

February 2, 2007

Via Hand Delivery and Electronic Mail

Ms. Luly Massaro, Commission Clerk
Rhode Island Public Utilities Commission
89 Jefferson Boulevard
Warwick, Rhode Island 02888

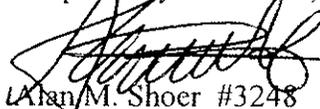
Re: Docket No. 3800: Woonsocket Water Division's Responses To First Set of Data
Requests From The Public Utilities Commission Dated: January
17, 2007

Dear Luly:

On behalf of the City of Woonsocket's Water Division, I am enclosing an original and
nine copies of their responses to the Commission's first set of Data Requests.

Please do not hesitate to contact me if you have any questions or comments.

Respectfully submitted,



Alan M. Shoer #3248

Attorney for Woonsocket Water Division

AMS/bck

Enclosure

cc: Service List (via regular and electronic mail) (with enclosures)

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WOONSOCKET WATER DIVISION'S RESPONSES TO
DATA REQUESTS FROM THE PUBLIC UTILITIES COMMISSION
DATED: January 17, 2007

FIRST SET

COMM. 1 Is Woonsocket Water Division ("WWD") requesting that money collected in rates be used to finance the Regionalization Study described in the Inter-Municipal Agreement between Woonsocket and North Smithfield?

Response: Yes, however WWD is not looking at this project purely as a "Regionalization" effort. This is only one concern. The vast majority and major focus of the Inter-municipal agreement is an opportunity for WWD to increase its customer base by immediately selling greater amounts of water to North Smithfield, and maybe in the future, increased sales to other communities. Customer growth results in spreading the WWD fixed costs to a larger number of ratepayers. I believe that the additional wholesale water sales (which provides for the wholesale customers paying for the connection in exchange for guaranteed water) is also consistent with inter-municipal agreements in place with other PUC regulated water utilities, such as the deal approved by the PUC between Portsmouth and Newport.

Although the Inter-municipal agreement suggests the possibility (parenthetically) of regionalization activity (such as transfer of the plant) that possibility may (and in my opinion will) never happen. If one looks closely at the agreement, the control of the project is with Woonsocket in that they have potentially 5 of the 7 members on the "regionalization committee" (which is being put together – See response to Comm 8). Further, none of the recommendations of the proposed study are binding on Woonsocket. WWD believes that the expansion of its wholesale sales to North Smithfield (and at a later date maybe to other communities) will be a good thing for its current customers.

Lastly the study section of the Inter-municipal agreement states also that it is understood that "regionalization of the Plant....may yield financial, water quality and other benefits to **customers**". This Study is endorsed by the WWD and will benefit the users of the water system through the pursuit of additional customers and hence the lower of the fixed costs per customer that the utility must charge in its rates. As such, I believe that the benefits will flow to customers of the WWD and not directly to the City or its tax payers. It is further my understanding that any transfer of the treatment facility to a "regional water provider" must be approved by the PUC. However, no transfer to the private sector is even contemplated by the WWD or the City.

Respondent: Walter E. Edge

Dated: February 2, 2007

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 2 Is the Regionalization Study described in the Inter-Municipal Agreement between Woonsocket and North Smithfield a study that the Commission previously ruled in Docket 3626 – Order 18307 that ratepayer funds could not be used to finance? If so, is WWD requesting reconsideration of that order?

Response: The Inter-municipal agreement was not in existence when WWD filed its last rate filing therefore the specifics of the “Regionalization Study” in the Inter-municipal agreement could not have been ruled on. However, the Commission did rule in Docket 3626 that “The Woonsocket Water Department shall not use ratepayer funds for the purposes of regionalization or privatization studies undertaken by the City of Woonsocket after January 1, 2005.” Although the Commission may interpret the “Regionalization Study” described in the Inter-municipal agreement as covered by the above described ruling in Docket 3626, I believe that it is not when taken in consideration of the Inter-municipal agreement as a whole.

This Agreement is focused on the increased sale of water to new and additional customers and does not contemplate the sale of the utility. The City of Woonsocket acknowledges that IF any transfer of the utility were to occur, the proceeds of such a sale would accrue to the water utility and be used for the water utility. Hence, the rate payers will benefit from the study to increase water sales and have no exposure to actions that would “siphon” funds away from the utility.

Respondent: Walter E. Edge

Dated: February 2, 2007

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 3 The Inter-Municipal Agreement between Woonsocket and North Smithfield defines "Woonsocket" as the City of Woonsocket. Page 10 of the agreement indicates that Woonsocket (presumably the City) will pay up to \$150,000 for a Regionalization Study. If the agreement indicates the City of Woonsocket will pay for the Study, why is WWD seeking money in rates to fund the Study?

Response: When it comes to water issues WWD and the City of Woonsocket are one entity. The WWD is a department within the City's structure (as part of the Public Works Department). The WWD operates as an "Enterprise Fund" with rate and connection fee revenues as its only source of revenues. As a department of the City, the City can negotiate deals for the WWD and will follow the principle that all costs and revenues will be used to benefit the WWD and its ratepayers. The Inter-municipal agreement is just such a negotiated deal.

If new customers are added to the WWD customer base as a result of the implementation of the study, and these new customers will help pay some of the fixed costs of the WWD, then the current ratepayers of WWD will benefit, as their rates will reflect a lower cost allocation of fixed costs. Since the benefit of this agreement accrues to the ratepayers, it seems reasonable and fair to have the ratepayers provide the upfront money for the study. To suggest otherwise would have the ratepayers being subsidized for the cost of the study while receiving all of the benefits that accrue from the study.

One additional point is the materiality of this request. The \$150,000 requested in this docket represents only $(\$150,000/\$1,000,000 \text{ times } \$42,500)$ divided by total revenue requirement \$8,623,437, or 0.07% of the rate year revenue requirement, and only about 2 cents a month per customer. This seems to me to be a reasonable investment in an effort to generate thousands, hundred of thousands or even millions of dollars of contribution toward fixed costs each year forever.

Respondent: Walter E. Edge

Dated: February 2, 2007

In Re: Woonsocket Water Division

Docket No.: 3800

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 4 With regard to the Regionalization Study, please specifically identify which activities are to take place outside of the rate year (7/1/07 – 6/30/08) and the cost associated with each activity identified.

Response: None. It is expected that the regionalization study will be partially completed during the rate year at a cost of approximately \$100,000 (the other \$100,000 anticipated by the Task Order attached to COMM 6 will be completed during the interim year). The costs are expected to fund the analysis more fully described in the attachment to COMM 6 (the EGI Task Order).

Respondent: Walter E. Edge

Dated: February 2, 2007

In Re: Woonsocket Water Division

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FIRST SET

COMM. 5 With regard to the Regionalization Study, please specifically identify which activities are to take place within the rate year (7/1/07 – 6/30/08) and the cost associated with each activity identified.

Response: The study should be completed by the end of the rate year and the revenues requested are expected to support the costs associated with obtaining professional analysis of consultants, engineers, accountants, and/or legal analysis as set forth in § 14.2 of the agreement.

Respondent: Walter E. Edge

Dated: February 2, 2007

In Re: Woonsocket Water Division

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 6 Has an outside consultant been retained to work on the Regionalization Study? If so, whom? If so, please provide a copy of the contract.

Response: Yes. Eisenhardt Group, Inc. (EGI) is the consultant hired to assist and to lead the study and coordinate the overall analysis. The law firm of Burns & Levinson will also participate in the study. The Assignment Task Order between EGI and the City of Woonsocket, Water Division is attached to this response. See attached.

Respondent: Walter E. Edge

Dated: February 2, 2007

Attachment

In Re: Woonsocket Water Division

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 7 Have any expenses relating to the Regionalization Study been paid to date? If so, please provide the amounts and recipients of any payments.

Response: No.

Respondent: Walter E. Edge

Dated: February 2, 2007

In Re: Woonsocket Water Division

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FIRST SET

COMM. 8 Please identify the members of the Regionalization Committee.

Response: A preliminary meeting with North Smithfield representatives was held on January 26, 2006. The regionalization committee is being formed and the two existing members have been identified as Michael Annarummo, Director of Public Works, City of Woonsocket and Robert Lowe, Town Administrator, Town of North Smithfield.

Respondent: Walter E. Edge

Dated: February 2, 2007

In Re: Woonsocket Water Division

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FIRST SET

COMM. 9 Page 10 of the Inter-Municipal Agreement states that it may be possible for other communities to participate in the Regionalization Study. Have any other communities expressed an interest in participating?

Response: No other communities (other than North Smithfield) have formally requested participation at this time.

Respondent: Carol Lariviere

Dated: February 2, 2007

In Re: Woonsocket Water Division

Docket No.: 3800

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 10 Since the adoption of a written curb to curb paving policy for streets less than 5 years old, have all entities conducting work on Woonsocket streets followed the policy? If not, why not?

Response: Other entities are required to follow this same policy and are following this to the best of my knowledge.

Respondent: Carol Lariviere

Dated: February 2, 2007

In Re: Woonsocket Water Division

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FIRST SET

COMM. 11 Do the rate year salaries on WEE-4 include the salary upgrades authorized by city ordinance in June 2006?

Response: Yes.

Respondent: Walter E. Edge

Dated: February 2, 2007

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 12 If possible, please update WWD's Restricted Account analysis through December 31, 2006.

Response: See attached.

Respondent: David Bebyn

Attachment

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 13 With regard to a new treatment plant:

- a. Where does WWD propose to construct a new plant?
- b. Has the North Smithfield site discussed in Exhibit 2 to Ms. Lariviere's testimony been eliminated as a potential building site? If not, how will the "serious issues and restrictions" be resolved?
- c. Where would the new plant be located in relation to the existing plant?
- d. Where would the new plant be located in relation to the source of supply?
- e. Does Woonsocket own the land where the new plant is to be located? If not, who does and how will it be acquired and what is the expected cost to acquire the site?

Response:

- a. WWD is evaluating two sites in conjunction with CDM's analysis. One site is located in Woonsocket on Manville Road, north of the current facility. The other site is located in North Smithfield.
- b. No.
- c. Both sites under review are within approximately one mile from the existing facility.
- d. The North Smithfield site is located at or very near the source of supply. The Woonsocket site is located approximately a mile and one-half from the source of supply.
- e. No. Depending on which site is chosen, eminent domain authority may have to be used to acquire the selected site. I believe the North Smithfield site would also involve a negotiation of a PILOT and the associated exposures of negotiating a renewal of the PILOT agreement when it terminates by statute. The cost for the land and/or any PILOT payments have not been determined at this time.

Respondent: Carol Lariviere

Dated: February 2, 2007

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FIRST SET

COMM. 14 Page 4 of Ms. Lariviere's testimony indicates that no privatization studies were undertaken or paid for by WWD. Have there been any privatization studies undertaken and paid for by anyone other than WWD? If so, please provide details.

Response: No privatization studies have been undertaken regarding WWD. WWD is reviewing procurement alternatives such as a DB or DBO for the new treatment plant; however, ownership of facilities and ultimate policy control will remain with the City.

Respondent: Carol Lariviere

Dated: February 2, 2007

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FIRST SET

COMM: 15 Ms. Lariviere's testimony identifies a decrease in commercial customers as causing a decline in water sales, do you anticipate a further decline in commercial customers? If so, on what do you base this conclusion?

Response: It is likely that the decrease in water sales to commercial customers has stabilized. The largest water users in Woonsocket were the dye houses that no longer exist. There are few industrial large water users remaining, with the exception of the Woonsocket Wastewater Treatment Facility and The Woonsocket Call. Commercial users are not currently viewed as a water usage exposure. However, both sectors will be carefully watched by WWD and if there is any change WWD will notify the Commission immediately.

Respondent: Carol Lariviere

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FIRST SET

COMM. 16 Ms. Lariviere's testimony states that WWD can safely produce 8.5 MGD and that WWD currently produces and sells 4.5 MGD. It also states that production beyond 4.5-5.0 MGD is not easy or safe with the existing facility. How much water can be safely produced?

Response: The 8.5 MGD figure in my testimony refers to safe yield which is a supply term. It refers to the amount of water that can be reliably withdrawn from a water supply source. The Rhode Island Water Resource Board's Rules and Regulations for Water Supply System Management Planning define safe yield as: "the maximum dependable draft which can be made continuously from a water supply source without causing unacceptable effects during a critical dry period with a 1% chance of occurrence or one which is equivalent to the drought of record, whichever is worse."

CDM computes the safe yield for Woonsocket's water supply system as 8.5 MGD. Of that 8.5 MGD available to use, Woonsocket's existing treatment plant can reliably produce 4.5-5.0 MGD at this time, roughly half of the water treatment plant design capacity.

The major reasons for the production limits are the following: The treatment process currently used at the plant employs a sludge blanket and upflow clarifiers in each of three perifilters. The process is extremely sensitive to temperature and water quality changes that may cause the sludge blanket to destabilize. In the event that a sludge blanket disruption is detected in one of the filters, WWD personnel immediately reduce the hydraulic loading rate to that unit until the sludge blanket re-stabilizes. The balance of the flow is diverted to the remaining two perifilters. This can only be achieved because the WTP is operating at a rate that is less than its design capacity. In the event that more than one sludge blanket is disrupted, the ability of the plant to meet regulatory requirements such as turbidity is significantly compromised.

Respondent: Carol Lariviere

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FIRST SET

COMM. 17 Can the compliance issues faced by WWD be satisfied with upgrades to the existing facility as opposed to the construction of a new facility?

Response: No. CDM's 2004 Water Treatment Plant Evaluation report evaluated the condition of overall facility and concluded that the existing facility was not a candidate for upgrading. Also, the CDM Report identified the constraints of the existing facility and site as reasons to reject this option as not viable. Specifically, the CDM report addresses, among other things, the clearwells, washwater tank and the structural integrity of the perifilters. Generally speaking, extensive rehabilitation to the clearwells, the washwater tank and 3 perifilters will extend their useful lives. There are severe and in some cases, insurmountable operational constraints in taking these entities off-line for the amounts of time required to do the suggested repairs.

According to CDM, the total cost estimate for rehabilitation of the clearwells, washwater tank, and the three perifilters in 2004 dollars is \$980,000. Even if it were operationally feasible to do the necessary work on the tanks, CDM's report states that, given the age of the tanks, the only way to ensure that the tank bottoms will last for an additional 15-20 years is to weld new bottoms to the tanks. This is a very expensive repair and no estimates were provided in the report.

An additional water quality standard, The Long Term 2 Enhanced Surface Water Treatment Rule (LT2ESWTR) has recently been promulgated by EPA and will affect Woonsocket in October of 2007. A portion of the rule requires monthly source water monitoring for *Cryptosporidium*. Additional treatment may be required to achieve required removal of *Cryptosporidium* if monitoring indicates concentrations greater than or equal to 0.075/L. The additional treatment would likely be required sometime in 2011.

In March 2006, RIDEM issued new, updated state-wide requirements for the treatment of the water plant's filter backwash. The backwash has historically been discharged to the Blackstone River providing the discharge met the permit requirements for Total Suspended Solid (TSS), pH and Chlorine. The new permit requirements are more stringent, particularly regarding TSS and pH, and would require the construction of a containment facility or lagoon to capture the backwash and treat it prior to discharge into the river. CDM consultants have determined that the current plant site does not have the space necessary for either structure which will cause the plant to be in violation of the proposed permit. The City and RIDEM are undergoing negotiations to enter into a Consent Agreement to allow the plant until 2011 to comply with the discharge requirements under the

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condition that WWD will build a new plant with capabilities to meet the new requirements.

Respondent: Carol Lariviere

Dated: February 2, 2007

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FIRST SET

COMM. 18 What is the reason that North Smithfield has only been taking 170,000 gallons per day when the Inter-Municipal Agreement requires and presumably anticipated North Smithfield taking between 400,000 and 1 million gallons per day?

Response: The Inter-Municipal Agreement requires Woonsocket to make available 400,000 - 1,000,000 gallons per day. It was understood that North Smithfield entered into the agreement because it saw future growth in the Town and expected that its future needs would increase over time up to 400,000 to 1,000,000.

The first year usage of the Inter-Municipal Agreement saw lower volumes of water as the Town of North Smithfield experienced delays in new connections and in extension of service to additional areas of the Town. The long term projections for consumption by the Town of North Smithfield remain within the range of the Inter-Municipal Agreement.

Respondent: Walter E. Edge

Dated: February 2, 2007

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DATED: January 17, 2007

FIRST SET

COMM. 19 Please provide sales quantities by customer class by year for the Fiscal Years 2000 through 2006.

Response: See attached.

Respondent: David G. Bebyn

Dated: February 2, 2007

Attachment

In Re: Woonsocket Water Division

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 20 Please provide sales quantities by customer class by year for the Calendar Years
2000 through 2006.

Response: See attached.

Respondent: David G. Bebyn

Dated: February 2, 2007

Attachment

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 21 Please provide a breakdown of the Rate Case Expense of \$87,636 included on
DGB-1 page 3 of 3.

Response: See attached.

Respondent: David G. Bebyn

Dated: February 2, 2007

Attachment

WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 22 In its last Order, the Commission limited WWD's Operating Reserve to 1.5% of Operating Expense. It appears that the Operating Reserve for the Rate Year in the current proceeding is 1.5% of all expenses. Please explain.

Response: This was an oversight on my part. I read that the Commission allowed the 1.5% on all operating expenses. Clearly, interest expense and depreciation (in the real world) are operating expenses. However, we are in the ratemaking world, therefore, to be consistent with the Commission order, I should have used the approach approved by the PUC in the last filing, unless I disagreed with the approach (which I did) and I believed that I could present a new argument that would sway the Commission (which I can not). I will use the Commission approved approach in my rebuttal testimony and make the necessary adjustments accordingly.

Respondent: Walter E. Edge.

Dated: February 2, 2007

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 23 With regard to WEE-6a, please provide an explanation of the CNE settlement.

Response: See attached.

Respondent: Walter E. Edge

Dated: February 2, 2007

Attachment

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WOONSOCKET WATER DIVISION'S RESPONSES TO
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FIRST SET

COMM. 24 With regard to WWD's contract with TransCanada:

- a. How long is the contract?
- b. Under the contract, do WWD, Woonsocket Wastewater and other City Departments pay the same amount? If not, please provide the rates paid by those other than WWD.
- c. Please provide copies of the TransCanada bid and any other bids received.
- d. Please provide a copy of the TransCanada contract.

Response: See attached.

Respondent: Walter E. Edge

Dated: February 2, 2007

Attachment