

1 **Q: Please state your name and business address?**

2 A: My name is Pamela M. Marchand and I am Chief Engineer/General Manager of the
3 Pawtucket Water Supply Board.

4

5 **Q: Are you the same Pamela Marchand who submitted pre-filed direct testimony in
6 this docket?**

7 A: Yes, I am.

8

9 **Q: What is the purpose of this testimony?**

10 A: I would like to respond to certain points or conclusions that were made in the prefiled
11 testimony of Ms. Andrea Crane of July 26, 2005. I have only addressed some of the
12 points she has raised, Mr. Bebyn and Mr. Woodcock will address others in their rebuttal
13 testimony.

14

15 **Q: What issues would you like to address?**

16 A: There are several areas of disagreement with Ms. Crane's recommendations that I
17 will address:

- 18 • Employee Related Costs
- 19 • Security Costs
- 20 • Property Insurance
- 21 • Fees and Permits
- 22 • Water Treatment Plant Reserve
- 23 • Operating Revenue Allowance

24

25 **EMPLOYEE RELATED COSTS**

26 **Q. Do you agree with Ms. Crane's position regarding Employee related cost?**

27 A. No. I do not

28

29 **Q. Can you explain the basis for your disagreement?**

30 A. Yes. Ms. Crane begins by stating that the Division found that "during the PWSB's
31 recent history, the PWSB had operated with an average of 62 employees." This issue

1 concerning the number of personnel has been addressed in every docket filed by the
2 PWSB since 2000. Furthermore, the history of the PWSB operating with 62 employees
3 was due to the fact that sufficient funds were never collected to fill all of the positions, as
4 was explained in Docket No. 3378. At that time, the PWSB had 66 positions with several
5 vacancies that were in the process of being filled. However, there were not sufficient
6 funds collected to fill these vacancies, or to even properly fund operations and
7 maintenance. In fact, our income level allowed us to only fund the most essential
8 maintenance projects. The water treatment plant, pumping system, watershed
9 maintenance, dam maintenance and water distribution system maintenance was minimal,
10 at best.

11

12 **Q. Are you concerned about Ms. Crane’s focus on the “number” of positions the**
13 **PWSB should have?**

14 A. Yes I am. I think that this argument focuses too much on the “number” of employees
15 the PWSB should have and detracts from the real issue – what does the PWSB require to
16 safely and properly operate its system. My focus as Chief Engineer is to safely provide
17 quality drinking water to our customers, while at the same time trying to ensure that rates
18 are kept as low as possible. I recognize that personnel is an area in which these two goals
19 can be at odds. However, I do not make personnel decisions, or my requests to this
20 Commission, lightly.

21

22 The PWSB supplies drinking water to over 100,000 people in the Pawtucket area. The
23 PWSB has the direct responsibility to provide a high quality treated water to protect the
24 health of our customers. During my tenure, it has been my goal, and that of the
25 Pawtucket Water Supply Board, to change the operation of the PWSB to provide a highly
26 reliable, high quality product and service organization for our customers. To do this, two
27 major components were identified: (1) renovate/replace the deteriorated infrastructure
28 throughout the entire water system, and (2) to improve the operation and maintenance of
29 the system. The infrastructure component has been, and continues to be, addressed with
30 the replacement of the water treatment plant and the renovation of the water distribution

1 system. However, the PWSB still struggles to address the operations and maintenance of
2 the system.

3
4 One of the reasons that the infrastructure was in such dire need of improvement is the
5 historical lack of funding to maintain the system. As costs and regulatory requirements
6 increased, maintenance was decreased until the system was no longer reliable. As
7 outlined in my direct testimony, and my response to Comm. 1-12 and Comm. 1-13, the
8 PWSB has focused on creating an efficient operations and maintenance program by
9 modifying the staffing positions to be more flexible, technically proficient, and
10 accountable to meet the challenges of a meaningful preventative maintenance program
11 and a fiscally accountable organization. Our efforts in this area have been difficult as we
12 operate in a municipal, unionized environment, where lack of funding is a major issue.

13
14 In addition, all of our staffing decisions undergo a great deal of scrutiny even before they
15 reach the Commission. A change in a position description must be approved by the
16 Pawtucket Water Supply Board, the City of Pawtucket Personnel Board, and the
17 applicable Union. Should a change in pay be required, the City Council must approve
18 any change to the City Pay Plan. As such, no change in a PWSB position, or the addition
19 or elimination of a position, is accomplished without exhaustive review at a number of
20 levels. The PWSB has attempted to modify, create, and eliminate positions without an
21 increase in numbers unless absolutely required. In this respect, considering the number
22 of changes and the results described in Comm. 1-12, I consider the program to be
23 extremely successful.

24
25 However, focusing on an employee “number” limit hampers my efforts to ensure proper
26 and efficient operations and maintenance of the system. I do not believe it is in the best
27 interest of the ratepayer to limit the “number” of employees to simply lower costs,
28 without considering the effect it has on operations and maintenance.

1 **Q. Can you provide an example of this?**

2 A. Yes. An example can be seen in results of Docket 3497. After the Commission issued
3 its order limiting the PWSB to 65 employees, the PWSB appealed. It was the PWSB's
4 position that by reducing the labor funding by one position, the PWSB would not be able
5 to fill the position of Crew Leader for Leak Detection. In turn, this would prevent the
6 PWSB from carrying out a leak detection program as required by the RI Department of
7 Health. In the order denying the PWSB's motion, the Commission agreed with the
8 Division's argument that the Crew Leader was not eliminated, nor was the leak detection
9 program be canceled. It was the Commission's and Division's position that funding was
10 merely limiting to 65 employees, to be used in any manner the PWSB saw fit.

11

12 In effect, this was true. However, the practical result of the Division's position, and the
13 Commission's order was that the PWSB never filled the position of Crew Leader – Leak
14 Detection because enough funds were not collected to support the expense. Furthermore,
15 since revenues were considerably lower than predicted, the PWSB was also unable to
16 purchase the leak detection equipment approved in that docket.

17

18 **Q. Can you provide an overview of the personnel issue as it has developed in the last
19 few dockets?**

20 A. Yes. First, I will begin with Docket #3378, which was filed on August 20, 2001. When
21 the Docket was filed, the PWSB and the City of Pawtucket had approved a Request For
22 Proposals (RFP) for the construction of new water treatment plant. The RFP called for a
23 Design, Build, Operate (DBO) process under which a private company would operate the
24 plant after they designed and built the structure. However, at the time the decision in
25 Docket 3378 was issued, a vendor had not yet been selected.

26

27 In Docket 3378, the PWSB's personnel request reflected our attempt to reorganize our
28 staff and prepare for the eventual transfer of the water plant to a private vendor. As
29 detailed in our organizational chart that was provided in Docket 3378, the PWSB had 67

1 authorized full time positions, 66 of which were funded¹, and one part-time position. (See
2 Exhibit 1, Organizational Charts submitted in Dockets 3378, 3497 and 3674). In our rate
3 request we asked for this same level of funding – 66 full time positions and 1 part-time
4 position. However, two new positions were created to replace two existing positions. The
5 two new positions were Cross Connection Control Technician and Jr. Project Engineer.
6 These positions replaced the positions of PWSB Clerk (Meters), which was eliminated,
7 and Project Engineer, for which we did not seek funding.² In its order, the Commission
8 approved rates for the 66 positions requested (plus the one part-time), recognizing that,
9 historically, the PWSB had not received sufficient funding to fill all designated positions.

10
11 In addition to the positions of Cross Connection Control Technician, and Jr. Project
12 Engineer, the PWSB also requested approval for the positions of Source Water Manager
13 and Source Water Technician. However, these positions were not going to be filled until
14 the new vendor took over operation of the treatment plant. As such, additional funding
15 for these positions, although discussed in Docket #3378, was not requested in that docket.
16 In fact, it was anticipated that when the plant was transferred, these positions would be
17 funded from the difference between the vendor fee and the PWSB's Source of Supply,
18 Pumping, and Purification Departments' operation expenses.

19
20 When Docket #3497 was filled on February 28, 2003, a treatment plant vendor had still
21 not been approved. As such, the PWSB's rate filing assumed that we would have to
22 continue operation of the entire system. Therefore, the PWSB again requested the same
23 level of funding for 66 positions (plus one part-time) that was allowed in Docket 3378.
24 (See Exhibit 2, attached list of positions provided in response to the Division Data
25 Requests 1-12 and 1-13 for Docket No. 3497). As part of these 66 positions, the PWSB
26 proposed to eliminate the Assistant Maintenance Mechanic and replace it with the
27 proposed Crew Leader – Leak Detection.

¹ The position that was not funded was one of the two authorized Water Utility Supervisor positions.

² This left two positions unfunded – a Water Utility Supervisor position and a Project Engineer.

1 Although a vendor had not yet been approved when Docket 3497 was filed, we informed
2 the Commission that the RFP called for all treatment plant employees to transfer and
3 become employees of the new vendor. When the RFP was drafted seventeen (17)
4 positions were identified for transfer to the selected vendor. As the Commission knows,
5 our request for employee funding was rejected. The Commission only allowed funding
6 for 65 employees and ordered that the 17 employees identified in the RFP be transferred
7 to the new vendor.

8
9 **Q. Do you agree with Ms. Crane's position that it was "the Commission's**
10 **expectation that the PWSB would operate with 48 positions (65 less 17) after the**
11 **transfer to Earth Tech.?"**

12 A. No, I don't entirely agree with Ms. Crane's position. First, there were actually sixteen
13 (16) employees transferred to Earth Tech, not seventeen (17) as referred to in my Docket
14 3497 testimony. This error occurred because while when the RFP was originally drafted
15 it identified seventeen (17) treatment plant positions that would be transferred. However,
16 between the drafting of the RFP and the contract award, the treatment plant position,
17 Assistant Plant Maintenance Technician, became vacant during 2003 and was filled with
18 temporary help. This position was listed as vacant in Docket No. 3497 and was not
19 requested for funding in the docket for the Rate Year (FY04) (see Exhibit 2), and was
20 subsequently eliminated. Thus, sixteen (16) funded WTP positions were transferred to
21 Earth Tech on February 15, 2004.

22
23 Second, in reviewing Dockets 3378 and 3497, the actual number of approved
24 positions/employees has been a matter of confusion. In Docket 3497, the Commission's
25 Report and Order states that: "Information provided through the discovery process
26 indicated that the PWSB had two vacancies. The Division recommends that funding for
27 one position be eliminated as it is normal to have vacancies and throughout history,
28 PWSB has operated with an average of 62 employees. The Division quantifies the
29 amount of funding to eliminate by taking the average of non-administrative salaries.
30 They fix the amount at \$43,247 (salary plus taxes.) PWSB has testified in the past that
31 often times the vacancies existed due to lack of funding. In this case however, the PWSB

1 stated that the positions are not truly vacant, but are being filled by temporary
2 employees.” The order went on to state that “The Commission is allowing funding for
3 only 65 employees and is requiring PWSB to transfer the 17 employees...”

4
5 Although the Commission Report and Order allowed funding for 65 employees, there are
6 inconsistencies in the amount of funding requested, the number of positions, and the
7 positions for Source Water Manager (SWM) and Source Water Technician (SWT) that
8 were approved in Docket 3378. In Docket 3497, the amount of rates requested for PWSB
9 positions is listed in the attachment for the Division Data Request 12 & 13. The list
10 includes the 66 positions (one of which is funded through IFR), plus the part-time
11 position. However, the SWM and SWT positions approved in Docket No. 3378 were not
12 listed, as they were to be filled when the new vendor took over operations. The
13 Commission’s Order in Docket 3497 reduced funding by one position, as recommended
14 by the Division. Therefore, the PWSB had been operating on the belief that the intention
15 of the Order was to reduce funding for labor expense by one position. However, the
16 actual count of positions after transfer to the vendor, based on Dockets. 3378 and 3497,
17 is 65 – 16 (transferred to Earth Tech) + 1 SWM (approved in Docket 3378) + 1 SWT
18 (approved in Docket 3378) = 51 positions (not including the one part time position). With
19 the addition of the CFO, Crew Leader and Water Utility Supervisor this would bring the
20 total to 54 positions plus one part time (for an overall total of 55).

21
22 **Q. Ms. Crane’s testimony indicates that you are seeking to add 7 positions. Do you**
23 **agree with this statement?**

24 A. No I do not. Ms. Crane’s testimony gives the impression that we have added seven
25 new positions. However, we are not just adding new employees to take the place of those
26 transferred to Earth Tech. In actuality, the PWSB is only seeking to add one new
27 position, which is the CFO position. We are also seeking to restore funding for the
28 existing, but unfunded, positions of T&D Supervisor and the T&D Crew Leader. (The
29 basis of the request for funding for these positions is described in my pre-filed
30 testimony.) In addition, since Earth Tech has been awarded the contract, and taken over
31 operation of the old plant and construction of the new plant, the PWSB has filled the

1 positions of Source Water Manager and Source Water Technician. As stated above, these
2 positions were approved in Docket 3378, and they were funded at the time of the transfer
3 with the difference between our rate expense for Purification and Pumping O&M and the
4 Earth Tech fee. These positions are now listed in the labor expense for the rate year. The
5 Earth Tech fee is listed under Purification Expense.

6
7 **Q. Do you agree with Ms. Crane's position that the PWSB's payroll cost associated**
8 **with three vacant positions should be eliminated?**

9 A. No I absolutely do not. First, there are not three vacant positions. One of the so-called
10 vacancies is the Water Stock Clerk, which was only temporarily vacant due to a
11 retirement. It was promptly filled on 4/11/05. Apparently, this was not corrected in our
12 response to Div. 2-12.

13
14 The other two positions that are vacant are the positions for which we are seeking
15 funding – T&D Supervisor and T&D Crew Leader. However, because we don't have
16 funding, and because they are vacant, the Division seeks to eliminate them. This once
17 again raises the same problem that we have been addressing in past dockets with respect
18 to personnel. It also is an example of the problems we face when we don't collect enough
19 revenue.

20
21 **Q. Please explain.**

22 A. As addressed above, the PWSB's history of operating with 62 employees was due to
23 the fact that there were not sufficient funds collected to fill all of the positions. It was our
24 belief that this was addressed and rectified in Docket 3378. At that time, the PWSB had
25 66 positions with several vacancies that were in the process of being filled. The
26 settlement agreement states that: "The Board has represented to the Division that past
27 vacancies were not filled because of inadequate funding, and assured the Division that
28 future vacancies will be minimal due to the extensive need occasioned by the proposed
29 capital improvement projects." Yet in Docket 3497, personnel expense was cut again. As
30 addressed above, the result, whether it was intended or not, was that we were unable to
31 institute a leak detection program.

1

2 This personnel issue is also tied to our historic under-collection of revenue. When the
3 PWSB doesn't collect revenue, we are forced to cut back on programs and expenses. This
4 includes filling authorized positions. Then when we come back for a rate increase
5 because of a revenue shortage, the Division uses our lower historic costs and personnel
6 vacancies as evidence that we don't need funding for them after all. Thus, our
7 "vacancies" become a self fulfilling prophecy.

8

9 **Q. Please address your objection to Ms. Crane's testimony that simply replacing**
10 **employees transferred to Earth Tech will result in higher costs to ratepayers.**

11 A. First of all, this comment appears to relate to the perception that the PWSB has added
12 7 additional positions in this docket. This error has been addressed above. The PWSB
13 does not seek to add positions simply because 16 were eliminated by the transfer of the
14 treatment plant operations. The PWSB seeks personnel necessary to carry out its
15 mission. The CFO has become critical in the face of increasingly complex financial
16 issues that we face. Not filling the position of T&D Supervisor would create a hardship
17 for the PWSB to implement the water distribution preventative maintenance programs, as
18 described in my prefiled testimony. Without the T&D Crew Leader, it is impossible for
19 the PWSB to implement a leak detection program. This position would actually pay for
20 itself in the long term, as the leakage rate of the PWSB has been increasing. As the cost
21 of water production increases, this is a program that should be strongly supported.

22

23 As set forth above, and in our memorandum in support of the rate increase in Docket
24 3497, the PWSB recognizes that *any* increase is significant. However, a requested rate
25 increase must be judged on its merits and the needs of the utility in order to provide safe
26 and efficient service to its customers, not on an artificial limit on the "number" of
27 employees.

28

29 **Q. Do you agree with Ms. Crane's statement that there is no rationale for the**
30 **PWSB's claim for significant additional temporary employees?**

1 A. No. I do not. The PWSB actually operates with a minimum of staff, with as much
2 flexibility within departments as possible. However, even one absent position affects the
3 operation of the department. The use of temporary help is less than desirable as the
4 temporary employee typically only fills the most basic requirements of that position.
5 However, temporary help are critical to the continuing operations and maintenance of the
6 system.

7
8 Each department hires summer temporary help, the number depending on the work to be
9 done. Administration, Customer Service, Meter Department, Source of Supply, and
10 Engineering typically hire one summer temp each year. T&D hires 2 to 3 summer temps.
11 In the rate year, the PWSB will need to increase the brush maintenance program, based
12 on RIDOH requirements for security and the RI Water Resource Board requirements for
13 funding for past tree clearance at the four dams and the water storage areas. Therefore, 3
14 summer temps are requested for CY06 for Source of Supply. The Engineering
15 department will be increasing the amount of main replacement work next year, and has
16 requested 2 summer temps for 2006.

17
18 Typically, with 19 employees, there is at least one person out at any given time in the
19 T&D Department for paid leave, such as vacation, sick, or personnel time. Also,
20 typically there is at least one employee out on disability or workman's compensation.
21 There are one to two full time temps employed in the T&D department each year. The
22 same is true of the other departments, but they typically are positions with a higher level
23 of expertise, requiring a more experienced temp at a higher hourly wage.

24
25 Since the rate filing was submitted, the PWSB has had five persons go out on long term
26 absence: the PWSB Floater Clerk on Workman's Compensation (due to a fall), T&D
27 Crew Leader (traffic accident), another T&D Crew Leader (heart operation), the T&D
28 Operations Manager (going to Iraq) and Meter Technician (back operation). At present
29 all but one are still on paid salary due to Comp or accrued time. Five full time temps
30 have been hired to cover their positions. Therefore, at this time, it is my position that the

1 PWSB will actually be expending more than the requested expense for the rate year for
2 temporary help in CY06.

3
4 Therefore, the PWSB requested funding for 10 summer help, and three full time temps
5 for a total of \$127,600 for CY06. (Temporary help are paid an hourly wage with no
6 benefits, and are only allowed to fill in for persons out on compensation or medical leave
7 per union contracts, except for seasonal help. Temporary help can only be used for vacant
8 positions for a limited period of time.)

9
10 The use of temporary help was addressed in Docket No. 3497. At that time the PWSB
11 did not apply for additional rates for temporary help, as we had typically utilized any
12 funding available from vacant positions to pay for temporary help. This was another
13 reason the PWSB urged the Commission to not deduct a salary for any vacant position.
14 However, it was the decision of the Commission to do so. Therefore, the PWSB has
15 submitted an expense for temporary help in this docket. This expense was based on the
16 PWSB's previous experience and personnel needs for CY06.

17

18 **Q. Ms. Crane has indicated in her testimony that “the benefits of the DBO structure**
19 **will be mitigated if the PWSB simply replaces employees transferred to Earth Tech**
20 **with new employees on the PWSB payroll, resulting in even higher costs to the**
21 **ratepayers.” Do you agree with this statement?**

22 A. No. I disagree with this statement for two very important reasons. First, Ms. Crane's
23 position greatly overstates the impact of the employee transfer on the “benefits of the
24 DBO structure.” The primary purpose of the DBO structure was not to reduce the number
25 of employees. The driving force behind the “DBO structure” was to have a new state of
26 the art water treatment plant, at the lowest possible cost, with as much risk for the design,
27 construction and operation of the facilities transferred to the vendor as was possible. In
28 order to accomplish this, the vendor, not the PWSB, needed to be responsible for the
29 performance of the operations staff. Therefore, *one* of the benefits of having a private
30 company operate the treatment plant as part of the DBO process, was that the number of
31 employees for which the PWSB would be directly responsible would be reduced. The

1 PWSB remains responsible for the funding of the employees through the vendor overall
2 operation and maintenance fee.

3
4 Second, Ms. Crane’s testimony implies that the PWSB simply decided to “replace”
5 employees without any forethought about the impact on ratepayers. As addressed above,
6 this is not the case.

7
8 **SECURITY COSTS**

9 **Q. Do you agree with Ms. Crane’s recommendation to reduce security costs by**
10 **\$8,000?**

11 A. Yes, as stated in the PWSB response to Div 2-41, these costs were double counted in
12 other line items.

13
14 **PROPERTY INSURANCE**

15 **Q. Do you agree with Ms. Crane’s adjustment for Property Insurance?**

16 A. The PWSB agrees that according to the PWSB response to Div 2-49, the actual
17 insurance premium bid for July 2005 through June 2006 was \$137,784. However, the
18 PWSB requested bids for two years, and all vendors refused to provide more than a one
19 year bid. This will cover only one half of the rate year. It is likely that this premium will
20 increase in July, 2006. Therefore, if an allowance for a 3% increase was added to the
21 second half of the rate year, the PWSB would agree to the amount of \$139,851 for
22 property insurance.

23
24 **FEES AND PERMITS**

25 **Q. Can you explain the requested expenses for the fee and permit costs in**
26 **Miscellaneous Source of Supply expenses?**

27 A. The PWSB response to Comm. 2-5 provides a better explanation of these expenses:

28
29 “There were no fees and permits costs incurred in the test year. In the rate
30 year, the PWSB will need to incur fees for DEM permits for rehabilitation of
31 the existing wells and for the Curran Brook pollution mitigation project. The
32 PWSB has estimated the fees as follows:
33

1	4 dams @ \$1,250 each or	\$5,000
2	Curran Brook	<u>1,000</u>
3	Total fees and permits	\$6,000
4	In addition:	
5	Clothing & cleaning	<u>1,106</u>
6	Total	\$7,106

7
8 In the test year the Clothing and Cleaning line item had \$46 for employee
9 clothing purchases. The rental of uniforms had been included in Purification
10 expenses in the test year (FY04). In FY05, the uniform rental and clothing
11 purchases for Source of Supply was \$1080. In the preparation of the test year
12 expenses, we should have allocated some of the costs for uniform rental and
13 clothing purchases from purification to source of supply. This was an
14 oversight on our part during the preparation of the test year figures.”
15

16 **WTP RESERVE**

17 **Q. Do you object to Ms. Crane’s recommendation to deny further funding of the**
18 **WTP reserve and that there are sufficient funds for the demolition costs?**

19 A. I agree that the fund was set up to cover expenses to be incurred by the PWSB to
20 continue the operations of the water treatment plant, pumping and storage facilities. At
21 the time of the rate filing, no vendor had been approved by the City, and the PWSB had
22 to plan on operating the facilities indefinitely. The maintenance of these systems had
23 only been planed through 2004, when the new plant was to be brought on-line. The
24 continued operation required costly unplanned maintenance. The operations and
25 maintenance of the existing facilities was transferred to Earth Tech in 2004. Earth Tech
26 became responsible for the majority of the costs identified in the project list. (See PWSB
27 response to Comm. 2-12.)
28

29 However, I do not agree that there are sufficient funds in the account to demolish the
30 Spring St. pump station and the water treatment plant. Once the new water treatment
31 plant is in operation, the Spring St. pump station needs to be demolished immediately, as
32 it is a physical hazard. It is presently being used as a back-up emergency station, with
33 very limited access. Earth Tech will not use this site for the raw water pump station
34 (RWPS), which was mentioned as a possibility in the Division data response. The RWPS

1 will be located at the intake area at Happy Hollow Pond on the property of the existing
2 treatment plant.

3
4 The newer portion of the water treatment facilities, constructed in 1970 for chemical
5 addition, will be renovated by Earth Tech for the Transmission and Distribution
6 department. (The previous department facilities are being converted to the laboratory and
7 offices for the new plant.) The older section of the plant, constructed in 1938 needs to be
8 demolished.

9
10 The PWSB has obtained a preliminary estimate for the demolition of the Spring St.
11 station and the WTP from the PWSB waterworks contractor, I.P. Iannuccillo & Sons.
12 (See attached Exhibit 3). They have estimated approximately \$800,000 to demolish the
13 WTP. The WTP is four stories underground and two above. The contractor believes that
14 the PWSB will be required to remove all internal equipment before demolition – pipes,
15 pumps, etc., and a clean fill will be required. The same is true for the Spring St. pump
16 station, built in the early 1900's. The pump station is 4 stories high with a basement.
17 There is an old filtration system on the premises that will have to be removed. Truck
18 traffic will have to be carefully controlled as there is very limited access and the 54"
19 concrete main runs very close under the road. The contractor has estimated
20 approximately \$400,000 for the Spring St. pump station. The sites may also need further
21 environmental remediation. The Spring St. station, in particular, once utilized coal fired
22 steam pumps. Coal is known to leave a residual heavy metal contamination. Not
23 included in the estimate is the requirement to demolish the two buried water storage tanks
24 (300,000 cubic feet and 40,000 cubic feet), and to fill in the sedimentation basin
25 (1,344,000 cubic feet). Therefore, the present balance of the WTP Reserve would not be
26 adequate to fund the demolition of both structures.

27
28 **OPERATING REVENUE ALLOWANCE**

29 **Q. Do you agree with Ms. Crane's recommendation and comments on the**
30 **Operating Income Allowance?**

1 A. No, I strongly disagree. Ms. Crane has determined that the Operation Revenue
2 Allowance is not necessary, given the Operations and Maintenance Reserve of \$2.2
3 million that is funded by ratepayers. The Operation and Maintenance Reserve will be
4 addressed by Chris Woodcock, but I wish to emphasize here that the Operation and
5 Maintenance Reserve is a bonding indenture requirement that is to serve for a short term
6 budget shortfall, such as in the case of a large bond payment required early in the rate
7 year. The balance of the account may be insufficient to make the payment, and funds
8 from the Operation Reserve can be utilized for this. However, rates collected throughout
9 the remainder of the year should be sufficient to provide the funding of the bond
10 payment. (In the past, this temporary shortfall has been funded by the City of
11 Pawtucket.) In this case, the balance of the rate funds collected for the bond payment
12 *must* be used to repay the Operation Reserve, which requires repayment *within* twelve
13 months.

14
15 The Operating Revenue Allowance, as described by Ms. Crane, has allowed water
16 utilities to collect an operating revenue allowance “in order to mitigate cash flow
17 problems, and to provide for unseen expenditures or reduced volumes.” As described
18 above, the Operations Reserve is designed for temporary cash flow problems, but does
19 not address unforeseen expenditures or reduced revenue.

20
21 **Q. Has Ms. Crane addressed the issue of unforeseen expenditures or reduced**
22 **revenue?**

23 A. As described in my pre-filed testimony, and listed in Schedule PMM1, the PWSB has
24 under collected revenues for the rate year approved by the Commission by an average of
25 \$1.5 million in each of the last four dockets. Ms. Crane has not addressed this in her
26 testimony.

27
28 This issue is critical to the continued funding of PWSB operations and maintenance
29 programs. The PWSB has under funded this budget in the past due to the under
30 collection of revenues to the point of requiring a major replacement/ renovation of the
31 entire water system. Maintenance programs have been cut or put off, employee positions

1 left vacant. Presently, as discussed in my prefiled testimony, the bond indentures
2 specifically require the funding of the operations and maintenance budget to insure that
3 the bond holder's investment in new infrastructure is protected.

4
5 As discussed in my pre-filed testimony, the bond indentures require that the O&M
6 budget, Debt Service fund and O&M Reserve fund be fully funded – regardless of
7 revenues. Should this have insufficient funding for these accounts, the IFR account would
8 not be fully funded. In this scenario, it is very plausible that the IFR account could be
9 significantly under funded. The PWSB is dependent on this account for annual capital
10 replacement programs, including the main replacement program. The main replacement
11 program is bid the year before construction, in the amount of \$2 million to \$3 million.
12 To insure sufficient funding, the PWSB may need to delay the main replacement program
13 once again, depending on the levels of IFR funds available.

14
15 **Q. What unforeseen expenses could justify the requested Operating Income**
16 **Allowance?**

17 A. The Operating Income Allowance of 1.5% of O&M Expense as recommended by Ms.
18 Crane provides 5.5 days of operating income. In the event of increased operating
19 expenses, this allowance could be expended very quickly. Most of the increases to O&M
20 expense accounts for the rate year, CY 2006, beginning July 1, 2006, are estimated, but
21 unknown. The labor contract for union #1012 will be negotiated next year, with the new
22 rates becoming effective July1, 2006. Health insurance premiums, workers
23 compensation, State MERS contribution, overtime dependant on winter weather, police
24 payroll, insurance premiums, rate filing expense, office equipment contracts, annual
25 software maintenance contracts, meter reading equipment, vehicle operating expense,
26 power, fuel, Central Falls maintenance, etc, could all be easily more that estimated for the
27 rate year.

28
29 Another issue is the expenses expected for FY06 and CY07. The rate year ends with
30 December, 2006. The PWSB operates on the fiscal year. The rate year is based on ½ of
31 the expenses of FY05 and ½ of the expenses for FY06. However, the increase in the

1 expenses for the Fiscal Year 2006 continue through 2007 at the higher expense. The
2 PWSB will be required to file another rate increase to account for these expenses. The
3 treatment plant expense, in particular, will increase by approximately \$150,000
4 (depending on the CPI) for the operation fee for the new facilities over the amount
5 requested for CY06.

6

7 In 2004, the PWSB realized that the accounting staff was insufficient to provide the level
8 of expertise and management required to maintain the PWSB accounts, PUC, RI Water
9 Resources Board, EPA Grants, Clean Water Finance Agency accounts and the meet the
10 bonding indenture requirements. The reliance on outside consultants was not sufficient
11 to provide the accountability required. In order to hire a CFO for this absolutely critical
12 position, without any available funding, the PWSB was once again required to cut O&M
13 expense by eliminating the purchase of any equipment (vehicles, office machinery,
14 computers, new computers for T&D Supervisors and Crew Leaders, replacement of
15 meter reading equipment, etc.) unless absolutely required to replace failing items. Not
16 replacing vehicles will result in higher maintenance costs. Not providing computers to
17 the T&D staff, and postponing their training, again delays the institution of the
18 preventative maintenance programs I have described in my pre-filed testimony. Also,
19 training was eliminated. However, by eliminating training, more will be required in the
20 future rate year, as many employees require CEU's for licenses.

21

22 **Q: Does this conclude your rebuttal testimony?**

23 A: Yes. However, we have issued data requests to Cumberland and the Division, which
24 have not yet been answered. So, depending on those responses, I may have additional
25 supplemental rebuttal testimony.

26