

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

**THE NARRAGANSETT            )  
BAY COMMISSION            )**           **DOCKET NO. 3797**

**DIRECT TESTIMONY  
OF  
THOMAS S. CATLIN**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MARCH 2007**

---

**EXETER**

ASSOCIATES, INC.  
5565 Sterrett Place  
Suite 310  
Columbia, Maryland 21044

## TABLE OF CONTENTS

	PAGE
Introduction.....	1
Summary and Recommendations .....	4
User Fee Revenue .....	5
Health Benefit Costs .....	8
Retiree Health Insurance.....	11
Biosolids Disposal Costs .....	11
Bad Debt Expense.....	12
Maintenance and Service Agreement Costs .....	13
Regulatory Expense .....	14
Bucklin Point Management Contract.....	15
Special Master Funds Utilization.....	16
O&M Reserve Fund.....	17
Rate Design.....	18

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND

THE NARRAGANSETT            )           DOCKET NO. 3797  
BAY COMMISSION            )

Direct Testimony of Thomas S. Catlin

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17

**Introduction**

Q.           WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A.           My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q.           PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A.           I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q.           WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A.           From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility construction projects. I also served as project engineer for two utility valuation studies.

1           From June 1977 until September 1981, I was employed by Camp Dresser &  
2 McKee, Inc. Prior to transferring to the Management Consulting Division of CDM in  
3 April 1978, I was involved in both project administration and design. My project  
4 administration responsibilities included budget preparation and labor and cost monitoring  
5 and forecasting. As a member of CDM's Management Consulting Division, I performed  
6 cost of service, rate, and financial studies on approximately 15 municipal and private  
7 water, wastewater and storm drainage utilities. These projects included: determining  
8 total costs of service; developing capital asset and depreciation bases; preparing cost  
9 allocation studies; evaluating alternative rate structures and designing rates; preparing bill  
10 analyses; developing cost and revenue projections; and preparing rate filings and expert  
11 testimony.

12           In September 1981, I accepted a position as a utility rates analyst with Exeter  
13 Associates, Inc. I became a principal and vice-president of the firm in 1984. Since  
14 joining Exeter, I have continued to be involved in the analysis of the operations of public  
15 utilities, with particular emphasis on utility rate regulation. I have been extensively  
16 involved in the review and analysis of utility rate filings, as well as other types of  
17 proceedings before state and federal regulatory authorities. My work in utility rate filings  
18 has focused on revenue requirements issues, but has also addressed service cost and rate  
19 design matters. I have also been involved in analyzing affiliate relations, alternative  
20 regulatory mechanisms, and regulatory restructuring issues. This experience has  
21 involved electric, natural gas transmission and distribution, and telephone utilities, as  
22 well as water and wastewater companies.

23 Q.           HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY  
24           PROCEEDINGS ON UTILITY RATES?

1 A. Yes. I have previously presented testimony on more than 200 occasions before the  
2 Federal Energy Regulatory Commission and the public utility commissions of Arizona,  
3 California, Colorado, Delaware, the District of Columbia, Florida, Idaho, Illinois,  
4 Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New Jersey, Ohio,  
5 Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as before this  
6 Commission. I have also filed rate case evidence by affidavit with the Connecticut  
7 Department of Public Utility Control.

8 Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

9 A. Yes. I am a member of the American Water Works Association (AWWA) and the  
10 Chesapeake Section of the AWWA. I serve on the AWWA's Rates and Charges  
11 Committee and the AWWA Water Utility Council's Technical Advisory Group on  
12 Economics.

13 Q. ON WHOSE BEHALF ARE YOU APPEARING?

14 A. I am presenting testimony on behalf of the Division of Public Utilities and Carriers (the  
15 Division).

16 Q. DO YOU HAVE PREVIOUS EXPERIENCE IN MATTERS INVOLVING THE  
17 NARRAGANSETT BAY COMMISSION?

18 A. Yes, I presented testimony on behalf of the Division in the Narragansett Bay  
19 Commission's (NBC's) general rate case in Docket No. 3162, its abbreviated rate  
20 proceeding in Docket No. 3409, in the Commission's examination of issues related to the  
21 implementation of a CSO abatement fee or stormwater fee by NBC in Docket No. 3432,  
22 NBC's last general rate case in Docket No. 3483, its abbreviated rate filing in Docket No.  
23 3592, its compliance filing on Docket No. 3639, its abbreviated rate filing in Docket No.  
24 3707 and its compliance rate filing in docket No. 3775.

1 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

2 A. Exeter Associates was retained by the Division to assist it in the evaluation of the General  
3 Rate Filing submitted by NBC on December 1, 2006. This testimony presents my  
4 findings and recommendations both with regard to the overall revenue increase to which  
5 NBC is entitled and with regard to the design of rates to recover those additional  
6 revenues.

7 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR  
8 TESTIMONY?

9 A. Yes. I have prepared Schedules TSC-1 through TSC-13. Schedule TSC-1 provides a  
10 summary of revenues and expenses under present and proposed rates. Schedules TSC-2  
11 through TSC-11 present my adjustments to NBC's claimed revenues and operating  
12 expenses. Schedules TSC-12 and TSC-13 set forth my findings and recommendations  
13 with regard to rate design.

14

15 **Summary and Recommendations**

16 Q. PLEASE SUMMARIZE THE RATE RELIEF REQUESTED BY NBC IN ITS  
17 FILING.

18 A. As discussed in the testimony of NBC witness Walter E. Edge, NBC's filing seeks an  
19 increase in revenues of \$4,798,797, which represents an overall revenue increase of 7.09  
20 percent.<sup>1</sup> To develop its claim, NBC utilized the results for fiscal year (FY) 2006 as the  
21 test year. NBC then adjusted the test year cost of service to reflect changes to become  
22 effective for a FY 2008 rate year.

---

<sup>1</sup> Schedule WEE-4 accompanying Mr. Edge's testimony identifies the revenue deficiency as \$4,582,961. This amount is based on revenues at present rates and historical billing units. The \$4,798,797 revenue deficiency cited on page 4 of Mr. Edge's testimony is based on current units of service and "Prior Docket Weighted Rates" as shown on Schedule WEE-15. I will address this issue in more detail subsequently in my testimony.

---

1 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

2 A. As shown on Schedule TSC-1, I have determined the NBC's overall revenue requirement  
3 to be \$71,557,311. This represents an increase over revenues at present rates of  
4 \$3,005,858. The revenue increase that I have identified is \$1,792,939 less than the  
5 revenue increase of \$4,798,797 requested by NBC based on current units of service and  
6 "Prior Docket Weighted Rates." This difference is the result of the adjustments to NBC's  
7 claimed revenues and operating expenses that are summarized on Schedule TSC-2.

8 With regard to the development of rates to recover the NBC's overall cost of  
9 service, I am accepting NBC's proposal that existing rates other than septage charges,  
10 BOD/TSS surcharges, connection permit fees and pretreatment (discharge) permit fees be  
11 increased on an across-the-board uniform percentage basis.

12 Q. WHAT TIME PERIODS HAVE YOU UTILIZED IN MAKING YOUR  
13 DETERMINATION OF NBC'S REVENUE REQUIREMENTS?

14 A. Consistent with NBC's filing, I have utilized a test year ended June 30, 2006 and a rate  
15 year ending June 30, 2008 as the basis for determining NBC's revenue requirements and  
16 the revenue increase necessary to recover those requirements.

17 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

18 A. The remainder of my testimony is organized into sections corresponding to the issue or  
19 topic being addressed. These sections are set forth in the Table of Contents for this  
20 testimony.

21

22

**User Fee Revenue**

23 Q. PLEASE EXPLAIN HOW MR. EDGE CALCULATED USER FEE  
24 REVENUES AT PRESENT RATES.

1 A. Mr. Edge utilized two different calculations of user fee revenues at present rates. In  
2 developing the revenues at present rates included in the adjusted test year and rate year  
3 income summary presented on Schedule WEE-4, Mr. Edge began with audited test year  
4 2006 user fee revenues. He then adjusted those revenues to match the user fee revenues  
5 approved in Docket Nos. 3707 and 3775. This has the effect of stating revenues at  
6 present rates at the test year 2002 billing determinants first adopted in NBC's last general  
7 rate case in Docket No. 3483. (This is due to the fact that all rate adjustments since that  
8 case, including those in Docket Nos. 3707 and 3775 have been made in compliance or  
9 abbreviated rate filings in which user fee revenues have not been restated to reflect more  
10 recent billing determinants.)

11 Q. WHAT IS THE SECOND WAY IN WHICH MR. EDGE HAS CALCULATED  
12 REVENUES AT PRESENT RATES?

13 A. For purposes of calculating the increase in revenues requested in this proceeding, Mr.  
14 Edge calculated revenues at present rates based on current units of service and what are  
15 referred to as "Prior Docket Weighted Rates." This calculation is shown on Schedule  
16 WEE-15.

17 Q. ARE PRIOR DOCKET WEIGHTED RATES EQUAL TO THE  
18 CONSUMPTION RATES APPROVED BY THE COMMISSION IN EITHER  
19 DOCKET NO. 3707 OR DOCKET NO. 3775?

20 A. No. Prior Docket Weighted rates are not the PUC approved rates applicable to  
21 consumption from any prior docket. Instead, they are composite rates calculated by NBC  
22 that are intended to account for the fact that NBC bills for consumption in arrears.  
23 Because consumption is billed in arrears, Mr. Edge notes that the revenues that NBC  
24 collects during the rate year will include consumption charges that were billed at rates

1 that are less than the rates that were approved to take effect on July 1, 2007 in Docket No.  
2 3775.

3 Q. HAS MR. EDGE CALCULATED THE RATES THAT NBC HAS PROPOSED  
4 IN THIS DOCKET BY MULTIPLYING THOSE RATES BY THE CURRENT  
5 UNITS OF SERVICE TO DETERMINE THE REVENUE THAT WILL BE  
6 GENERATED?

7 A. No. Mr. Edge has calculated the consumption revenues that will result from the rates  
8 proposed in this docket by increasing the Prior Docket Weighted Rates by the overall  
9 percentage increase proposed by NBC. Hence, revenues at proposed rates do not reflect  
10 the full annual effect of the rates that NBC has requested in this proceeding.

11 Q. DO YOU AGREE WITH EITHER OF MR. EDGE'S APPROACHES TO  
12 DETERMINING REVENUE?

13 A. No. Revenues in this proceeding should be based on current units of service and should  
14 reflect the full annual effect of the rates that will be in effect during the rate year. At  
15 present rates, revenues should be calculated utilizing the rates authorized in Docket No.  
16 3775. At proposed rates, revenues should reflect the full annual effect of the rates  
17 approved in this docket.

18 By utilizing Prior Docket Weighted Rates, Mr. Edge has understated the revenues  
19 that the tariff rates will produce on an ongoing basis. That is, Mr. Edge has utilized an  
20 estimate of the revenues that will be collected in the first 12 months the rates will be in  
21 effect, not the revenues that will be billed during the rate year.

22 Mr. Edge indicates that the use of the revenues to be collected rather than billed is  
23 necessary to avoid a built-in revenue shortfall. However, this ignores two important  
24 factors. First, rate year costs have been adjusted to reflect increases in expenses not all of

1 which take effect on the first day of the rate year. Second, to the extent that rates are in  
2 effect for more than 12 months, the rates developed under Mr. Edge's method will  
3 produce revenues in excess of those approved in this docket.

4 Q. HAVE YOU ADJUSTED USER FEE REVENUES TO REFLECT CURRENT  
5 CONSUMPTION AND THE RATES APPROVED BY THE PUC?

6 A. Yes. As shown on Schedule TSC-3, I have adjusted user fee revenue at present rates to  
7 reflect the application of the rates approved in Docket No. 3775 to current units of  
8 service. This is the amount of revenue that NBC can expect to bill during the rate year at  
9 the rates that will be in effect prior to any rate increase in this proceeding and, as such,  
10 represents the appropriate basis for determining the additional revenues that should be  
11 allowed in this proceeding. As shown on Schedule TSC-3, this adjustment increases  
12 revenue at present rates by \$641,537 compared to the revenues recognized on NBC's  
13 Summary of Income at present rates as shown on Mr. Edge's Schedule WEE-4.  
14 Compared to the revenues calculated based on Prior Docket Weighted Rates that Mr.  
15 Edge used to determine the required revenue increase in this proceeding, my adjustment  
16 to recognize the actual rates approved in Docket No. 3775 represents an increase of  
17 \$857,374.

18  
19 **Health Benefit Costs**

20 Q. HOW DID NBC DEVELOP ITS PROJECT OF RATE YEAR HEALTH  
21 BENEFITS COSTS?

22 A. NBC projected health benefits costs by increasing health insurance premiums to  
23 projected FY 2008 rate year levels and then multiplying by the average level of

1 employees. Employee co-payments were then netted out to determine the net expense to  
2 be included in rates.

3 Q. ARE YOU PROPOSING TO MAKE ANY CHANGES TO THE HEALTH  
4 INSURANCE PREMIUMS UTILIZED BY NBC?

5 A. Yes. In his testimony, Mr. Edge explained that rate year health insurance premiums were  
6 developed by first increasing FY 2007 premiums to FY 2008 levels based on the average  
7 annual percentage increases in the prior two years and, then, adjusting to recognize the  
8 savings expected to result from plan design changes. However, in response to Division  
9 Data Request Set I, item 22 (Div I-22), NBC indicated that the percentage increases from  
10 FY 2005 to FY 2006 had been incorrectly calculated utilizing FY 2004 premiums as the  
11 starting point instead of FY 2005 premiums. Accordingly, I have revised that calculation  
12 of health insurance costs to reflect the revised PPO and HMO premiums provided in  
13 response to Div I-22.

14 With regard to dental premiums, the FY 2008 rates presented in response to  
15 Div I-22 were not calculated based on the average percentage increase in the prior two  
16 years. Instead, the premiums were increased to the maximum level allowed under NBC's  
17 contract with Blue Cross Dental. However, the FY 2007 premiums were less than the  
18 maximum contract rates, indicating that FY 2008 rates need not increase to the  
19 maximum. Therefore, I have based the FY 2008 dental premiums on the FY 2007 rates  
20 adjusted to reflect the two-year average percentage increase, the same procedure utilized  
21 to project all other health insurance premiums.

22 Q. HAS NBC IDENTIFIED ANY OTHER PROPOSED CHANGES TO RATE  
23 YEAR HEALTH PREMIUM COSTS?

1 A. Yes. In its initial filing, NBC estimated the rate year level of co-payments made by  
2 employees by adjusting the FY 2007 co-payments to reflect an increase in the percentage  
3 of wages that employees must contribute. In response to Div I-23, NBC indicated that  
4 this calculation failed to account for the six percent (6%) cap on the percentage of the  
5 total premium that the employee is required to pay. In response to Div I-23, NBC  
6 indicated that the level of co-payments should be reduced based on an employee-by-  
7 employee calculation with the FY 2008 cap of six percent.

8 Q. DO YOU AGREE WITH NBC'S REVISED LEVEL OF CO-PAYMENTS?

9 A. No. While the six percent cap is a contractual limit for bargaining unit employees, the  
10 same limitation does not apply to management employees. Based on my experience  
11 elsewhere, it is not unusual for employers to require employees to bear much more than  
12 six percent of their health insurance premiums in today's environment of rapidly rising  
13 medical insurance premiums. Accordingly, I am proposing to recognize a level of rate  
14 year employee co-payments that does not reflect a six percent cap for non-bargaining unit  
15 employees. This increases the rate year level of co-payments for these employees from  
16 \$76,786 to \$123,303.

17 Q. ARE YOU PROPOSING ANY OTHER ADJUSTMENTS TO HEALTH  
18 BENEFIT COSTS?

19 A. Yes. In its filing, NBC did not make any adjustment to the test year level of vision  
20 insurance premiums. In developing rate year health benefit costs, I have updated the  
21 vision insurance expense to reflect the reduction in premiums that has taken place since  
22 the 2006 test year.

23 Q. HAVE YOU PREPARED A SCHEDULE THAT PRESENTS YOUR REVISED  
24 PROJECTION OF RATE YEAR HEALTH INSURANCE PREMIUMS?

1 A. Yes. Schedule TSC-4 presents my estimate of the cost of health insurance to be  
2 recovered in rates. As shown there, I have calculated the cost of premiums to be  
3 \$3,081,767. After deducting employee co-payments of \$192,396, the net expense is  
4 \$2,889,371. This represents a reduction of \$94,557 compared to NBC's filed claim.  
5

6 **Retiree Health Insurance**

7 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE  
8 ALLOWANCE FOR RETIREE HEALTH INSURANCE?

9 A. In its filing, NBC included an allowance for retiree health insurance equal to 8.57 percent  
10 of union salaries. This allowance was based on information provided by the Budget  
11 Office of the State of Rhode Island in October 2006. The Budget Office indicated that  
12 8.57 percent was the proposed contribution rate for FY 2008 in order to begin to reduce  
13 the unfunded liability for other post employee benefits (OPEBs) for state employees.  
14 However, in the more recent proposed budget for the State of Rhode Island for FY 2008,  
15 a contribution rate of 3.63 percent has been included. Therefore, I have reduced the  
16 allowance for retiree health insurance to reflect the rate included in the proposed budget.  
17 As shown on Schedule TSC-5, this adjustment reduces retiree health insurance expense  
18 by \$239,205. To the extent that the contribution rate is revised prior to the close of the  
19 record in this proceeding, it would be reasonable to reflect that change.  
20

21 **Biosolids Disposal Costs**

22 Q. PLEASE SUMMARIZE HOW NBC PROJECTED RATE YEAR BIOSOLIDS  
23 DISPOSAL COSTS.

24 A. In its filing, NBC based its projection of rate year biosolids disposal costs on estimates of  
25 the contract rates that would be in effect for the periods July through December 2007 and

1 January through June 2008. These estimated rates were based on a projection of the CPI  
2 at November 2006 and an assumed annual increase in the CPI of 3.5 percent from  
3 November 2006 to November 2007. (The biosolids disposal rate for each calendar year  
4 is indexed to the CPI as of November of the prior year.) These rates were then applied to  
5 historical average sludge volumes to derive the projected rate year costs.

6 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO NBC'S  
7 PROJECTION?

8 A. I am proposing to adjust the rate year level of biosolids disposal costs to reflect the actual  
9 contract disposal rate for July through December 2007 that became final after NBC  
10 prepared its filing. For the period January through June 2008, I have utilized the updated  
11 projection of the contract rate provided by NBC in response to Div II-3.

12 Q. HAVE YOU PREPARED A SCHEDULE THAT SHOWS THE  
13 CALCULATION OF YOUR ADJUSTMENT TO REFLECT THE UPDATED  
14 DISPOSAL RATES?

15 A. Yes. Schedule TSC-6 presents my adjustment to biosolids disposal costs. As indicated  
16 there, recognizing the actual rate for June through December 2007 and the updated  
17 projection of the rate for January through June 2008 reduces biosolids disposal costs by  
18 \$46,495 compared to the expense included in NBC's filing.

19  
20 **Bad Debt Expense**

21 Q. WHAT CLAIM HAS NBC MADE FOR BAD DEBT EXPENSE?

22 A. NBC has included an allowance for bad debt expense of \$160,000. This is the same  
23 amount of bad debt expense that was approved in Docket No. 3483 in which the fiscal  
24 year (FY) ended June 30, 2002 was the test year.

1 Q. IS THIS LEVEL OF BAD DEBT EXPENSE CONSISTENT WITH NBC'S  
2 RECENT EXPERIENCE?

3 A. No. As noted by Mr. Edge in discussing late payment charge levels, NBC has undertaken  
4 effective efforts that have improved collections and reduced late payment charges as a  
5 percent of revenue. Those same efforts have also reduced the amount of bad debt that  
6 NBC has written off in recent years.

7 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO THE  
8 ALLOWANCE FOR BAD DEBT?

9 A. In FY 2005 and FY 2006, net bad debt write offs were \$77,014 and \$29,633,  
10 respectively. The audited levels of uncollectible expense for those same two years were  
11 \$110,701 and (\$3,711), respectively. Based this experience, I am proposing to set the  
12 allowance for bad debt expense at \$60,000 (somewhat above the two-year average). This  
13 represents a reduction of \$100,000 in NBC's claimed rate year expense, as shown on  
14 Schedule TSC-7.

15

16 **Maintenance and Service Agreement Costs**

17 Q. HOW DID NBC DEVELOP ITS CLAIM FOR THE COST OF  
18 MAINTENANCE AND SERVICE (M&S) AGREEMENTS FOR THE RATE  
19 YEAR?

20 A. NBC first adjusted FY 2006 test year costs to reflect actual increases and decreases in  
21 existing M&S contracts as well as new contracts for FY 2007. NBC then applied a 20  
22 percent inflation factor to escalate FY 2007 costs to projected FY 2008 rate year levels.

23 Q. WHAT REVISIONS ARE YOU PROPOSING TO MAKE TO NBC'S CLAIM?

1 A. I am proposing to revise the allowance for M&S agreements for the rate year to reflect  
2 several adjustments. First, I have adjusted the FY 2007 contract costs to exclude \$15,202  
3 for a contract with Mythics, Inc. that was also included as part of NBC's Oracle system  
4 costs. Second, I have reduced the FY 2007 cost for a new contract with JSB-Surf Control  
5 to recognize that the \$11,244 included by NBC is for three years. Third, to adjust FY  
6 2007 costs to rate year levels, I have then increased the Oracle system related costs to  
7 reflect the actual contract prices for FY 2008. Finally, I have adjusted the remaining  
8 contract costs (excluding the new three-year contract with JSB-Surf Control) to FY 2008  
9 levels by escalating the FY 2007 costs to FY 2008 levels by 14.15 percent. This  
10 percentage reflects the overall percentage increase in continuing non-Oracle contracts  
11 from FY 2006 to FY 2007.

12 Schedule TSC-8 presents my calculation of maintenance and service agreement  
13 costs for the rate year based on the procedures described above. As shown on Schedule  
14 TSC-8, I have estimated FY 2008 M&S agreement costs to be \$574,331. This is \$53,427  
15 less than NBC's proposed allowance for such costs.

### 17 **Regulatory Expense**

18 Q. WHAT ADJUSTMENTS ARE YOU PROPOSING TO MAKE TO  
19 REGULATORY EXPENSE?

20 A. I am proposing two adjustments to NBC's claimed level of regulatory expense for the  
21 rate year. First, I am proposing to adjust the costs associated with permit fees to exclude  
22 a \$6,000 payment of RIPDES permit fees for Bucklin Point. During the test year ended  
23 June 30, 2006, NBC paid both the 2004 and 2005 Bucklin Point permit fees of \$6,000 per

1 year. Because NBC included the test year permit fees in its rate year regulatory expense,  
2 one of the \$6,000 payments should be excluded.

3 Second, I am proposing to adjust the rate year allowance for the annual PUC  
4 Assessment. NBC projected the FY 2008 PUC Assessment by escalating the FY 2006  
5 Assessment to reflect two years of growth at the average annual percentage increase from  
6 FY 2004 to FY 2006. Since the time of NBC's filing, the actual FY 2007 PUC  
7 Assessment has been received. I have utilized the actual FY 2007 assessment as my  
8 starting point and projected the FY 2008 rate year assessment by increasing the FY 2007  
9 PUC Assessment to reflect the average annual increase over the two-year period from FY  
10 2005 to FY 2007. As shown on Schedule TSC-9, this adjustment reduces the rate year  
11 allowance for the PUC assessment by \$30,673. Including the \$6,000 adjustment to  
12 permit fees results in a total reduction in projected regulatory expense of \$36,673.

#### 13 14 **Bucklin Point Management Contract**

15 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO THE ANNUAL COST OF THE  
16 BUCKLIN POINT MANAGEMENT CONTRACT FOR THE RATE YEAR.

17 A. The annual charge beginning each July under the Bucklin Point management contract is  
18 indexed to the Consumer Price Index (CPI) as of the preceding April. In its filing, NBC  
19 based the FY 2008 annual charge on an assumption that the CPI would increase by 3.5  
20 percent from April 2006 to April 2007. I have revised the projection of the rate year  
21 Bucklin Point Management contract cost to reflect an increase of 2.0 percent from  
22 FY 2007 to FY 2008. As shown on Schedule TSC-10, this adjustment reduces rate year  
23 expense by \$21,306.

1 Q. WHY DID YOU UTILIZE AN INCREASE OF 2.0 PERCENT RATHER THAN  
2 3.5 PERCENT?

3 A. Based on my review of recent CPI data, I concluded that an escalation factor of 3.5  
4 percent was too high. For the period January 2006 through January 2007, the CPI  
5 increased by 2.07 percent. In addition, the projected increase in the CPI from the second  
6 quarter of 2006 to the second quarter of 2007 is 1.44 percent according to the February  
7 10, 2007 "Blue Chip Economic Indicators." Therefore, I utilized an increase in the CPI  
8 of 2.0 percent in projecting the FY 2008 Bucklin Point management contract expense.  
9 To the extent that subsequent data becomes available that indicates that this increase is  
10 too low or too high, it would be appropriate to update the projected contract cost.

11

12 **Special Master Funds Utilization**

13 Q. PLEASE EXPLAIN YOUR RECOMMENDATION WITH REGARD TO THE  
14 UTILIZATION OF SPECIAL MASTER FUNDS.

15 A. Beginning with Docket No. 3592, NBC began setting aside \$150,000 per year out of the  
16 Debt Service Coverage Account to be available to pay for a special master for oversight  
17 of the CSO project if the Commission appointed one. This continued through Docket  
18 No. 3707 when the Commission determined that only \$150,000 should remain set-aside  
19 for such a purpose. As a result, \$660,154 that was set aside in the Special Master  
20 Account was freed up.

21 Based on informal discovery with NBC witness Edge, it is my understanding that  
22 the funds that the Commission originally restricted for the Special Master Account could  
23 now be utilized for another purpose if NBC is authorized to do so by the Commission.  
24 Consistent with this, I am recommending that the \$660,154 of funds that are no longer

1 required in the Special Master Account be used to offset NBC operating costs over a two-  
2 year period. As shown on Schedule TSC-11, this will reduce expenses by \$330,077 per  
3 year for two years.

4  
5 **O&M Reserve Fund**

6 Q. PLEASE SUMMARIZE NBC'S PROPOSAL TO ESTABLISH AN O&M  
7 RESERVE FUND.

8 A. NBC is requesting that it be allowed to fund the Operation and Maintenance (O&M)  
9 Reserve Fund established by its Trust Indenture at a level equal to 25 percent of annual  
10 O&M expense. NBC has proposed that a portion of the restricted coverage allowance  
11 that it must collect each year be utilized in the following year to build up the O&M  
12 reserve over a 7 to 10-year period. (For example, a portion of the coverage allowance  
13 collected in FY 2007 would be used in FY 2008 to fund the Reserve.) According to  
14 Ms. Gurghigian, funding the O&M Reserve would result in a more favorable view of  
15 NBC by the credit rating agencies.

16 Q. WHAT IS THE DIVISION'S POSITION WITH REGARD TO THIS  
17 PROPOSAL?

18 A. The Division does not object to allowing NBC to fund its O&M Reserve in the manner  
19 proposed subject to one condition. Establishing the O&M Reserve at 25 percent of O&M  
20 expense would result in an additional \$8 to \$9 million being set aside in a restricted  
21 account in addition to the substantial other funds that have been set aside in the other  
22 funds required by the bond indenture. Therefore, it is the Division's position that if the  
23 O&M Reserve Fund is approved, all interest earned on the invested funds should be  
24 treated as available income for purposes of setting rates.

1 Rate Design

2 Q. HOW ARE YOU PROPOSING TO DESIGN RATES TO RECOVER THE  
3 REVENUE INCREASE THAT YOU HAVE IDENTIFIED ON BEHALF OF  
4 THE DIVISION?

5 A. I am proposing that the rates necessary to generate the revenue increase that I have  
6 identified be developed by increasing rates on a uniform percentage basis. This uniform  
7 percentage increase would be applied to both flat fees and measured usage fees for  
8 residential, commercial and industrial customers. I have excluded connection permit  
9 fees, septage fees, BOD/TSS surcharges and discharge permit fees consistent with the  
10 procedure that NBC has proposed to recover its proposed increase.

11 Q. HAVE YOU PREPARED SCHEDULES SHOWING THE CALCULATION OF  
12 YOUR PROPOSED RATES?

13 A. Yes. Schedule TSC-12 shows the derivation of the uniform percentage increase in  
14 existing rates necessary to generate the required rate increase. As shown on that  
15 schedule, the overall percentage increase in rates is 4.60 percent.

16 Schedule TSC-13 shows the calculation of the proposed rates based on the  
17 application of the 4.60 percent increase to the current rates. Schedule TSC-13 also  
18 provides a proof of revenue at proposed rates.

19 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

20 A. Yes, it does.

21  
22  
23  
24

W:\3283\tsc\dirtest\Direct.doc

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

**THE NARRAGANSETT                    )  
BAY COMMISSION                    )**           **DOCKET NO. 3797**

**SCHEDULES ACCOMPANYING THE  
DIRECT TESTIMONY  
OF  
THOMAS S. CATLIN**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**MARCH 2007**

---

**EXETER**

**ASSOCIATES, INC.**  
5565 Sterrett Place  
Suite 310  
Columbia, Maryland 21044

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at  
Present and Proposed Rates  
Rate Year Ended June 30, 2008

	Test Year Amount Per NBC (1)	NBC Rate Year Adjustments	Rate Year Amount Per NBC (1)	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
<b>Revenue</b>							
User Fee Revenue	\$ 64,755,235	\$ -	\$ 64,755,235	\$ 641,537	\$ 65,396,772	\$ 3,005,858	\$ 68,402,630
Other Service Revenue	2,510,108	-	\$ 2,510,108	-	2,510,108	-	2,510,108
Miscellaneous	495,149	149,424	\$ 644,573	-	644,573	-	644,573
Total Revenue	\$ 67,760,492	\$ 149,424	\$ 67,909,916	\$ 641,537	\$ 68,551,453	\$ 3,005,858	\$ 71,557,311
<b>Expenses</b>							
Personnel Services	15,830,527	1,801,292	17,631,819	(333,762)	17,298,057	-	17,298,057
Operating Supplies & Expenses	12,096,495	1,007,720	13,104,215	(236,595)	12,867,620	-	12,867,620
Professional Services	2,289,506	371,126	2,660,632	(21,306)	2,639,326	-	2,639,326
Capital Outlays	-	-	-	-	-	-	-
Amortization	9,690	-	9,690	(330,077)	(320,387)	-	(320,387)
Debt Related Costs	45,270	-	45,270	-	45,270	-	45,270
Debt Service	30,832,125	-	30,832,125	-	30,832,125	-	30,832,125
Debt Coverage	7,708,031	-	7,708,031	-	7,708,031	-	7,708,031
Total Expenses	\$ 68,811,644	\$ 3,180,138	\$ 71,991,782	\$ (921,740)	\$ 71,070,042	\$ -	\$ 71,070,042
Operating Reserve	219,663	281,432	501,095	(13,826)	487,269	-	487,269
Total Cost of Service	\$ 69,031,307	\$ 3,461,570	\$ 72,492,877	\$ (935,566)	\$ 71,557,311	\$ -	\$ 71,557,311
Revenue Surplus/(Deficiency)	\$ (1,270,815)	\$ (3,312,146)	\$ (4,582,961)	\$ 1,577,103	\$ (3,005,858)	\$ 3,005,858	\$ -

**Note:**

(1) Per Schedule WEE-4 accompanying the testimony of Walter Edge.

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to  
 Rate Year Revenues and Expenses at Present Rates  
 Rate Year Ended June 30, 2008

<u>Description</u>	<u>Amount</u>	<u>Source</u>
<b><u>Revenue Adjustments</u></b>		
Residential Measured Use Fees	\$ 641,537	Schedule TSC-3
Total Revenue Adjustments	<u>\$ 641,537</u>	
<b><u>Expense Adjustments</u></b>		
Health Benefits Costs	(94,557)	Schedule TSC-4
Retiree Health Insurance Costs	(239,205)	Schedule TSC-5
Biosolids Disposal Costs	(46,495)	Schedule TSC-6
Bad Debt Expense	(100,000)	Schedule TSC-7
Maintenance & Service Agreements	(53,427)	Schedule TSC-8
Regulatory Expense	(36,673)	Schedule TSC-9
Bucklin Point Management Services	(21,306)	Schedule TSC-10
Special Master Funds Utilization	(330,077)	Schedule TSC-11
Operating Reserve	<u>(13,826)</u>	See Note (1)
Total Expense Adjustments	\$ (935,566)	
Total Division Adjustments to Operating Income	<u>\$ 1,577,103</u>	

**Note:**

(1) Adjusted to reflect 1.5% of Division Operating Expenses per Schedule TSC-1.

THE NARRAGANSETT BAY COMMISSION

Adjustment to User Fee Revenue to Reflect Rate Year  
Revenues at Rates Approved in Docket No. 3775  
Rate Year Ended June 30, 2008

<u>User Fee Revenues</u>	<u>Units (1)</u>	<u>Docket 3775 Rates</u>	<u>Revenue at Present Rates</u>
Residential			
Dwelling Units	115,513	\$ 108.02	\$ 12,477,714
Consumption	10,438,944	2.220	\$ 23,174,456
Non-Residential - Metered Accounts			
5/8"	3,781	243.00	918,783
3/4"	948	363.00	344,124
1"	1,059	604.00	639,636
1 1/2"	846	1,210.00	1,023,660
2"	1,704	1,935.00	3,297,240
3"	75	3,626.00	271,950
4"	43	6,043.00	259,849
6"	57	12,089.00	689,073
8"	12	19,343.00	232,116
10"	1	27,805.00	27,805
Total Flat Fees from Metered Accounts	8,532		\$ 7,704,236
Commercial Consumption	6,273,455	3.220	\$ 20,200,525
Industrial Consumption	888,812	2.070	\$ 1,839,841
Total User Fee Revenue at Docket 3775 Rates			\$ 65,396,772
Revenues at Present Rates per NBC per Income Statement (2)			\$ 64,755,235
Adjustment to Revenues at Present Rates			\$ 641,537

Notes:

(1) Per Schedule WEE-15.

(2) Per Schedule WEE-4.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Health Benefits Costs  
to Reflect Revised Premium and Employee Levels  
Rate Year Ended June 30, 2008

	Rate Year Premium (1)	Number of Members (2)	Annual Cost Per Division	Amount Per NBC (3)	Adjustment
<u>Medical Insurance</u>					
HMO Family	\$ 501.60	9	\$ 117,374		
Single	183.56	5	23,863		
PPO Family	563.31	163	2,387,308		
Single	206.15	52	278,715		
Waiver	2,500	15	37,500		
Total		244	\$ 2,844,760	\$ 2,904,378	\$ (59,618)
<u>Dental Insurance</u>					
Family	39.32	182	186,062		
Single	14.20	57	21,044		
Waiver	110.00	5	550		
Total		244	\$ 207,657	\$ 217,123	\$ (9,466)
<u>Vision Insurance</u>					
Family	5.29	187	25,720		
Single	2.45	57	3,631		
Total		244	\$ 29,351	\$ 38,518	\$ (9,167)
Total Rate Year Premiums			\$ 3,081,767	\$ 3,160,019	\$ (78,252)
<u>Less: Employee Co-Payments</u>					
Union (4)			(69,093)	(73,874)	\$ 4,781
Non-Union (5)			(123,303)	(102,217)	\$ (21,086)
Net Rate Year Premiums			\$ 2,889,371	\$ 2,983,928	\$ (94,557)

Notes:

- (1) Per response to DIV I-22. Dental premiums have been recalculated to reflect two year average percentage increase.
- (2) Per Schedule WEE-6. Vision insurance numbers based on number of dental subscribers.
- (3) Per Schedule WEE-6. Vision insurance amount per Schedule WEE-4.
- (4) Amounts per Div I-23.
- (5) Amount per Division from Div II-10c. Reflects elimination of cap on non-union co-payments. Amount per NBC per response to DIV I-23.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Retiree Health Insurance Expense  
Rate Year Ended June 30, 2008

Union Salaries and Wages (1)	\$ 4,842,222
Retiree Health Insurance Rate (2)	<u>3.63%</u>
Rate Year Retiree Health Insurance Expense	\$ 175,773
Amount per Company (1)	<u>414,978</u>
Adjustment to Rate Year Expense	<u><u>\$ (239,205)</u></u>

Notes:

(1) Per Schedule WEE-5.

(2) Per proposed R.I. FY 2008 Budget.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Biosolids Disposal Costs  
Rate Year Ended June 30, 2008

	<u>7/1/2007 12/31/2007</u>	<u>1/1/2008 to 6/30/2008</u>	<u>Total Cost</u>
Field's Point-Dry Tons (1)	4,992.0	4,992.0	
Bucklin Point-Dry Tons (1)	<u>1,299.6</u>	<u>1,299.6</u>	
Total Biosolids for Disposal-Dry Tons	6,291.6	6,291.6	
Rate per Ton (2)	<u>\$ 378.84</u>	<u>\$ 389.47</u>	
Biosolids Disposal Costs	\$ 2,383,510	\$ 2,450,389	\$ 4,833,899
Amount per NBC (1)			<u>4,880,394</u>
Adjustment to Rate Year Expense			<u>\$ (46,495)</u>

Notes:

(1) Per Schedule WEE-7.

(2) Per response to Div II-3.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Bad Debt Expense  
Rate Year Ended June 30, 2008

	<u>Amount</u>
Bad Debt Expense per Division (1)	\$ 60,000
Bad Debt Expense per NBC (2)	<u>160,000</u>
Adjustment to Rate Year Expense	<u><u>\$ (100,000)</u></u>

Notes:

- (1) Refer to testimony. Reflects FY 2005 and FY2006 experience.
- (2) Per Schedule WEE-4.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Maintenance & Service Agreement Costs  
 Rate Year Ended June 30, 2008

	<u>FY 2006</u>	<u>FY 2007</u>
Total Maintenance Contracts (1)	\$ 416,867	\$ 500,434
Less: Oracle/Mythics Contracts	(42,138)	(63,086)
Less: New Contracts (2)	<u>-</u>	<u>(9,599)</u>
Other Continuing Contracts	\$ 374,729	\$ 427,749
Growth in Other Continuing Contracts		<u>14.15%</u>
Total FY 2007 Contracts Other than Oracle/Mythics and JSB		\$ 433,600
Escalation Rate		<u>1.1415</u>
FY 2008 Contracts Other than Oracle/Mythics		\$ 494,950
FY 2008 JSB Contract		3,748
FY 2008 Oracle/Mythics Related Contracts		<u>75,633</u>
Total Rate Year Maintenance Contracts		\$ 574,331
Amount per NBC (3)		<u>627,758</u>
Adjustment to Rate Year Expense		<u>\$ (53,427)</u>

Notes:

- (1) Per Schedule WEE-8 and response to Div I-27. FY 2007 amount reflects corrections to remove \$15,202 for double counted Mythics contract and to reflect one-third of \$11,244 3 year contract with JSB instead of full cost.
- (2) Includes amounts per WEE-8, adjusted to include one third (\$3,748) of cost of \$11,244 three year contract with JSB.
- (3) Per Schedule WEE-8.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Regulatory Expense  
Rate Year Ended June 30, 2008

	<u>Amount</u>
PUC Assessment-FY 2007 (1)	\$ 159,340
Average Annual Growth Rate-FY 2005 to FY 2007 (2)	<u>13.10%</u>
Rate Year PUC Assessment	\$ 180,219
Assessment per NBC (3)	<u>210,892</u>
Adjustment to PUC Assessment	\$ (30,673)
Exclude Extra Permit Fee (4)	<u>(6,000)</u>
Total Adjustment to Regulatory Expense	<u><u>\$ (36,673)</u></u>

Notes:

- (1) Per response to Div I-32.
- (2) Based on FY 2005 assessment of \$124,558 and FY 2007 assessment of \$159,340.
- (3) Per Schedule WEE-10.
- (4) Per response to Div II-8.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Bucklin Point Management Contract Expense  
Rate Year Ended June 30, 2008

	<u>Amount</u>
FY 2007 Bucklin Point Management Contract Expense (1)	\$ 1,420,387
Escalation for Increase in CPI from 2006 to 2007 (2)	<u>1.0200</u>
FY 2008 Bucklin Point Management Contract Expense	\$ 1,448,795
Cost per NBC (3)	<u>1,470,101</u>
Adjustment to Rate Year Expense	<u><u>\$ (21,306)</u></u>

Notes:

(1) Per Schedule WEE-11

(2) Reflects Blue Chip Economic Indicators forecast for 1Q 2007 compared to actual CPI for 1Q 2006.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Utilize  
Use of Special Master Account Set-Aside  
Rate Year Ended June 30, 2008

	<u>Amount</u>
Special Master Funds Available (1)	\$ 660,154
Amortization Period	<u>2</u>
Annual Expense Reduction	<u><u>\$ 330,077</u></u>

Note:

(1) Per response to Com 1-1.

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates  
Required to Generate Additional Revenues  
Rate Year Ended June 30, 2008

Overall Revenue Increase Required (1)	<u>\$ 3,005,858</u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	\$ 12,477,714
Measured Fees-Residential	23,174,456
Flat Fees-Commercial and Industrial	7,704,236
Measured Fees-Commercial	20,200,525
Measured Fees-Industrial	1,839,841
Discharge Permit Fees	-
Connection Permit Fees	-
BOD/TSS Surcharge	-
Septage Fees	-
Total Revenues from Services Subject to Increase	<u>\$ 65,396,772</u>
Uniform Percentage Increase	<u>4.60%</u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule TSC-3

THE NARRAGANSETT BAY COMMISSION

Calculation of Proposed Rates and  
 Proof of Revenues at Proposed Rates  
 Rate Year Ended June 30, 2008

	Current Rate	Percent Increase	Proposed Rate	Billing Units (1)	Revenue at Proposed Rates
<b>Flat Fees</b>					
Residential	\$ 108.02	4.60%	\$ 113.00	115,513	\$ 13,052,969
<b>Commercial &amp; Industrial</b>					
Meter Size					
5/8"	243.00	4.60%	254.00	3,781	960,374
3/4"	363.00	4.60%	380.00	948	360,240
1"	604.00	4.60%	632.00	1,059	669,288
1.5"	1,210.00	4.60%	1,266.00	846	1,071,036
2"	1,935.00	4.60%	2,024.00	1,704	3,448,896
3"	3,626.00	4.60%	3,793.00	75	284,475
4"	6,043.00	4.60%	6,321.00	43	271,803
6"	12,089.00	4.60%	12,645.00	57	720,765
8"	19,343.00	4.60%	20,232.00	12	242,784
10"	27,805.00	4.60%	29,083.00	1	29,083
Total Commercial & Industrial Flat Fees					\$ 8,058,744
<b>Measured Fees</b>					
Residential	2.220	4.60%	2.320	10,438,944	24,218,350
Commercial	3.220	4.60%	3.370	6,273,455	21,141,543
Industrial	2.070	4.60%	2.170	888,812	1,928,722
Total Measured Fees					\$ 47,288,615
<b>Other Revenue</b>					
Discharge Permit Fees	-	4.60%	-		-
Connection Permit Fees	-	4.60%	-		-
BOD/TSS Surcharge	-	4.60%	-		-
Septage Fees	-	4.60%	-		-
	-		-		\$ -
<b>Total Service Revenue</b>					\$ 68,400,328
Target Revenue (2)					68,402,630
Variance					\$ (2,302)

Notes:

(1) Per Schedule WEE-15

(2) Per Schedule TSC-12. Target equals revenue at present rates plus required increase.