

REBUTTAL TESTIMONY
of
JEANNE BONDAREVSKIS
before the
PUBLIC UTILITIES COMMISSION

FOR AN
ABBREVIATED RATE FILING
Docket 3684

for
PROVIDENCE WATER

October 28, 2005

**PROVIDENCE WATER SUPPLY BOARD
REBUTTAL TESTIMONY OF
JEANNE BONDAREVSKIS**

1 **Q. Please state your full name and title?**

2 A. Jeanne Bondarevskis, Director of Finance for the
3 Providence Water Supply Board (Providence Water).

5 **Q. Have you previously filed testimony in this Docket?**

6 A. Yes, I have.

8 **Q. What is the purpose of your rebuttal testimony?**

9 A. Providence Water has received and reviewed the testimony
10 of Mr. Tom Catlin for the Division and Mr. Christopher
11 Woodcock for the Kent County Water Authority. This
12 testimony will address 2 areas that I will fully explain
13 and clarify for the record.

15 **Q. Has Providence Water sought to obtain a settlement and
16 stipulation with the parties?**

17 A. Yes we have. Providence Water is very close on many of
18 the issues and is filing this testimony to address and/or
19 clarify our position on two issues.

21 **Q. What is the first issue?**

22 A. The first issue concerns the use of accumulated funds in
23 two restricted funds. I originally filed testimony, page
24 5 lines 12-16, which requested that any accumulated funds
25 in the Alternative Supply Study fund and the 102" Valve
26 fund be moved to the Insurance fund. Providence Water
27 would now like to modify this request.

28

29 Due to unforeseen, expected increases in chemical costs,
30 we would request that the projected accumulated funds of

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1 \$443,149 in the Alternative Supply Study fund be moved to
2 the Chemical Fund.

3
4 **Q. Why are you proposing this change?**

5 **A.** Providence Water has recently been informed by 2 chemical
6 suppliers that they will have to implement fuel
7 surcharges on the shipments they make to our Treatment
8 Plant. Please see the attached letters from LCI, Ltd and
9 Jones Chemicals. While the projected increase for
10 Flouride from LCI can be determined, we are not able to
11 project the total cost of these surcharges on the other
12 chemicals. It is therefore difficult to determine what
13 the exact impact will be at this time.

14
15 More importantly, Providence Water has recently learned
16 that our Ferric Sulfate supplier, Eaglebrook, can no
17 longer meet its contract obligations due to damages
18 sustained to its plant during Hurricane Katrina. Please
19 see attached letter dated October 16, 2005. Providence
20 Water has submitted an expedited request to the Board of
21 Contract and Supply to bid the contract on October 31,
22 2005 with proposals due back on November 14, 2005. We
23 have been told to expect an increase of at least 20%.
24 Unfortunately, this is one of our largest expenses, with
25 \$1,001,148 projected as the pro-forma expense. An
26 additional 20% would add over \$200,000 per year to our
27 Ferric Sulfate costs.

28
29 Additionally, when we received the direct testimony of

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1 Mr. Christopher Woodcock for the Kent County Water
2 Authority, he was concerned about the transfer of
3 restricted funds from the Alternate Supply fund to the
4 Insurance fund. The original allocations were different
5 and Mr. Woodcock felt that the Alternate Supply fund
6 transfer should be to the Chemical fund to coincide with
7 the original allocation factors.

8
9 Therefore, because we know that we will have chemical
10 cost increases due to the fuel surcharges and the
11 increased price of Ferric Sulfate, and to address the
12 allocation concern raised by Mr. Woodcock, Providence
13 Water is now requesting that the accumulated funds in the
14 Alternate Supply Study restricted fund be transferred as
15 a contingency to the restricted Chemical fund, to address
16 these increased costs. We have prepared revised
17 schedules, with assumptions, which show the affect this
18 change will have on the two restricted funds. Please see
19 Rebuttal Exhibit JB1, page 1 and page 2.

20
21 **Q. How will this change affect the restricted Insurance**
22 **fund? Do you have a revised request with respect to this**
23 **fund?**

24 **A.** Yes we do. The restricted Insurance fund needed all of
25 the money that was originally requested to be
26 transferred. Now that we propose to move some of the
27 money (about \$443,149) to the restricted Chemical fund,
28 this will leave the restricted Insurance fund short.

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1

2 **Q. What do you propose to do about this?**

3 A. Providence Water is proposing to leave only the \$444,236
4 contract balance in the restricted Wholesale Valve fund.
5 We propose to move the remainder, or \$702,905, to the
6 restricted Insurance fund. Please see the attached
7 revised Insurance projection, Rebuttal Exhibit JB1, page
8 3, which incorporates the adjustments agreed to by the
9 Division and KCWA, and reflects the revised transfer
10 amounts. The transfer will provide just enough funds to
11 cover Insurance in the near term. Depending on what
12 happens with actual insurance expenses, we may need
13 additional funding in the next few years.

14

15 **Q. But what about the "Contingency" that was needed to**
16 **complete the 102" valve project?**

17 A. I stated in my direct testimony that "any additional
18 efforts, beyond the contractual amount, will be included
19 in our Infrastructure program."¹ We are now proposing
20 that the valve project be moved to the Infrastructure
21 (IFR) fund sooner than originally planned. Once the
22 contract amount is exhausted, the project will then move
23 to IFR. If additional funds are needed, such as the
24 contingency funds, the restricted IFR fund will absorb
25 the expense. Please see Rebuttal Exhibit JB1, page 4.

26

27 **Q. Can the IFR fund absorb this?**

¹ See Bondarevskis direct testimony page 4, lines 6-8.

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1 A. Yes. As shown on Rebuttal Exhibit JB1, page 5, the IFR
2 fund can absorb the original contingency estimate of
3 \$400,000. We have prepared this sheet for the record to
4 ensure that the parties know that we do plan to finish
5 the project and that we have sufficient funds to do so.
6

7 **Q. Does this complete your testimony on the first issue?**

8 A. Yes.

9

10 **Q. What is the second issue you would like to address?**

11 A. The second issue concerns health coverage for Board
12 members. This was brought to light in data requests and
13 was addressed by the Division in their direct testimony.
14

15 **Q. Do you concur with the Division's position as set forth
16 by Mr. Catlin?**

17 A. Yes. I feel the Division presented a fair and reasonable
18 approach. Because our current Board members were
19 appointed with the understanding that health benefits
20 were available to them, I feel we are obligated to
21 continue those health benefits while they remain on the
22 Board. When the existing members are replaced and new
23 members are appointed, it will be with the understanding
24 that health benefits will not be provided by Providence
25 Water ratepayers.
26

27 **Q. Do you feel this is fair?**

28

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1 A. Yes I do. Our Board members are receiving the same
2 \$2,400 per year² compensation they did in 1984. They
3 have not had an increase in over 21 years that I am aware
4 of. The fact that they have received health benefits
5 over the years offsets this to some extent. New Board
6 members will be appointed knowing that health benefits
7 are not part of the compensation package. They can then
8 accept or deny the appointment with that knowledge. This
9 appears to be an equitable solution.

10

11 **Q. Does this conclude your testimony?**

12 A. Yes.

² Please note that the Chairman of the Board receives \$3,000 per year.

LCI, LTD

THE FLUORIDE SPECIALISTS



September 26, 2005

Mr. Joe Spremulli
Director of Support Services
552 Academy Avenue
Providence, RI 02908

Re: Price Increase Due To Fluorosilicic Acid Transportation Cost Increases

Dear Mr. Spremulli:

Due to substantial increases in fuel surcharges and the cost of transporting hazardous materials, we have no choice but to pass along a small portion of these increases to you, our customer.

When we quoted on your Fluorosilicic Acid business we had no idea that the fuel surcharges would increase at such a substantial rate. As of this week, we are being charged anywhere from 20% to 27% fuel surcharge by our commercial carriers and in addition we are being charged 13% - 14.4% this month by the railroad. We have already been informed by one of our railroads that we will pay 16.8% in October and may be paying up to 18.8% in November. These fuel surcharges are significantly higher than the fuel surcharges we were paying at the time we offered our pricing to the City.

LCI does not expect the City to bear the full burden of the increases in fuel surcharges we have incurred. We ask that you agree to pay a certain percentage each month based on your current sales price. Today and through the end of September we are requesting that the City agree to a 4% increase over our current quoted selling price to you. Each month the current percent of increase will be shown as a separate line item, Transportation Recovery Fee, on your invoice.

We value your business and hope that you will agree to our price increase request.

Please do not hesitate to give me a call using my toll-free number, 800.578.7891, Ext. 124, if you need any additional information.

Thank you,

A handwritten signature in cursive script that reads "Betty Kendall-Jones".

Betty Kendall-Jones
Vice President
Bids & Contracts



16 September 2005

City of Providence
Attn: Water Supply Board
552 Academy Avenue
Providence, RI 02908

Attn: Water Supply Board -

The purpose of this letter is to provide you information regarding a program JCI Jones Chemicals Inc. has implemented today, September 12th in response to the continually rising cost of fuel. As you can imagine, fuel costs have had a significant impact on our ability to cost effectively deliver product to our customers. As a result, JCI can no longer afford to continue to absorb these increases without passing them on in the form of a fuel surcharge to our valued customers. Please understand that this is not in any way intended to be a revenue generating venture for us but rather an effort to partially defray costs that are both real and extreme.

The fuel surcharge assessed to our customers, both non-contract and contract alike, where allowable, will be based on a combination of the U.S. National Average Diesel Fuel Index as published by the Department of Energy and the roundtrip mileage to your facility. JCI will closely monitor the index and revise the fuel surcharge rate on a weekly basis dependent on current fuel costs. Based on our research, it appears that most carriers throughout the United States are utilizing a base index of \$1.20/gallon or less whereas we will be basing our surcharge rate on an index of \$1.40/gallon. The difference between current fuel costs and the base index is used to determine the total surcharge and it should be understood that the greater the difference, the higher the surcharge.

Again, this program becomes effective today, Monday, September 12th and the surcharge assessed will be annotated on each invoice as a separate line item. This will vary from week to week consistent with fluctuating fuel costs. We sincerely apologize for the impact this will have on you, our valued customer but trust you will also understand our reasons for initiating this program.

Should you have any questions regarding this, please feel free to contact me at 1-800-364-2944.

Sincerely,

JCI JONES CHEMICALS INC.

A handwritten signature in cursive script that reads 'Ron Cunningham'.

RON CUNNINGHAM

Branch Manager

40 Railroad Avenue, P.O. Box 1089 • Merrimack, New Hampshire 03054 • telephone: 603.424.7212 • facsimile: 603.424.7343

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"Clean Water is Our Life"

October 16, 2005

David N. Cicilline, Chairman
City of Providence
Board of Contract and Supply
Purchasing Dept., City Hall, Room 305
Providence, RI 02903

Re: Contract to Supply Liquid Ferric Sulfate

Dear Mr. Cicilline:

As you are aware, Hurricane Katrina had a devastating effect on the lives and livelihood of many thousands of victims along the Louisiana, Mississippi and Alabama coasts. Regrettably, Eaglebrook was not spared from the devastation. Our Pearlington, MS plant was damaged to the point that it has still not reopened. This Plant is the sole facility owned by Eaglebrook that produces Ferric Sulfate.

As a result of this loss, Eaglebrook cannot supply the City of Providence, RI with Ferric Sulfate per the **Providence Construction and Service Terms**, item number 6:

Failure to deliver within the time quoted or failure to meet specifications may result in default action in accordance with the general specifications. It is agreed that deliveries and/or completion are subject to strikes, lockouts, accidents, and Acts of God.

Please consider this letter Eaglebrook's official declaration of Force Majeure. This declaration should be considered immediate and final.

Sincerely,

John Cowan
Ferric Sulfate Product Manager
Eaglebrook, Inc.

**Providence Water
Chemical/Sludge Restricted Fund
Sources and Uses of Funds
Projected FY 2006 - FY 2008**

Source of Funds	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
D3446 (effective 1/1/2003)	888,258	-	-
New Docket effective 1/1/06 proposed	1,053,624	2,107,247	2,107,247
Carryover funds from prior year estimated	451,098	540,306	228,421
Request PUC to Transfer funds from Alt Supply	<u>443,149</u>	<u>-</u>	<u>-</u>
Total Sources	2,836,129	2,647,553	2,335,668
Less obligated uses of funds			
Chemicals w 20% increase in Ferric	1,659,485	1,782,794	1,792,745
Calgon	36,338	36,338	36,338
Sludge Maintenance	550,000	550,000	500,000
Contingency for Fuel Surcharges or chemical cost increases	<u>50,000</u>	<u>50,000</u>	<u>-</u>
Total Uses	2,295,823	2,419,132	2,329,083
Total	<u>\$540,306</u>	<u>\$228,421</u>	<u>\$6,585</u>

Providence Water
Alt. Supply Restricted Fund
Sources and Uses of Funds
Projected FY 2006 - FY 2008

Source of Funds	<u>Fy 2006</u>	<u>Fy 2007</u>	<u>Fy 2008</u>
D3446 (effective 1/1/2003)	75,000	-	-
New Docket effective 1/1/06 proposed	-	-	-
Carryover funds from prior year estimated	368,149	-	-
Total Sources	443,149	-	-
Less obligated uses of funds			
Transfer to Chemical Fund	443,149	-	-
Total Uses	443,149	-	-
Total	\$0	\$0	\$0

**Providence Water
Insurance Restricted Fund
Sources and Uses of Funds
Projected FY 2006 - FY 2008**

Source of Funds	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
D3446 (effective 1/1/2003)	179,500	-	-
New Docket effective 1/1/06 proposed	888,722	1,777,444	1,777,444
Carryover funds from prior year estimated	58,301	94,176	51,982
Request PUC to Transfer funds from Wholesale Valve Fund	<u>702,905</u>	<u>-</u>	<u>-</u>
Total Sources	1,829,428	1,871,620	1,829,426
Less obligated uses of funds			
Property & Casualty	1,237,535	1,321,921	1,454,113
Workers Compensation	404,039	404,039	444,443
Old Worker's Comp Claims	50,000	50,000	50,000
Injuries & Damages	25,519	25,519	25,519
Safety Supplies & Other	16,140	16,140	25,000
Program Expens	<u>2,019</u>	<u>2,019</u>	<u>3,000</u>
Total Uses	1,735,252	1,819,638	2,002,075
Total	<u>\$94,176</u>	<u>\$51,982</u>	<u>(\$172,649)</u>

**Providence Water
Wholesale Valve Restricted Fund
Sources and Uses of Funds
Projected FY 2006 - FY 2008**

	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
Source of Funds			
D3446 (effective 1/1/2003)	\$250,000	-	-
New Docket effective 1/1/06 proposed	-	-	-
Carryover funds from prior year estimated	897,141	-	-
	<u>1,147,141</u>	<u>-</u>	<u>-</u>
Total Sources			
	<u>1,147,141</u>	<u>-</u>	<u>-</u>
Less obligated uses of funds			
Balance of contract	444,236	-	-
Contingency for line stop, overruns, etc. (moved to IFR)	-	-	-
Transfer to Insurance Fund	702,905	-	-
	<u>1,147,141</u>	<u>-</u>	<u>-</u>
Total Uses			
	<u>1,147,141</u>	<u>-</u>	<u>-</u>
Total	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>

Providence Water
Infrastructure Replacement Restricted Fund
Sources and Uses of Funds
Projected FY 2006 - FY 2008

Source of Funds	<u>FY 2006</u>	<u>FY 2007</u>	<u>FY 2008</u>
D3446 (effective 1/1/2003)	6,250,000	-	-
New Docket effective 1/1/06 proposed	6,250,000	12,500,000	12,500,000
Carryover funds from prior year estimated	10,268,254	7,099,325	689,826
Total Sources	22,768,254	19,599,325	13,189,826
Less obligated uses of funds:			
RICWFA Debt (1994 \$12M) (P)	723,000	740,000	756,000
RICWFA (various projects) (I)	198,968	195,990	178,668
RICWFA Debt (2001 \$5M) (P)	1,022,799	1,046,676	-
RICWFA (90" Transmission) (I)	44,162	14,833	-
Sub-total Debt Service	1,988,929	1,997,499	934,668
Cash Funded Projects	13,280,000	16,912,000	11,762,000
Contingency for Wholesale Valve Project	400,000	-	-
Total Uses	15,668,929	18,909,499	12,696,668
Total	\$7,099,325	\$689,826	\$493,158