

**REBUTTAL TESTIMONY OF
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CONSULTING DEPARTMENT DIRECTOR
BACON & EDGE p.c.**

**for
WOONSOCKET WATER
DOCKET # 3800**

April 2007

1 Q. Good morning Mr. Edge. Are you the same Walter E. Edge, Jr. that previously
2 filed direct testimony in this docket?

3 A. Yes.

4

5 Q. What is the purpose of your testimony?

6 A. I have read the pre-filed direct testimony of Ms. Andrea C. Crane and I have a few

7 moments. For the most part I found Ms. Crane's testimony reasonable and I can agree

1 **Q. What then is your concern with Ms. Crane's operating Revenue adjustment?**

2 A. I believe that Ms. Crane's adjustment will result in a shortfall of revenue for
3 Woonsocket in the rate year which will require Woonsocket to postpone important
4 improvements to the distribution system.

5

6 **Q. How do you suggest that the Commission correct this problem?**

7 A. I believe that the Commission should chose to accept part of Ms. Crane's operating
8 revenue adjustment and reject part of Ms. Crane's operating revenue adjustment. I
9 believe that it is possible that Ms. Crane's adjustment for rate year residential sales could
10 be achieved. However the adjustment to rate year commercial sales is highly unlikely.

11

12 **Q. Why is Ms. Crane's adjustment to rate year commercial sales highly unlikely?**

"13 A. Commercial sales are not impacted, for the most part, by weather. Therefore,
14 weather changes in the rate year will not result in additional water sales. The fact is that
15 commercial water sales, unlike residential water sales, have not fluctuated up and down
16 during the past five years as a result of the changes in weather.

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18 Ms. Crane's chart, on page 9 of her prefiled testimony, clearly shows that the commercial
19 revenue has decreased each and every year since FY 2002. As her chart shows,
20 commercial water sales have decreased from 626,986 hundred cubic feet in 2002 to
21 471,852 hundred cubic feet in FY 2006. The commercial consumption has decreased
22 each year: 617,981 in 2003; 568,249 in 2004 and 554,598 in 2005. There is simply no
23 evidence in the record of this docket that explains why this downward trend will end
24 other than the testimony of the Woonsocket witnesses that they were hopeful that the
25 downward trend is over and that the commercial revenue would be flat in the rate year
26 when compared with the test year.

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1 **Q. Mr. Edge, do you believe that Commercial water sales decreases are over?**

2 A. No. However, I believe that Ms. Carol C. Lariviere the Woonsocket Water Division
3 Superintendent is far more qualified to project future water sales than either Ms. Crane or
4 me and Ms. Lariviere testified in her prefiled testimony (at page 7) that “Our data shows
5 that declining water sales have been concentrated in decrease sales to commercial
6 customers, particularly as mills have shuttered operations and this trend is shown in the
7 following chart.” When asked, Ms. Lariviere advised me that at best the commercial
8 sales would be flat in the rate year. I used this optimistic statement to justify my
9 projection that commercial sales would be the same in the rate year as the test year.

10
11 **Q. What adjustment are you proposing to your calculation of rate year Operating
12 Revenue for this docket?**

13 A. I will accept Ms. Crane’s two year average approach for the calculation of rate year
14 residential water sales because I agree with Ms. Crane that when there is no definite
15 trend, rate year water revenues can be projected using historic data. In this docket, I
16 believe that the use of the last two years for the projection of the rate year residential
17 revenue is appropriate.

18
19 However, to calculate the rate year commercial revenue I will continue to use the test year
20 level (even though I am afraid that the downward trend for commercial sales will
21 continue). The combination of Ms. Crane’s residential adjustment and my commercial
22 adjustment (using Ms. Crane’s charts on page 9 of her prefiled testimony) results in a rate
23 year operating revenue adjustment of \$187,626 compared to Ms. Crane’s adjustment of
24 \$353,318. My calculation is as follows:

Average Residential Sales (2 years) (Ccfs)	1,181,122
Test Year Commercial Sales (Ccfs)	471,852
Total Projected Rate Year Sales (Ccfs)	1,652,974
My Original Projection (Ccfs)	1,588,029
Recommended Adjustment (Ccfs)	64,945
Current Retail Rate	\$3.24
Gross Revenue Adjustment	\$210,422
Incremental Power and Chemical Costs	(22,796)
Net Revenue Adjustment	\$187,626

25

1 **Q. Mr. Edge how did you calculate the incremental cost of \$22,796?**

2 A. I used the same approach calculated by Ms. Crane on her Schedule ACC-2.

3

4 **Q. What is your issue with Ms. Crane's adjustment to Health Insurance?**

5 A. There has been a significant amount of confusion regarding the WWD health
6 insurance costs. The confusion is the result of the City's method of calculating the
7 Health Insurance cost for the WWD. The City's health insurance is a "claims made"
8 type of health insurance. This means that the WWD health insurance cost is not the
9 result of certain coverage rates times the number of participants within that coverage but
10 rather the total cost of actual claims made during the year.

11

12 The City has previously used the generic funding rate calculated by Blue Cross to charge
13 the WWD. The result is that the City has under collected the actual cost of health
14 insurance from the WWD most years in the past. To further confuse the issue the City
15 did not increase the health insurance cost in 2006 but then doubled the increase in the
16 interim year (see the schedule on page 16 of Ms. Crane's prefiled testimony).

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18 **Q. Mr. Edge, it would appear then that Ms. Crane's adjustment of 10.5% for the**
19 **rate year increase is reasonable. Isn't that true?**

20 A. Given the information available to Ms. Crane, I agree that her adjustment was
21 reasonable. However, as Ms. Crane pointed out, she did not have a response to data
22 request DIV 2-15, relating to the actual WWD Health Insurance costs and the true-up for
23 the past five years. I am still seeking the back-up data to provide a complete picture on
24 this issue, and will supply it as soon as it is available; appreciating the fact that Ms. Crane
25 has left an opener to adjust her recommendation with further details from the City.

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27 Thus far, I was able to get the actual Health Insurance cost charged to the WWD for the
28 test year in the amount of \$746,850. This is the result of the initial amount charged to
29 the WWD plus a true-up of \$379,028. When I asked if this true-up was for one year I
30 was told that it was not, and I am waiting for further details on how long the true-up
31 relates to.

1 **Q. What have you decided to do with this issue at this time?**

2 A. I am afraid that Ms. Crane's adjustment is inadequate, through no fault of her own,
3 however we still cannot definitively state how many years the \$379,028 true-up
4 represents. In order to address this issue, however, I have made the assumption that the
5 true-up was a five year true-up. It is more likely that the true-up is for a shorter period of
6 time but without additional information I am not prepared to use a shorter period. I have
7 calculated that the five year true-up is an average of \$75,806 per year. I am suggesting
8 that this amount be added to Ms. Crane's adjustment \$47,118 for a total adjustment of
9 \$122,924. This amount will act as a place holder until the appropriate information is
10 made available to me. At that time I will provide an update to the Commission and the
11 Division.

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13 **Q. Does that conclude your testimony?**

14 A. Yes.

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