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**PREFILED TESTIMONY**

**Of**

**Robert E. Benson, CPA  
Chief Financial Officer**

**For the**

**PAWTUCKET WATER SUPPLY BOARD**

**Before the**

**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**Docket NO. \_\_\_\_\_**

**April 2005**

1 **Introduction**

2

3 **Q. Please provide your full name, title and business address for the record.**

4 **A.** Robert E. Benson, CPA  
5 Chief Financial Officer  
6 Pawtucket Water Supply Board  
7 85 Branch Street  
8 Pawtucket, RI 02860  
9

10 **Q. How long have you held this position?**

11 **A.** I have held this position beginning on January 18, 2005.  
12

13 **Q. What are your responsibilities at the Pawtucket Water Supply Board (PWSB)?**

14 **A.** Supervise and oversee the financial administration of the PWSB including the reporting  
15 and monitoring the financial compliance with all regulations and legal restrictions issued  
16 by all regulatory agencies and Bonding agreements.  
17

18 **Q. Can you provide a brief description of your previous work experience?**

19 **A.** I have in excess of twenty five years of progressive financial responsibility in private  
20 industry, public accounting and municipal accounting. Prior to joining the PWSB, I held  
21 the position of Chief Accountant with the City of Pawtucket. My responsibilities have  
22 included managing the accounting department for a 50 million dollar global  
23 manufacturer and the City of Pawtucket.  
24

25 **Q. What is your educational background?**

26 **A.** I have a B.S.B.A. and MBA with concentrations in accounting from Bryant College (now  
27 known as Bryant University). I have been a licensed Certified Public Accountant in the  
28 State of Rhode Island since 1988. Also, as a member of the American Institute of  
29 Certified Public Accountants (AICPA) and the Rhode Island Society of Certified Public  
30 Accountants (RISCPA), I am required to complete 120 hours of continuing professional  
31 education every 3 years. This requirement includes an annual minimum of 30 hours.  
32

1 **Q. Have you previously testified before any regulatory agencies or in court on utility**  
2 **rate matters?**

3 **A.** No. This is the first time I have provided any testimony on utility rate issues.  
4

5 **Q. What is the purpose of your testimony?**

6 **A.** To support certain PWSB expenses provided in the rate year to support the PWSB's  
7 request for a rate increase. The expenses in the rate year I will provide testimony are:  
8 payroll and fringe benefits, property insurance, property taxes, lease/purchase  
9 agreements and additional system costs related to the operation of the Central Falls  
10 (CF) system should the PWSB successfully acquire this system.  
11

12 **Q. Does this conclude your introduction?**

13 **A.** Yes.  
14

15 **PAYROLL AND FRINGE BENEFITS**  
16

17 **Q. What are the costs associated with employee salaries and benefits?**

18 **A.** The CY06 Rate Year includes all personnel costs associated with the positions required  
19 to maintain the Pawtucket Water Supply system in accordance with all laws, regulations  
20 and debt agreements. This rate year was prepared with the additional positions that will  
21 be required should the PWSB successfully negotiate the purchase of the CF system.  
22

23 **Q. What is the basis for salary and wage expenses reported in the payroll schedule?**

24 **A.** Salaries and wages have been calculated based upon the current labor contracts  
25 (copies of the contracts are enclosed) which are scheduled to expire on 6/30/2005 and  
26 6/30/2006. Salary costs for the periods beyond the existing contracts have been  
27 estimated and we will revise these costs should there be a new agreement with  
28 Teamsters Union - Local 251 by the expected date of the hearings.  
29

30 **Q. What is the basis for retiree payouts of sick & vacation in the payroll schedule?**

31 **A.** The union contracts provide for payout of unused accrued vacation and sick time to  
32 eligible employees upon retirement. A payout of unused accrued vacation & sick time  
33 has been estimated for the rate year based upon probable retirements in calendar 2006.

1 **Q. What is the basis for health insurance in the payroll schedule?**

2 **A.** The medical and dental insurance expense budget for the rate year was developed  
3 based upon the health and dental insurance premiums for fiscal year 2005. This  
4 premium information was provided by the Personnel Office of the City of Pawtucket.  
5 The Finance Director of the City of Pawtucket has instructed us to increase health  
6 insurance premiums by 12% and dental insurance premiums by 5% for FY06 beginning  
7 on July 1, 2005. These same percentages were used to project the premiums for FY07  
8 beginning on July 1, 2007. This health insurance benefit is provided by separate  
9 contracts with the Teamsters and AFSCME unions.

10  
11 **Q. What is the basis for workers compensation insurance in the payroll schedule?**

12 **A.** Workers compensation insurance was calculated using the classification rates  
13 negotiated between the Director of Personnel for the City of Pawtucket and the  
14 insurance carrier. The PWSB presently has two job classifications and there rates are  
15 as follows: water utility workers at \$41.30 per thousand and office workers at \$4.80 per  
16 thousand of taxable wages. These categories and rates were provided by the Director  
17 of Personnel.

18  
19 **Q. What is the basis for the retirement contribution in the payroll schedule?**

20 **A.** Effective with FY05, the state increased the annual contribution to the state  
21 administered Municipal Employees Retirement System (MERS) from no employer  
22 contribution to 1.7% of eligible wages. The City of Pawtucket has also notified us that  
23 the State requires an employer contribution rate of 5.56% for the fiscal year beginning  
24 July 1, 2005. For the CY06 rate year, the retirement contribution was estimated using a  
25 contribution rate of 5.56%.

26  
27 **Q. What are the costs associated with unemployment insurance?**

28 **A.** As a tax-exempt component unit of the City of Pawtucket, the PWSB does not pay into  
29 the state unemployment insurance fund. Unemployment insurance expense is a direct  
30 reimbursement to the state Department of Employment and Training for all paid  
31 unemployment claims. The amount of paid claims has been estimated to be six weeks  
32 at an average payment of \$764 per week.

33

1 **OTHER EXPENSE ACCOUNTS**

2

3 **Q. What are the costs associated with the annual lease payments?**

4 **A.** The attached lease purchase schedule (REB-1) consists of 5 new vehicles to replace  
5 existing high mileage trucks and equipment since the cost and frequency of repair is  
6 affecting the efficiency of our service crews. The lease schedule also includes a plan to  
7 reassign these older vehicles to reserve or other PWSB needs. In addition, the  
8 reassigned high mileage dump truck and backhoe will be held in reserve should the  
9 PWSB successfully acquire the CF water system.

10

11 **Q. What are the costs associated with property insurance?**

12 **A.** The current insurance premiums for FY05 are \$155,558. These premiums have been  
13 projected to increase by 10% per annum. However, the insurance contracts are  
14 scheduled to expire June 30, 2005 and we expect to have new quotations for our  
15 insurance contracts by the expected date of the hearings.

16

17 **Q. What is the cost benefit associated with the purchase of a road saw?**

18 **A.** Presently, road cutting services is contracted to an outside vendor. As of the nine  
19 month period ending March 31, 2005, the PWSB has paid \$5500 for road cutting  
20 services. The projected annual cost, based upon \$5500 for nine months, is \$7,333.  
21 However, there is a winter season (mid December to the beginning of April) road work  
22 moratorium on the installation of new services and routine system maintenance, and the  
23 actual year end cost will probably exceed \$7,500. Therefore, the purchase of a \$15,000  
24 road saw will be recovered within two years by combined cost savings to the IFR capital  
25 improvements and T&D emergency repairs & normal maintenance projects.

26

27 **RESTRICTED REVENUES/CASH ACCOUNTS**

28

29 **Q. Have the restricted cash accounts been fully funded from the authorized**  
30 **revenues in Dockets 3378 and 3497?**

31 **A.** No. Only the Debt Service and O&M Restricted accounts have been fully funded in  
32 accordance with the Dockets' orders. The IFR, Central Falls Franchise and Water  
33 Treatment Plant accounts have been funded at a ratable share of collected revenues

1 and in accordance with the requirements of the Trust Indentures from the Rhode Clean  
2 Water Finance Agency (RICWFA) Revenue Bonds.

3  
4 **Q. Why are the restricted cash accounts not fully funded?**

5 **A.** According to the PWSB accounting records of collected revenues for Fiscal Year 2004  
6 and the eight months ended February 28, 2005 in Fiscal Year 2005, the actual revenue  
7 has not and is not meeting the authorized revenues. In addition, the Trust Indentures  
8 from the revenue bonds have restrictions that orders the sequence in which collected  
9 revenues can be applied from the revenue fund. The indenture requires the PWSB to  
10 fund operations in accordance with the approved operating budget before funding any  
11 of the restricted accounts. Once the operating budget has been funded, the restricted  
12 accounts are to be funded in the following order: all debt service accounts, the O&M  
13 reserve account, the infrastructure replacement account (IFR), the Central Falls  
14 franchise account, and finally the Water Treatment Plant reserve account.

15  
16 **Q. Do you expect the PWSB to be able to fully fund the restricted cash accounts  
17 from revenues?**

18 **A.** No, I do not expect that the PWSB will fully fund the restricted cash accounts or attain  
19 the revenues as presently authorized by the commission.

20  
21 **Q. Why do you expect revenues not to reach the amounts authorized in Docket  
22 3497?**

23 **A.** According to the PWSB accounting records, the collected revenues for FY04 were  
24 significantly less than the revenue authorized per Docket 3497. There are three  
25 significant factors affecting the PWSB's ability to collect sufficient revenues. The first  
26 factor is the timing of the collection of the revenue authorized in the Docket. There is  
27 approximately a five month delay from the effective date of the Docket and the actual  
28 collection of authorized revenue. The second factor affecting collected revenue has  
29 been a decline in consumption as discussed in greater detail in Ms. Marchand's  
30 testimony. The third factor affecting collected revenue has been a shift in water  
31 consumption from higher rate industrial customers to lower rate residential customers.  
32 The industrial customer base in the City of Pawtucket, the primary geographic region of  
33 the PWSB, continues to decline.

1  
2 **O&M OPERATING RESERVE**  
3

4 **Q. Is the O&M operating reserve sufficient as awarded?**

5 **A.** The operating revenue reserve as provided (the operating and maintenance expenses  
6 total of \$8,003,960 times 1.5% or \$120,059) in Docket 3497 is not providing a sufficient  
7 reserve to cover the historical revenue shortfall (in excess of 10% of authorized  
8 revenue) as discussed in Ms. Marchand’s testimony or for any significant increases to  
9 the operating & maintenance expense projections. Examples of these significant  
10 increases in the operating & maintenance expenses for FY05 as stated earlier in my  
11 testimony are as follows: employee health insurance is projected to increase 12% or  
12 \$69,270 and the employer contribution to the state managed retirement system has  
13 increased from no employer contribution in FY04 to a required contribution of 1.7% of  
14 eligible wages which is projected to be \$38,859. In addition, other expenses increasing  
15 significantly are: motor vehicle fuel which is averaging \$2 per gallon recently and  
16 property insurance as a result of terrorist threats since 9/11 and catastrophic weather  
17 related damage claims. These are just a few examples of rising costs while the  
18 historical trend of revenue shortfalls has not provided any funds for the O&M operating  
19 reserve.  
20

21 **Q. What would be a sufficient O&M operating reserve?**

22 **A.** A sufficient operating reserve, based upon the historical trend of actual revenue  
23 shortfalls exceeding 10% of awarded revenue, would be 10% of the total proforma  
24 revenue as computed per the Docket. The PWSB understands it is highly unlikely an  
25 O&M operating reserve of 10% of total proforma revenue would be awarded.  
26 Therefore, an O&M operating reserve of 5% of total proforma revenue would be a  
27 realistic reserve.  
28

29 **CENTRAL FALLS WATER SYSTEM ACQUISITION**

30 **Q. Will there be additional personnel costs should the PWSB purchase the CF water**  
31 **system?**

32 **A.** Yes. There will be a need for an additional service crew that consists of a Crew Leader  
33 – grade III, a Water Equipment Operator – grade II, and 3 Water Utility Workers – grade

1 III. The additional personnel costs for the additional service crew has been separately  
2 identified for the rate year and estimated to be \$344,078.  
3

4 **Q. Will there be any other additional costs should the PWSB purchase the CF water  
5 system?**

6 **A.** Yes, a new service truck with an installed compressor will be required for the new  
7 service crew. The estimated cost is \$104,500 and will be acquired by lease/purchase  
8 agreement with 4 annual payments of \$28,163.23 (see REB-2). An existing dump truck  
9 and backhoe scheduled to be replaced will be held in reserve and assigned to this crew.  
10 Additionally, a service crew truck will need to be equipped with tools and supplies. A  
11 detailed schedule of these tools and supplies (See REB-3) has been estimated to cost  
12 \$23,000. The actual costing of these tools and supplies will be completed and revised  
13 by the time of the rate hearings.  
14

15 Also, there will be an estimated 20% annual increase to the operating expenses of the  
16 Transmission & Distribution department or \$32,018 in CY06 (exclusive of the staffing  
17 increase for the additional service crew discussed above).  
18

### 19 PUC REGULATORY REPORTS

20  
21 **Q. Is the PWSB current with all PUC reporting requirements including any periodic  
22 restricted cash account reports?**

23 **A.** All required reports including all restricted cash account reports (updated as of year end  
24 June 30, 2004 and thru month end February 28, 2005), the annual PUC report due June  
25 30, 2004, and the semi-annual reports for the periods ended June 30 and December 31  
26 have been filed with the commission.  
27

28 **Q. What are the current required reporting periods for the restricted cash accounts?**

29 **A.** The current requirement issued in Docket 3378 requires a report every 4 months ending  
30 April 30, August 31 and December 31.  
31

32 **Q. Do the current reporting periods for the restricted cash accounts coincide with  
33 the annual and semi-annual reports?**

1 **A.** No. Only the December 31 report coincides with the semi-annual report. However,  
2 there is no reporting requirement that coincides with the annual report. The annual  
3 report is prepared based upon the audited financial statements.  
4

5 **Q. Is the PWSB requesting a change the reporting periods for the restricted cash**  
6 **accounts to calendar quarter end dates (March 31, June 30, September 30 and**  
7 **December 31) which would then agree with the annual and semi-annual reporting**  
8 **requirements?**

9 **A.** Yes we are. This will result in labor efficiencies and ensure the accuracy and  
10 consistency of the reported information.  
11

## 12 **CONCLUSION**

13  
14 **Q. Does this conclude your testimony?**

15 **A.** Yes.

**PWSB  
LEASE/PURCHASE SCHEDULE  
CY06 RATE YEAR BUDGET**

Equipment Description : see vehicles listed below

Lease Inception Date	10/1/2005
Present Value/Purchase Price	\$292,325.00
Annual Interest Rate	5.25%
Number of Payments	4
Purchase Option	\$1.00
Annual Payment	\$78,782.53

Payment #	Payment Date	Payment Amount	Interest	Principial Amount	Principal Balance
	10/1/2005				292,325.00
1	10/1/2005	78,782.53	-	78,782.53	213,542.47
2	10/1/2006	78,782.53	11,210.98	67,571.55	145,970.92
3	10/1/2007	78,782.53	7,663.47	71,119.06	74,851.86
4	10/1/2008	78,782.53	3,930.67	74,851.86	-
<b>EXISTING LEASE PAYMENTS</b>		44,017.53			
Projected Annual Payments		122,800.06			
Current Budget		110,689.00			
VARIANCE TO BUDGET		(12,111.06)			
	Projected	78,782.53	11,210.98	67,571.55	
	Existing	44,017.25	4,022.37	39,994.88	
	<b>CY06 TOTAL</b>	122,799.78	15,233.35	107,566.43	

Vehicle Listing

DUMP TRUCK 5-7 YD BODY	100,000.00	estimated per Tom Degnan
JOHN DEERE 410G BACKHOE	121,550.00	based upon current quote
FORD F150 4X4 TRUCK	21,500.00	to replace W-43
FORD F150 4X4 TRUCK	21,500.00	to replace W-46
FORD F-150 4X4 SUPERCREW	27,775.00	T&D Leak Detection Crew Leader
	292,325.00	

NOTE: THE DATES ARE PROFORMA DATES USED TO REPLICATE A 4 YEAR LEASE AGREEMENT AND DO NOT REFLECT ACTUAL DATES.

NOTE: THE SCHEDULE WAS PREPARED USING THE INTEREST RATE FROM OUR MOST RECENT LEASE/PURCHASE AGREEMENT.

**Attached plan to assign new/reassign existing vehicle fleet**

- New Ford F150 4X4 to new supervisor (unfilled position)
- New Ford F150 4X4 to new supervisor ( R D'Ordine retirement)
- New Ford F150 Supercrew to Leak Detection Crew Leader
- W-30 Ford F150 4x4 to T&D Utility Vehicle
- W-36 Ford F150 2WD to T&D Utility Vehicle
- W-43 1988 GMC C2500 to Meters, if road worthy
- W-46 1987 Dodge D100 to Meters, if road worthy
- W-16 2004 Ford Ranger 4x4 (assigned to Ryan) to Tony Goncalves
- W-14 2001 Ford Ranger 4x4 (assigned to Tony) to Supply for Security
- W-7 2000 Ford Ranger 2WD from Security to Engineering - unassigned

**PWSB  
LEASE/PURCHASE SCHEDULE  
CF SERVICE CREW EQUIPMENT REQUIREMENTS  
CY06 RATE YEAR BUDGET**

Equipment Description : see vehicles listed below

Lease Inception Date	10/1/2006
Present Value/Purchase Price	\$104,500.00
Annual Interest Rate	5.25%
Number of Payments	4
Purchase Option	\$1.00
Annual Payment	\$28,163.23

EXISTING LEASE PAYMENTS	-
Projected Annual Payments	28,163.23

Vehicle Listing

SERVICE TRUCK w/Compressor	104,500.00	estimated per Tom Degnan
	-	
	104,500.00	

Payment #	Payment Date	Payment Amount	Interest	Prinicipal Amount	Principal Balance
	10/1/2006				104,500.00
1	10/1/2006	28,163.23	-	28,163.23	76,336.77
2	10/1/2007	28,163.23	4,007.68	24,155.55	52,181.22
3	10/1/2008	28,163.23	2,747.02	25,416.21	26,765.01
4	10/1/2009	28,163.23	1,398.22	26,765.01	-
		112,652.92	8,152.92	104,500.00	

NOTE: THE DATES ARE PROFORMA DATES USED TO REPLICATE A 4 YEAR LEASE AGREEMENT AND DO NOT REFLECT ACTUAL DATES.

NOTE: THE SCHEDULE WAS PREPARED USING THE INTEREST RATE FROM OUR MOST RECENT LEASE/PURCHASE AGREEMENT.

**Attached plan to assign new/reassign existing vehicle fleet**

- 1993 Chevrolet 5-7YD Dump Truck to be held in reserve for CF service crew (scheduled to be replaced due to high mileage)
- 1995 JCB Backhoe to be held in reserve for CF service crew (scheduled to be replaced due to high mileage)

PAWTUCKET WATER SUPPLY BOARD  
 SERVICE CREW TRUCK  
 STANDARD SUPPLIES & EQUIPMENT

ITEM	DESCRIPTION	QTY.	UNIT	COST	TOTAL VALUE
<b>SERVICE TRUCK COMPONETS</b>					
1	TAMPING MACHINE	1	EA.	-	-
2	JACKHAMMER	1	EA.	-	-
3	THRASHING PUMP & HOSE	1	EA.	-	-
4	DEMO SAW	1	EA.	-	-
5	DOZ. SAW BLADES 12"	12	EA.	-	-
6	DOZ. SAW BLADES 14"	12	EA.	-	-
7	SERVICE CRIMPING TOOL	1	EA.	-	-
8	SERVICE LOCATER	1	EA.	-	-
9	LEAK DETECTION PHONES	1	EA.	-	-
10	ROAD SIGNS & STANDS	6	SETS	-	-
11	AIR IMPACT GUN	1	EA.	-	-
12	KNUCKLE BUSTER AIR	1	EA.	-	-
13	AIR DRILL	1	EA.	-	-
14	CLAM DIGGER (ROAD BOX)	1	EA.	-	-
15	6 GATE KEYS	2	EA.	-	-
16	4' CURB STOP KEYS	2	EA.	-	-
17	6 CURB STOP KEY	1	EA.	-	-
18	4' CURB BOX PLUG KEY	1	EA.	-	-
19	60' ROLL COPPER TUBING	1	EA.	-	-
20	10' PULL CHAIN	1	EA.	-	-
21	HYDRANT LIFT CHAIN	1	EA.	-	-
22	LADDER	1	EA.	-	-
23	POINTED SHOVELS	3	EA.	-	-
24	FLAT SHOVELS	3	EA.	-	-
25	5' PINCH BAR	1	EA.	-	-
26	PIPE WRENCHS - 24"	2	EA.	-	-
27	PIPE WRENCHS - 18"	4	EA.	-	-
28	PIPE WRENCHS - 14"	2	EA.	-	-
29	SLEDGE HAMMER 10#	1	EA.	-	-
30	SLEDGE HAMMER 3#	2	EA.	-	-
31	CRESCENT WRENCH 12"	2	EA.	-	-
32	PIPE CUTTER - 1/4"	2	EA.	-	-
33	FLARING TOOL - 3/4"	1	EA.	-	-
34	FLARING TOOL - 1"	1	EA.	-	-
35	FLARING TOOL - 2"	1	EA.	-	-
36	METAL FILE 12"	1	EA.	-	-
37	WIRE BRUSH	1	EA.	-	-
38	RATCHET & SOCKETS	1	SETS	-	-
39	ASST. WRENCHES		EA.	-	-
40	HARD HATS	6	EA.	-	-
41	PAIR BOOTS	6	EA.	-	-
42	REFLECTIVE VESTS	6	EA.	-	-
43	2 GALLON GAS CANS	2	EA.	-	-
44	MANHOLE HOOKS	2	EA.	-	-
45	PORTABLE LIGHTING SET	1	EA.	-	-
<b>BRASS FITTINGS &amp; REPAIR PARTS</b>					
46	3/4" x 1 REDUCING BUSHINGS	6	EA.	-	-
47	3/4" x 1 COUPLINGS	6	EA.	-	-
48	1" x 1 COUPLINGS	6	EA.	-	-
49	1" CLOSE NIPPLES	6	EA.	-	-
50	3/4" x 6 NIPPLES	6	EA.	-	-
51	1" x 6 NIPPLES	6	EA.	-	-
52	1" CURB STOPS	6	EA.	-	-
53	1" IPS CURB STOPS	6	EA.	-	-
54	1" 3 PART UNIONS	6	EA.	-	-
55	1" CORPORATIONS	6	EA.	-	-
56	1" FEMALE FLARE FITTINGS	6	EA.	-	-
57	3/4" 411 COUPLINGS	6	EA.	-	-
58	1" 411 COUPLINGS	6	EA.	-	-
59	1" CURB BOXES & RODS	6	EA.	-	-
60	4" REPAIR CLAMP	1	EA.	-	-
61	6" REPAIR CLAMPS	2	EA.	-	-
62	8" REPAIR CLAMPS	2	EA.	-	-
63	6" x 1 SERVICE SADDLE	1	EA.	-	-
64	8" x 1 SERVICE SADDLE	1	EA.	-	-
65	HYDRANT WRENCH	1	EA.	-	-
<b>ESTIMATED VALUE</b>					<b>23,000.00</b>