

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

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

**SURREBUTTAL TESTIMONY  
OF  
THOMAS S. CATLIN**

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

**APRIL 2007**

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**EXETER**

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

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND

THE NARRAGANSETT            )  
BAY COMMISSION            )            DOCKET NO. 3797

Surrebuttal Testimony of Thomas S. Catlin

**Introduction**

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- 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.            HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?
- A.            Yes. My direct testimony on behalf of the Division of Public Utilities and Carriers (the Division) was submitted on March 21, 2007. My qualifications and experience are set forth in that testimony.
- Q.            WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?
- A.            The purpose of my surrebuttal testimony is to respond to the rebuttal testimony of Mr. Walter E. Edge that was submitted on behalf of The Narragansett Bay Commission. As noted by Mr. Edge, NBC has accepted all of the adjustments that I recommended in my direct testimony with the exception of my adjustment to the inflation increase applicable to the Bucklin Point Management contract and the Vision Insurance component of my adjustment to health insurance costs. In addition, Mr. Edge accepted my adjustments to

1 Retiree Health Insurance Expense and the use of Special Master funds subject to certain  
2 clarifications.

3 Q. DO YOU HAVE ANY COMMENTS WITH REGARD TO MR. EDGE'S  
4 CLARIFICATION WITH REGARD TO RETIREE HEALTH INSURANCE?

5 A. Yes. Mr. Edge accepted my adjustment to base the allowance for Retiree Health  
6 Insurance on the rate included in the proposed State of Rhode Island budget with the  
7 understanding that this rate is a placeholder for the cost ultimately included in the final  
8 State budget. Because, this expense is a pass-through item to the State, NBC would  
9 request expedited treatment of any difference of the cost of Retiree Health included in the  
10 final budget differs from that in the proposed budget. I agree that this is a reasonable  
11 approach.

12 Q. DO YOU ACCEPT THE CLARIFICATIONS THAT NBC HAS REQUESTED  
13 WITH REGARD TO THE FLOW BACK OF THE SPECIAL MASTER  
14 FUNDS?

15 A. Yes. NBC has requested that the Commission explicitly authorize NBC to use the  
16 \$660,154 of funds previously restricted for Special Master costs at the rate of \$330,077  
17 per over two years for its unrestricted operating accounts. He also indicates that NBC  
18 would propose to record the use of these funds as a miscellaneous revenue item rather  
19 than as a cost reduction as I initially proposed. It is my understanding these conditions  
20 are intended to facilitate compliance with the provisions of NBC's bond indenture and I  
21 have no objection to them.

22 Q. HOW DID MR. EDGE RESPOND IN HIS REBUTTAL TESTIMONY WITH  
23 REGARD TO YOUR RECOMMENDATION CONCERNING THE  
24 INFLATION FACTOR TO BE UTILIZED IN ADJUSTING THE BUCKLIN

1 POINT MANAGEMENT CONTRACT TO THE COST FOR THE FY 2008  
2 RATE YEAR?

3 A. In my direct testimony, I utilized an inflation rate of 2.0 percent as a proxy for the charge  
4 from April 2006 to April 2007 that will be used to set the Bucklin Point Management  
5 Contract fee for FY 2008. This was based on the most recent inflation data available at  
6 that time and I noted that it would be appropriate to update the inflation factor to reflect  
7 more recent data as it becomes available. Mr. Edge argues that NBC's 3.5 percent  
8 inflation factor is reasonable because the CPI increase in the years ending April 2005 and  
9 April 2006 were each above 3.0 percent (3.51 percent and 3.55 percent, respectively).

10 Q. DO YOU HAVE ANY COMMENTS?

11 A. Yes. The inflation rate for the year ending April 2007 is independent of the inflation rate  
12 in the years ending April 2005 and April 2006. Moreover, while there may be variations  
13 from year to year, the inflation rate for a 12-month period ending in any particular month,  
14 be it April or any other month, cannot routinely exceed the overall annual rate of  
15 inflation. Therefore, it is reasonable to base the inflation rate used to project the Bucklin  
16 Point Management Contract fee on the most recent annual rate of inflation available. For  
17 the 12 months ended February 2007, the CPI-U increased by 2.42 percent. To be  
18 conservative, I have utilized an inflation rate of 2.5 percent in developing the Division's  
19 final recommendation regarding the appropriate rate increase in this proceeding. This is  
20 shown on Schedule TSC-10 Revised.

21 Q. WHAT REVISION DID MR. EDGE RECOMMEND WITH REGARD TO THE  
22 VISION COMPONENT OF YOUR ADJUSTMENT TO HEALTH  
23 INSURANCE EXPENSE?

24 A. Mr. Edge indicates that incorrect Vision Insurance rates were provided in response to a  
25 Division data request. Mr. Edge proposes to revise the allowance for health insurance

1 that I calculated using those rates to reflect the correct rates. I agree that the correct rates  
2 should be used and have incorporated those rates in my adjustment, as shown on  
3 Schedule TSC-5 Revised.

4 Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. EDGE'S  
5 REBUTTAL TESTIMONY?

6 A. In his rebuttal, Mr. Edge accepted my calculation of the operating reserve allowance  
7 based on the traditional approach of applying a 1.5 percent factor to operating expenses  
8 excluding debt related costs. However, he did not address the Division's acceptance of  
9 NBC's proposal to establish a funded O&M reserve equal to 25 percent of O&M costs if  
10 the interest on those funds is passed through to ratepayers. If this funded reserve is  
11 established, NBC has agreed to accept a lower operating reserve allowance than the  
12 traditional approach.

13 Based on the response to Division III-1, NBC agrees that passing through the  
14 interest would be reasonable, but states that doing so is precluded by the Trust Indenture  
15 for its bonds. It would clearly benefit bondholders to allow a reserve fund equal to 25  
16 percent of O&M to be established. Ratepayers would also benefit from the lower  
17 operating reserve allowance and interest income. Therefore, NBC and its bond advisor  
18 should explain why steps cannot and should not be taken to allow the interest on the  
19 O&M reserve to be flowed back to ratepayers.

20 Q. HAVE YOU PREPARED AN UPDATED RECOMMENDATION  
21 REGARDING NBC'S REVENUE DEFICIENCY?

22 A. Yes. As shown on my Schedule TSC-1 Revised, I have determined NBC's overall  
23 revenue requirement to be \$71,908,962. This represents an increase of \$3,027,432 over  
24 revenues at present rates. In calculating this revenue deficiency, I have included an  
25 operating reserve allowance equal to 1.5 percent of operating expenses excluding debt

1 related costs. I have also not included an interest income on any funded O&M reserve  
2 because even if a reserve is established, the interest income to be flow through would not  
3 be significant in the rate year.

4 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

5 A. Yes, it does.

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

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

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

**APRIL 2007**

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**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	\$ 3,027,432	\$ 68,424,204
Other Service Revenue	2,510,108	-	2,510,108	-	2,510,108	-	2,510,108
Miscellaneous	495,149	149,424	644,573	330,077	974,650	-	974,650
Total Revenue	\$ 67,760,492	\$ 149,424	\$ 67,909,916	\$ 971,614	\$ 68,881,530	\$ 3,027,432	\$ 71,908,962
<b>Expenses</b>							
Personnel Services	15,830,527	1,801,292	17,631,819	(324,487)	17,307,332	-	17,307,332
Operating Supplies & Expenses	12,096,495	1,007,720	13,104,215	(199,922)	12,904,293	-	12,904,293
Professional Services	2,289,506	371,126	2,660,632	(50,877)	2,609,755	-	2,609,755
Capital Outlays	-	-	-	-	-	-	-
Amortization	9,690	-	9,690	-	9,690	-	9,690
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	\$ (575,286)	\$ 71,416,496	-	\$ 71,416,496
Operating Reserve	219,563	281,432	501,095	(8,629)	492,466	-	492,466
Total Cost of Service	\$ 69,031,307	\$ 3,461,570	\$ 72,492,877	\$ (583,915)	\$ 71,908,962	\$ -	\$ 71,908,962
Revenue Surplus/(Deficiency)	\$ (1,270,815)	\$ (3,312,146)	\$ (4,582,961)	\$ 1,555,529	\$ (3,027,432)	\$ 3,027,432	\$ -

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
Special Master Funds Utilization	330,077	Schedule TSC-11
Total Revenue Adjustments	<u>\$ 971,614</u>	
<b><u>Expense Adjustments</u></b>		
Health Benefits Costs	(85,281)	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	(14,204)	Schedule TSC-10
Operating Reserve	<u>(8,629)</u>	See Note (1)
Total Expense Adjustments	\$ (583,915)	
Total Division Adjustments to Operating Income	<u>\$ 1,555,529</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	6.96	187	33,840		
Single	3.23	57	4,787		
Total		244	\$ 38,626	\$ 38,518	\$ 108
Total Rate Year Premiums			\$ 3,091,043	\$ 3,160,019	\$ (68,976)
<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			\$ 2,898,647	\$ 2,983,928	\$ (85,281)

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>\$ (239,205)</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><u>\$ (46,495)</u></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>\$ (100,000)</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>\$ (36,673)</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>1,0250</u>
FY 2008 Bucklin Point Management Contract Expense	\$ 1,455,897
Cost per NBC (3)	<u>1,470,101</u>
Adjustment to Rate Year Expense	<u><u>\$ (14,204)</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>\$ 3,027,432</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>4.63%</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

	<u>Current Rate</u>	<u>Percent Increase</u>	<u>Proposed Rate</u>	<u>Billing Units (1)</u>	<u>Revenue at Proposed Rates</u>
<b>Flat Fees</b>					
Residential	\$ 108.02	4.63%	\$ 113.00	115,513	\$ 13,052,969
<b>Commercial &amp; Industrial</b>					
Meter Size					
5/8"	243.00	4.63%	254.00	3,781	960,374
3/4"	363.00	4.63%	380.00	948	360,240
1"	604.00	4.63%	632.00	1,059	669,288
1.5"	1,210.00	4.63%	1,266.00	846	1,071,036
2"	1,935.00	4.63%	2,025.00	1,704	3,450,600
3"	3,626.00	4.63%	3,794.00	75	284,550
4"	6,043.00	4.63%	6,323.00	43	271,889
6"	12,089.00	4.63%	12,649.00	57	720,993
8"	19,343.00	4.63%	20,238.00	12	242,856
10"	27,805.00	4.63%	29,092.00	1	29,092
Total Commercial & Industrial Flat Fees					\$ 8,060,918
<b>Measured Fees</b>					
Residential	2.220	4.63%	2.320	10,438,944	24,218,350
Commercial	3.220	4.63%	3.370	6,273,455	21,141,543
Industrial	2.070	4.63%	2.170	888,812	1,928,722
Total Measured Fees					\$ 47,288,615
<b>Total Service Revenue</b>					\$ 68,402,502
Target Revenue (2)					68,424,204
Variance					\$ (21,702)

Notes:

(1) Per Schedule WEE-15

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