2 case for 65 positions with the expectation that 17 would be transferred to Earth Tech,
3 leaving 48 at PWSB. Nor does it change the fact that in this case, the PWSB is
4 requesting funding for 55 positions, excluding five new positions relating to maintenance
5 of the Central Falls system.

6 Third, in this case, the PWSB is attempting to suggest that because two new
7 positions were approved in Docket No. 3378, these positions were assumed to have been
8 approved in Docket No. 3497, even though funding for these positions was not requested
9 in that case. Thus, the PWSB does not consider these positions as “new”, even though
10 they were not funded in the last case. In my opinion, any position that was not approved
11 in the last case should be considered “new”.

12 My revenue requirement includes funding for 52 employee positions, an increase
13 of 4 positions over those anticipated by the Commission in its last case. In addition, I
14 have included funding for all five positions requested by the PWSB relating to the
15 Central Falls system. Thus, my recommendation contains a significant increase in
16 employee positions relative to those approved in the last case. I continue to believe that
17 my initial recommendation is reasonable.

18
19 **Q. Please comment on Ms. Marchand’s statement on page 10 of her Rebuttal**
20 **Testimony that increases in the costs for temporary employees are justified.**

21 A. For the most part, Ms. Marchand discusses how temporary labor has been used in the
22 past. For example, in the past the PWSB has used temporary employees in the summer,

1 or to fill in for employees on vacations, etc. I have no dispute with Ms. Marchand about
2 the past use of temporary employees, nor did I recommend any reduction from the actual
3 test year costs incurred for temporary labor. However, Ms. Marchand's discussion does
4 not justify the 58% increase over the fiscal year 2004 test year costs that is being
5 requested in this case by the PWSB.

6 Ms. Marchand does state that since the rate filing was submitted, "the PWSB has
7 had five persons go out on long term absence." I acknowledge that having five
8 employees out on long term absence could increase the PWSB's need for temporary
9 labor. However, these employees were not absent when the PWSB filed its case. Nor is
10 it likely that the PWSB anticipated that these five employees would be out on long-term
11 absence when it filed its case. Therefore, these long term absences do not explain the
12 significant increase in temporary labor costs requested by the PWSB in its filing.

13 Moreover, these long-term absences raise other concerns. It is not clear from
14 Ms. Marchand's testimony if these employees are being paid their full salaries from the
15 PWSB while they are on leave. If not, then it may be appropriate to increase the
16 Company's claim for temporary labor but reduce its salary and wage claim to eliminate
17 the salaries and wages for these employees. Otherwise, ratepayers will be paying twice
18 for these activities, once for employees who are on long-term absence and again for the
19 temporary replacements for these employees. At this time, I do not have sufficient
20 information to recommend a specific adjustment, but we have asked additional discovery
21 on this issue.

1 **Q. Will you accept the PWSB's revised claim for property insurance costs of \$139,851,**
2 **as discussed on page 12 of Ms. Marchand's Rebuttal Testimony?**

3 A. Yes, I will. This revised claim reflects a substantial decrease from the PWSB's original
4 claim of \$179,466 and is not significantly higher than the pro forma expense of \$137,784
5 reflected in my Direct Testimony. Therefore, the Division will accept this revised pro
6 forma property insurance expense claim.

7
8 **Q. Will you also accept the PWSB's claim for fees and permits expenses, based on the**
9 **information provided in Ms. Marchand's Rebuttal Testimony on page 12, beginning**
10 **at line 24?**

11 A. Yes, I will. I believe that Ms. Marchand has explained the fees and permits expenses
12 anticipated for the rate year. I do have a concern that these fees and permits expenses
13 are not incurred every year, and therefore the Commission may want to normalize these
14 costs and reflect a normal, annual expense in rates. However, I understand that the
15 PWSB anticipates filing another base rate case in the near future, and the annual level of
16 fees and permits expenses should be reviewed at that time.

17
18 **Q. Please comment on Ms. Marchand's statement on page 14, lines 25-26 of her**
19 **Rebuttal Testimony that "the present balance of the WTP Reserve would not be**
20 **adequate to fund the demolition of both structures."**

21 A. As stated in my Direct Testimony at page 30, the WTP Reserve had a balance of
22 approximately \$560,000 at February 28, 2005. Assuming annual funding of \$778,000, as

1 approved in the last case, the WTP Reserve will have a balance of over \$1.2 million by
2 December 31, 2005, assuming no disbursements in the interim, which is not an
3 unreasonable assumption, given the fact that there were no disbursements from the time
4 that the fund was established at least until February 28, 2005. This would be sufficient
5 to cover the estimated demolition costs as outlined in Ms. Marchand's testimony.

6 It should be noted that the \$1.2 million discussed by Ms. Marchand is based on a
7 bid received on August 22, 2005, the day before her Rebuttal Testimony was filed in this
8 case. Therefore, the WTP Reserve claim contained in the PWSB's Direct Testimony
9 could not have been based on that estimate. This is clearly another example of PWSB
10 attempting to justify its direct case subsequent to the filing of that case, based on
11 objections raised by the Division in my Direct Testimony.

12
13 **Q. Do you continue to oppose the 5% operating revenue allowance addressed by Mr.**
14 **Woodcock and Ms. Marchand in their Rebuttal Testimonies?**

15 A. Yes, I do. The magnitude of this claim is staggering. The PWSB is requesting \$951,052
16 for unspecified costs. This equates to almost 27% of the entire rate increase request in
17 this case. Approval of such an operating revenue allowance would set a dangerous
18 precedent for this Commission.

19 Mr. Woodcock argues that the 5% operating revenue allowance should be
20 considered since the PWSB is not an investor-owned utility. However, this Commission
21 has been granted the responsibility to regulate municipal water systems, a responsibility
22 that some regulatory commissions do not have. Since the Commission was granted this

1 authority, then it is incumbent upon the Commission to exercise the same diligence in the
2 regulation of these municipal systems that it applies to investor-owned utilities.

3 Permitting any utility a 5% operating revenue allowance to cover unspecified
4 expenses is alarming. Mr. Woodcock suggests that investor-owned utilities have a
5 similar cushion through their return on equity awards. However, a return on equity
6 award is tied to a specific cost incurred by the utility, i.e., its cost of capital. That cost is
7 a real cost and it should be funded by ratepayers. The operating revenue allowance being
8 proposed in this case is not designed to recover a specific cost, but rather it is a cushion
9 that is not currently provided to investor-owned utilities nor should it be.

10
11 **Q. Is the regulatory lag referenced by Mr. Woodcock on page 3, beginning at line 25 of**
12 **his Rebuttal Testimony, unique to the PWSB?**

13 A. No, of course not. Regulatory lag impacts all utilities regulated by the Commission.
14 Therefore, regulatory lag should not be used as an excuse to inflate water utility rates.

15
16 **Q. Please comment on the statements by Ms. Marchand and Mr. Woodcock that the**
17 **Operating and Maintenance (“O&M”) Reserve should not be considered a source of**
18 **funds available to meet unanticipated shortfalls.**

19 A. I do not dispute the contentions of Ms. Marchand or Mr. Woodcock that the O&M
20 Reserve is required by the PWSB’s Bond Indenture. However, they are missing the point
21 of the Bond Indenture requirement, which is to ensure that the PWSB is able ultimately
22 to meet its debt service requirements. For that reason, the Bond Indenture requires a

1 reserve to be established and maintained, to be used “to make payments for operation and
2 maintenance if the amount in the operation and maintenance fund is insufficient.”²

3
4 **Q. Do you agree with Mr. Woodcock’s contention that the PWSB’s request for a 5%**
5 **operating revenue allowance should be tied to its requested pro forma operating**
6 **revenue claim?**

7 A. No, I do not. The fact is that regardless of what pro forma sales estimate is adopted by
8 the Commission, actual sales could be higher or lower than pro forma sales. To the
9 extent that actual sales are lower than pro forma sales, there may or may not be an overall
10 shortfall, depending on the level of costs incurred by the PWSB. To the extent that a
11 shortfall exists, the Division has included an operating revenue allowance of 1.5% of
12 operating and maintenance expenses in its revenue requirement recommendation that can
13 be used to cover such shortfalls. This allowance is consistent with the operating revenue
14 allowances adopted by the Commission in recent cases for other municipal systems. In
15 addition, the PWSB does have the \$2.2 million O&M Reserve available, the purpose of
16 which is to meet shortfalls that may occur from time-to-time. The PWSB also has the
17 ability at any time to file a base rate case. Thus, there are numerous remedies available
18 to the PWSB in the event of a revenue shortfall or a cost overrun.³ The answer is not to

2 Response to DIV 2-64, provided in Appendix C to the Direct Testimony of Andrea C. Crane.

3 I have been advised by counsel that G.L. § 39-1-32 vests the Commission with certain emergency powers which might be utilized to temporarily fix rates until longer term rate relief can be obtained by the utility. Commission Rule of Practice and Procedure 1.17 also affords a utility with a way of obtaining interim relief in similar circumstances. Finally, subject to existing case law, appropriate documentation of indebtedness, and the other terms of the statute, G.L. § 39-3-11.1 authorizes a municipal water utility to collect in rates repayment of any existing loan that it has obtained from its respective city, town or municipal corporation.

1 build into rates a 5% discretionary “cushion”, but to determine the most appropriate rates
2 based on good ratemaking practice and sound principles, and to provide mechanisms that
3 can be used as safeguards for the utility in extraordinary circumstances. In spite of the
4 PWSB’s objections to the Commission considering the O&M Reserve as one of those
5 safeguards, the fact is that the reserve is required for a reason, i.e., to ensure that the
6 utility will be able to meet its service obligations and still make its required debt service
7 payments. Ratepayers have funded this reserve and there should be some benefit to them
8 of having provided \$2.2 million in past rates to provide this funding.

9
10 **Q. What do you recommend?**

11 A. I recommend that the Commission reject the PWSB’s request to include a \$950,000
12 cushion in utility rates. The PWSB’s request for this 5% operating revenue allowance
13 sets a dangerous precedent, not only for municipal water utilities but for all utilities.
14 There is no cost basis for this request. The 5% operating revenue allowance introduces a
15 speculative component into the ratemaking process and it should be rejected by the
16 Commission. If the Commission believes that some operating revenue allowance is
17 required, then I recommend that it continue its practice of including a 1.5% reserve,
18 based on the level of pro forma operating and maintenance expenses found to be
19 reasonable.

20
21 **Q. Did you update your schedules for the revised recommendations contained herein?**

22 A. Yes, I did. Attached are updated schedules, which reflect the following revisions:

- Updated residential, commercial, and wholesale sales, based on a five-year average of fiscal years 2001-2005;
- Updated miscellaneous service revenue to reflect a five-year average for service installation revenues from fiscal years 2001-2005;
- Revised revenue surcharge adjustment that excludes incremental wholesale sales;
- Revised insurance expense claim of \$139,851; and
- Elimination of fees and permits expenses adjustment.

These revisions result in a required rate increase of \$1,376,078 or 8.25%, instead of the 8.03% increase recommended in my Direct Testimony.

Q. Did you also determine what the impact would be if the Commission decides to utilize a three-year average, rather than a five-year average, for residential and commercial sales, wholesale sales, and service installation revenue?

A. Yes, I did. If the Commission chooses to normalize revenues based on a three-year average, the result would be a rate increase of \$1,477,772, or 8.95%. Therefore, both a three-year average and a five-year average produce relatively similar results.

Q. Does this conclude your Surrebuttal Testimony?

A. Yes, it does.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Administration	\$2,660,282	(\$149,064)	\$2,511,218	(B)
2. Customer Service	237,040	0	237,040	
3. Source of Supply	1,142,038	0	1,142,038	(C)
4. Pumping	589,685	36,157	625,842	(D)
5. Purification	1,822,553	0	1,822,553	
6. Transmission and Distribution	1,981,132	(189,986)	1,791,146	(E)
7. Engineering	536,219	0	536,219	
8. Meter Department	517,384	0	517,384	
9. Total Operating Expenses	\$9,486,333	(\$302,893)	\$9,183,440	
10. Debt Service	\$5,736,014	\$0	\$5,736,014	
11. Lease Principal	135,729	0	135,729	
12. Lease Interest	15,233	0	15,233	
13. Infrastructure Rehabilitation	3,100,000	0	3,100,000	
14. Operating Reserve Deposit	158,721	(75,724)	82,997	(F)
15. R&R Reserve Deposit	0	0	0	
16. WTP Reserve	389,000	(389,000)	0	(G)
17 Total Capital Costs	\$9,534,697	(\$464,724)	\$9,069,973	
18 Operating Income Allowance	951,052	(813,300)	137,752	(H)
19 Total Revenue Requirement	\$19,972,082	(\$1,580,917)	\$18,391,165	
20 Miscellaneous Revenues	303,226	33,693	336,919	(I)
21 Required Rate Revenue	\$19,668,856	(\$1,614,610)	\$18,054,246	
22 Rate Revenue at Present Rates	16,128,757	549,412	16,678,169	(J)
23 Required Increase	\$3,540,099	(\$2,164,021)	\$1,376,078	
24 Percentage Increase	21.95%		8.25%	

Sources:

- (A) PWSB CPNW Schedule 1.0.
- (B) Schedules ACC-8, ACC-10, ACC-11, ACC-12, and ACC-13.
- (C) Schedule ACC-14.
- (D) Schedule ACC-7.
- (E) Schedules ACC-8 and ACC-9.
- (F) Schedule ACC-15.
- (G) Schedule ACC-16.
- (H) Schedule ACC-17.
- (I) Schedules ACC-5 and ACC-6.
- (J) Schedules ACC-2, ACC-3, and ACC-4.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

RESIDENTIAL AND SMALL COMMERCIAL CONSUMPTION

1. Five Year Average Consumption (HCF)	3,185,669	(A)
2. PWSB Claim (HCF)	<u>3,095,831</u>	(B)
3. Recommended Volume Adjustment (HCF)	89,838	
4. Current Rate Per HCF	<u>\$2.57</u>	(C)
5. Recommended Revenue Adjustment (\$)	<u><u>\$230,972</u></u>	

Sources:

(A) Derived from the response to DIV 2-27, updated to include 2005 data.

(B) PWSB CPNW Schedule 10.0, page 1.

(C) Current tariff rate.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

CUSTOMER GROWTH ADJUSTMENT

1. Pro Forma Residential and Small Commercial Sales (HCF)	3,185,669	(A)
2. Residential and Small Commercial Customers at 6/24/04	<u>21,931</u>	(B)
3. Average Usage Per Customer (HCF)	145	(C)
4. Customer Growth Through June 30, 2006	<u>144</u>	(D)
5. Total Incremental Consumption (HCF)	20,918	(E)
6. Tariff Rate	<u>\$2.57</u>	(F)
7. Annual Volumetric Revenue Adjustment	\$53,779	(G)
8. Annual Fixed Charges @ \$21.16/quarter	<u>12,188</u>	(H)
9. Total Annual Revenue Adjustment	<u>\$65,968</u>	

Sources:

(A) Schedule ACC-2.

(B) Includes 5/8 " meters, 3/4 " meters, and 90% of 1" meters per the response to DIV 2-26.

(C) Line 1 / Line 2.

(D) Reflects two years of average annual growth derived from the response to DIV 2-26.

(E) Line 3 X Line 4.

(F) Current Tariff rate.

(G) Line 5 X Line 6.

(H) \$21.16 per quarter X 4 quarters X 144 customers per line 4.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

WHOLESALE REVENUE

1. Five Year Average Wholesale Sales (HCF)	666,582	(A)
2. PWSB Claim (HCF)	<u>548,162</u>	(B)
3. Recommended Sales Adjustment (HCF)	118,420	
4. Current Tariff Rate Per HCF	<u>\$2.13</u>	(B)
5. Recommended Revenue Adjustment	<u>\$252,471</u>	

Sources:

(A) Derived from Response to DIV 2-27, updated to include 2005 data.

(B) PWSB CPNW Schedule 10.0, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

MISCELLANEOUS REVENUE

1. Five Year Average Service Installations	\$140,820	(A)
2. Five Year Average Misc. Non-Operating	<u>17,092</u>	(A)
3. Total Service Install. and Misc. Non-Op. Revenue	\$157,912	
4. PWSB Claim	<u>125,755</u>	
5. Recommended Adjustment	<u>\$32,157</u>	

Sources:

(A) Derived from PWSB CPNW Schedule 1.2, updated to include 2005 data.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

STATE SURCHARGE REVENUE

1. Total Volumetric Sales Adjustments (HCF)	110,755	(A)
2. Volumetric Sales Adjustments (100 Gals.)	828,450	(B)
3. State Surcharge Per 100 Gallons	<u>\$0.001854</u>	(C)
4. Pro Forma Revenue Adjustment	<u>\$1,536</u>	

Sources:

(A) Schedule ACC-7. excludes wholesale sales adjustment.

(B) Line 1 X 748 Gallons per HCF / 100 gallons.

(C) State surcharge of \$0.0292 is paid by app. 92% of customers, and
6.9% is retained by the PWSB. Rate = $\$0.0202 \times .92 \times .069$.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

INCREMENTAL VOLUMETRIC EXPENSE

1. Residential and Small Commercial Adjustment	89,838	(A)
2. Customer Growth Adjustment	20,918	(B)
3. Wholesale Sales Adjustment	<u>118,420</u>	(C)
4. Total Volumetric Adjustment	229,175	
5. Incremental Costs Per HCF	<u>\$0.16</u>	(D)
6. Total Recommended Expense Adjustment	<u>\$36,157</u>	

Sources:

(A) Schedule ACC-2.

(B) Schedule ACC-3.

(C) Schedule ACC-4.

(D) See below:

Light and Power - Supply	28,290 CPNW Sch. 1, page 2.
Purchased Power - Pumping	564,045 CPNW Sch. 1, page 2.
Light and Power - Purification	<u>210,263</u> CPNW Sch. 1, page 3.
Total Costs	\$802,598
Total Claimed Volumes (HCF)	5,087,083
Costs Per HCF	\$0.16

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

VACANT POSITIONS

	Administration	Tran. & Dis.
	(A)	(A)
1. Base Pay	(\$34,152)	(\$106,844)
2. Longevity Costs	0	(3,317)
3. Health Insurance	(13,627)	(27,253)
4. Workers Comp	(1,410)	(4,550)
5. MERS	(1,899)	(6,125)
6. Payroll Taxes	(2,613)	8,427
7. Total Adjustment	<u>(\$53,701)</u>	<u>(\$139,661)</u>

Sources:

(A) All amounts per the response to DIV 2-12.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

TEMPORARY LABOR COSTS

1. Temporary Labor Costs - TY	\$80,852	(A)
2. PWSB Claim	<u>127,600</u>	(B)
3. Recommended Payroll Adjustment	(\$46,748)	
4. Payroll Taxes @ 7.65%	<u>(3,576)</u>	(C)
5. Total Temporary Labor Adjustment	<u>(\$50,324)</u>	

Sources:

(A) Response to DIV 2-6.

(B) Derived from response to DIV 2-12.

(C) Based on Statutory Tax Rate.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

INFLATION ADJUSTMENT

1. Inflation Index Per PWSB	9.00%	(A)
2. Current Annual Inflation Index	<u>6.38%</u>	(B)
3. Recommended Adjustment	-2.62%	
4. Costs Inflated by PWSB	<u>\$549,922</u>	(C)
5. Pro Forma Inflation Adjustment	<u>(\$14,415)</u>	

Sources:

(A) Assumes 3.5% for 2 1/2 years per PWSB CPNW Schedule 1.1, page 1.

(B) Assumes 2.5% for 2 1/2 years based on most recent inflation update.

(C) Derived from PWSB CPNW Schedule 1.0.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

REGULATORY COMMISSION EXPENSE

1. PWSB Claim - Current Case	\$250,000	(A)
2. Pro Forma Recommendation - Current Case	<u>200,000</u>	
3. Recommended Adjustment	(\$50,000)	
4. Requested Amortization Period (Yrs.)	<u>1.5</u>	(A)
5. Recommended Annual Adjustment	<u>(\$33,333)</u>	

Sources:

(A) PWSB CPNW Schedule 1.1, page 2.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

SECURITY COSTS

1. PWSB Claim	\$74,060	(A)
2. PWSB Revised Claim	<u>66,060</u>	(B)
3. Recommended Adjustment	<u>(\$8,000)</u>	

Sources:

(A) PWSB CPNW Schedule 1.1, page 2.

(B) Response to DIV 2-41.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

PROPERTY INSURANCE

1. Recommended Pro Forma Premiums	\$139,851	(A)
2. PWSB Claim	<u>179,466</u>	(B)
3. Recommended Adjustment	<u>(\$39,615)</u>	

Sources:

(A) Rebuttal Testimony of Ms. Marchand, page 12.

(B) PWSB CPNW Schedule 1.0, page 1.

Schedule ACC-14
Update 9/6/05

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

FEES AND PERMITS

Adjustment Withdrawn

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

OPERATING RESERVE FUND

1. Pro Forma Operating Expenses	\$9,183,440	(A)
2. Required Reserve @ 25%	2,295,860	(B)
3 Estimated Balance at December 31, 2005	<u>2,212,863</u>	(C)
4. Required Rate Year Addition	\$82,997	
5. PWSB Claim	<u>158,721</u>	(C)
6. Recommended Adjustment	<u>(\$75,724)</u>	

Sources:

(A) Schedule ACC-1.

(B) 25% of Line 1.

(C) PWSB Filing, CPNW Schedule 1.1, page 1.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

WTP RESERVE

1. Company Claim	\$389,000	(A)
2. Recommended Adjustment	<u>(\$389,000)</u>	

Sources:

(A) PWSB CPNW Schedule 1.0, page 5.

PAWTUCKET WATER SUPPLY BOARD

RATE YEAR ENDING DECEMBER 31, 2006

OPERATING INCOME ALLOWANCE

1. Pro Forma Operating Expenses	\$9,183,440	(A)
2. Income Allowance @ 1.5%	137,752	(B)
3. PWSB Claim	<u>951,052</u>	(C)
4. Recommended Adjustment	<u>(\$813,300)</u>	

Sources:

(A) Schedule ACC-1.

(B) 1.5% of Line 1.

(C) PWSB CNPW Schedule 1.0, page 5.