

**REBUTTAL TESTIMONY OF
WALTER E. EDGE Jr. MBA CPA, PRESIDENT
B&E CONSULTING LLC**

**for
PROVIDENCE WATER SUPPLY BOARD**

**ABBREVIATED FILING
DOCKET # 3684**

OCTOBER 2005

1 **Providence Water Supply Board**

2
3 PRE-FILED REBUTTAL TESTIMONY
4 OF WALTER E. EDGE Jr. MBA, CPA
5

6 **Q. Good morning Mr. Edge. Are you the same Walter E Edge who has previously**
7 **filed direct testimony in this Docket?**

8 A. Yes.
9

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

11 A. My rebuttal testimony will provide the Commission with current information
12 regarding issues in this Docket that has recently become available and that is not yet on
13 the record. I will also explain my understanding of agreements by the parties on the
14 issues in this Docket. I expect that a final stipulation on all items (which has not been
15 drafted at this time) will be reached and filed with the Commission on or before
16 November 10th.
17

18 **Q. Mr. Edge did you read Mr. Catlin and Mr. Woodcock's testimonies?**

19 A. Yes I have.
20

21 **Q. What comments do you have relating to the issues raised in each of their**
22 **testimonies?**

23 A. Mr. Woodcock raised many of the same issues that were raised by Mr. Catlin and I
24 will address those issues at the same time. In addition, however, he raised a few issues
25 relating to the restricted accounts. Ms. Bondarevskis has submitted rebuttal testimony
26 that addresses Mr. Woodcock's concerns.
27

28 Many of Mr. Catlin's adjustments are acceptable to Providence Water as follows:

- | | | |
|----|-----------------------------------|--|
| 29 | 1. Capitalized Labor and Benefits | \$777,009 a reduction in revenue requirement |
| 30 | 2. Chemical cost | 37,533 an increase in revenue requirement |
| 31 | 3. Insurance update | 221,656 a reduction in revenue requirement |
| 32 | 4. Property tax update | 99,799 a reduction in revenue requirement |

1 **Q. Which of Mr. Catlin's adjustments do you disagree with?**

2 A. First, Providence Water made a salary adjustment of \$254,626 to provide a rate year
3 revenue requirement for salaries to cover full employment at the level approved by the
4 PUC in Providence Water's last rate filing. Mr. Catlin reversed the adjustment because
5 his review of the average number of employees over the past few years showed that there
6 was a built in savings as a result of employee turnover.

7
8 Providence Water was able to provide updated information to Mr. Catlin and the Division
9 that showed that in September and October 2005 Providence Water filled eight positions
10 (four each month) and now vacant positions (with the exception of the Chief Engineer)
11 are filled. Providence Water explained that over the course of the rate year they expected
12 to have staffing equal, on average, to the full amount authorized in the last Docket.

13
14 Mr. Catlin persisted that there would be some turnover savings and offered as a
15 compromise to reduce his adjustment in half, allowing Providence Water one half of its
16 original rate year adjustment. To reach settlement on the issue, Providence Water
17 accepted Mr. Catlin's proposal and therefore the agreed upon adjustment for employee
18 vacancies is \$127,313.

19
20 **Q. What is the next item that was negotiated?**

21 A. Mr. Catlin made two adjustments he called variable adjustments for electricity and
22 chemicals. These two adjustments were the result of Providence Water's reduction in
23 wholesale sales to Bristol County. Mr. Catlin explained that a reduction in sales
24 normally results in a reduction in electric usage and chemicals. Providence Water agreed
25 in principle with Mr. Catlin's observation, but felt that additional information was
26 available that would more than off-set these two adjustments.

27
28 First Mr. Catlin's electricity adjustment was made using the total electric cost (less
29 administration) projected for the rate year. Providence Water pointed out in negotiations
30 that all of the water that goes to Bristol County is gravity fed and therefore there are no
31 pumping costs involved in serving Bristol County Water, only treatment electric costs.

1 Mr. Catlin then agreed that the electric cost of pumping should be eliminated from his
2 variable electric adjustment calculation. After removing all of the electric costs that are
3 not related to providing water to Bristol County, the electricity adjustment became too
4 minor to bother with. Mr. Catlin withdrew his adjustment.

5
6 Mr. Catlin also withdrew his variable chemical adjustment. Although Providence Water
7 provided a number of reasons as to why the relationship of water production and
8 chemicals usage is not linear, the major reasons why Mr. Catlin withdrew his variable
9 chemical adjustment are: 1) that Providence Water had received fuel surcharges
10 (increases) from its chemical suppliers to reflect the dramatically increased cost of fuel
11 for transport; 2) the fact that the chemical account is a restricted account and not available
12 for general operational expense; and 3) Providence Water provided documentation
13 showing that its ferric sulfate supplier had lost its production plant on the Gulf Coast to
14 Hurricane Katrina and they would not be able to comply with their ferric sulfate contract.
15 The ferric sulfate contract must now be re-bid on an expedited basis. The supplier
16 estimated that the cost of ferric sulfate on re-bid will be at least 20% higher than their
17 original contracted amount. Since ferric sulfate costs Providence Water over a million
18 dollars a year, this is a \$200,000 plus issue.

19
20 Providence Water and Mr. Catlin agreed to address these chemical issues by not making
21 his proposed variable chemical adjustment and by rearranging the allocation of certain
22 restricted dollars. See Ms. Bondarevskis' rebuttal testimony for more details regarding
23 the restricted accounts.

24
25 **Q. Is there an issue regarding purchase power costs?**

26 A. Yes. In my prefiled direct testimony I calculated a fairly large increase in electric
27 costs for the interim year FYE June 30, 2005. To be conservative and not to overstate
28 the electric cost for the rate year, I did not make an adjustment for FYE June 30, 2006 or
29 the second half of the rate year July 2006 – December 2006. I stated at that time that I
30 would adjust this account later in the proceedings if needed when I knew more about how
31 electric costs had changed (increased, decreased or stayed about the same).

1 After reading Mr. Catlin's testimony I reviewed the current and projected increases in
2 electric costs for the rate year. I felt based upon my review that it was necessary to make
3 an additional adjustment to increase rate year electric costs. To make the calculation I
4 reviewed a number of information sources.

5
6 First, I reviewed Providence Water's electric billing history for the treatment plant to
7 determine the monthly KWH for the last twelve months available (November 2004
8 through October 2005). I then reviewed the National Grid web site to get their projected
9 rates for electricity through February 2006. I calculated that the KWH projected increase
10 was 28%. I then applied that percentage to all consumption to calculate the total electric
11 cost.

12
13 When I calculated the electric cost for CYE December 31, 2006 using the actual
14 consumption for the last twelve months times the 28% increase projected in usage rates, I
15 calculated that the overall increase in electric costs for the rate year will be 19% greater
16 than the my projection for FYE June 30, 2005.

17
18 Providence Water provided the calculations to Mr. Catlin and after thorough review he
19 agreed to the Providence Water adjustment. Therefore, the adjustment for the rate year
20 purchase power cost is an increase in revenue requirement of \$149,659 (See Schedule
21 WEE-Rebuttal-2).

22
23 **Q. Is there an issue regarding revenues?**

24 A. Yes. When Ms. Bondarevskis reviewed Mr. Catlin's revenue adjustment she noted
25 an error in the adjustment for Bristol County consumption. After investigating the error,
26 I determined that it was my error that Mr. Catlin had simply followed in making his
27 adjustment. The error was in my conversion of HCF to million gallons. Providence
28 Water's wholesale rate is per million gallons, but consumption is measured in HCF, so a
29 conversion is necessary.

1 Although I started with the correct consumption of 1,942,031 HCF for Bristol County in
2 the test year, I converted that HCF quantity to 1,446.8 million gallons. The problem was
3 that when I carried the conversion amount of million gallons over to my schedule I made
4 a clerical error and used 1,146.8 million gallons (300 million gallons less than I had
5 calculated). Clearly this error made my adjustment calculation incorrect, and Mr.
6 Catlin's adjustment incorrect because he followed my lead. When I brought the error to
7 the Division's attention they agreed to correct the error.

8
9 The second change that was made to the revenue adjustment, at Mr. Catlin's request, was
10 to use a four year average consumption (including FY 2005) rather than the test year (FY
11 2004) consumption level. Providence Water agreed that it was appropriate in this filing.

12
13 The net revenue adjustment is a reduction of rate year revenue of \$161,817.

14
15 **Q. Mr. Edge what are the results of all these agreed upon adjustments to your**
16 **original requested rate year revenue requirement?**

17 A. I have prepared Schedule WEE-Rebuttal-1 which shows that the original revenue
18 requirement increase request per my direct testimony was \$4,957,116 which has been
19 reduced by \$892,348 to arrive at a new rate year revenue requirement increase request of
20 \$4,064,768. The adjustments on Schedule WEE-Rebuttal-1 include the agreed upon
21 adjustments from Mr. Catlin's direct testimony (as noted on page one of this testimony)
22 and the negotiated adjustments discussed throughout this testimony.

23
24 I believe that a stipulation to a revenue increase of \$4,064,768 is in process. It is my
25 intention to have attached to that stipulation all the necessary schedules to show the
26 calculation of the rate increase percentage, the calculation of new rates, ratepayer impact,
27 etc., which will be prepared by Mr. Catlin.

28
29 **Q. Does that conclude your rebuttal testimony?**

30 A. Yes.

SUMMARY OF ADJUSTMENTS
PROVIDENCE WATER

Schedule WEE-Rebuttal-1

<u>Description</u>	<u>Amount</u>
Water and Fire Service Revenue	\$ (161,817)
Total Revenue Adjustments	<u>\$ (161,817)</u>
Employee Vacancies	\$ (127,313)
Capitalized Labor	(518,006)
Capitalized Benefits	(259,003)
Chemical Cost Update	37,533
Variable Electric Costs	-
Variable Chemical Costs	-
Insurance Update	(221,656)
Property Tax Expense	(99,799)
Electricity Cost Update	149,659
Operating Reserve	(15,579)
Total Expense Adjustments	<u>\$ (1,054,164)</u>
Total Revenue Requirement Effect of Adjustments at Present Rates	<u>\$ (892,348)</u>
Total Revenue Requirement Originally Filed	\$ 4,957,116
Adjustments at Present Rates	<u>(892,348)</u>
Adjusted Revenue Requirement	<u>\$ 4,064,768</u>

**PURCHASE POWER EXPENSE
PROVIDENCE WATER**

Schedule WEE-Rebuttal-2

	FY02	FY03	FY04	FY05	PRO-FORMA Originally Filed	PRO-FORMA per compliance *	Compliance ADJUSTMENT
61510	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ -
61523	452,235	441,041	475,707	568,227	569,700	676,190	106,490
61530	100,100	104,036	127,781	145,680	151,753	173,359	21,606
61550	3,192	3,305	7,643	8,406	8,820	10,003	1,183
61580	48,172	44,665	79,129	103,302	102,549	122,929	20,380
	<u>\$ 603,699</u>	<u>\$ 593,047</u>	<u>\$ 690,264</u>	<u>\$ 825,615</u>	<u>\$ 832,822</u>	<u>\$ 982,482</u>	<u>149,659</u>

	FY 02	FY 03	FY 04	FY 05
61523				
Activity				
Electric	452,235	441,041	475,707	568,227
61530				
Activity				
Electric	100,100	104,036	127,781	145,680
61550				
Activity				
Electric	3,192	3,305	7,643	8,405
61580				
Activity				
Electric	48,172	43,206	61,263	73,373
Gas	-	1,459	17,722	29,929
Inventory Control	-	-	144	-
	<u>48,172</u>	<u>44,665</u>	<u>79,129</u>	<u>103,302</u>
Combined Narrucs by Activity				
Electric	603,699	591,588	672,394	795,685
Gas	-	1,459	17,722	29,929
Inventory Control	-	-	144	-
	<u>603,699</u>	<u>593,047</u>	<u>690,260</u>	<u>825,614</u>

* Proforma amount calculated by increasing FY05 by 19%.
The usage of 19% is further explained in Mr. Edge's Compliance Testimony.