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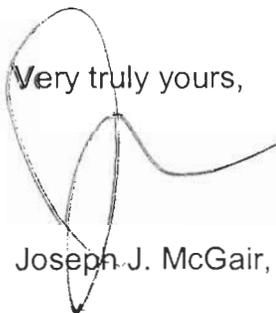
October 12, 2007

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

Re: PUC Docket No. 3832  
Kent County Water Authority/  
Providence Water Supply Board  
Application to Change Rate Schedules

Dear Luly:

Enclosed please find memorandum regarding the Providence Water Supply Board Application to Change Rate Schedules. Further enclosed please find nine copies of the same. An e-mail of the same was sent to the attached service list today.

Very truly yours,  


Joseph J. McGair, Esq.

JJM:dd  
Enc.  
Cc: Service List

# STATE OF RHODE ISLAND

## PUBLIC UTILITIES COMMISSION

In Re: Providence Water Supply Board Application to Change Rate Schedules

Docket Number 3832

### INTRODUCTION

On May 14, 2007, Kent County Water Authority filed its Motion to Intervene without objection in this matter before the Commission pursuant to Public Utilities Rules of Practice and Procedures 1.13 which took effect automatically. Similarly, on May 25, 2007, East Smithfield Water District, Town of Lincoln - Lincoln Water Commission, Greenville Water District, City of East Providence and the City of Warwick moved to Intervene, without objection in this matter before this Commission pursuant to Public Utilities Rules of Practice and Procedure which took effect automatically.

The evidence in this matter including exhibits and testimony was received on September 12, 2007 and September 13, 2007. This memorandum addresses several areas which are of concern to the intervenors and the rate payers.

#### 1. Retroactive Rule Making

Chairman Germani requested that the parties submit memoranda on the subject of retroactive rate making as it applies to the case ef before the Commission and this section is dedicated to that request albeit after thorough research there are no cases directly on point.

The Rhode Island Supreme Court has ruled that the exception to the rule against retroactive ratemaking applies to publicly owned waterworks such as the Providence Water Supply Board. Providence Water Supply Board v. Malachowski, 624 A2d 305, 310 (RI 1993), O'Neil v. Malachowski, supra at 1269. The Court has ruled that § 39-3-11.1 gives a publicly owned waterworks the ability to apply a retroactive rate for the purpose of collecting revenue to pay a debt to the municipality or reimburse the municipality for advances made by the municipality on its behalf. In Re Woonsocket Water Department, 538 A2d 1011, 1015 (RI 1988), Providence Water Supply Board v. Malachowski, supra at 310.

In Woonsocket Water, the Court upheld a surcharge which was granted by the Public Utilities Commission. In Re Woonsocket Water, supra at 1015. The purpose of the requested surcharge was to generate revenue for Woonsocket Water to pay off a loan owed to the City of Woonsocket which had accumulated over a four year period. Id at 1012. The Court cited § 39-3-11.1 as grounds for the ruling stating that application of the rule against retroactive ratemaking in this case would vitiate the meaning of the statute. Id at 1015. The Court also noted that the fact that Woonsocket Water allowed the debt to accumulate for four years without taking curative steps did not preclude Woonsocket Water from instituting a retroactive rate to repay its loan from the City. Id.

In this case, the Providence Water Supply Board is seeking rate payer funding for health insurance debt to the City of Providence to reimburse the City of Providence for its payment of the Providence Water Supply Board's retirees health insurance expenses. Hearing In Re Providence Water Supply Board Application To Change Rate Schedules, Public Utilities Commission, Docket Number 3832, September 12, 2007, Tr at 107-108. Pursuant to § 39-3-11.1 of the Rhode Island General Laws, 1956, as amended, and the Supreme Court rulings in the Providence Water Supply Board, O'Neil, and Woonsocket Water cases cited above, the Providence Water Supply Board request to seek rate payer funding for health insurance debt that was paid by the City of Providence over a period of years would not violate the rule against retroactive ratemaking albeit not to the liking of the Intervenor. Pursuant to the Supreme Court ruling in the Woonsocket Water case, the concerns raised by the fact that the accumulation of this debt for retirees health insurance costs over the period of years which resulted from oversight by the City of Providence and the Providence Water Supply Board. Further, the Supreme Court in Kent County Water Authority v. State of Rhode Island (Department of Health), 723 A2d, 1132 (RI 1999) had the issue of retroactive rate making pleaded by Kent County Water Authority, however, the Rhode Island Supreme Court did not directly answer the question.

## **2. Revenue Requirements**

- a. City Services: As presented in Intervenor Consultant Christopher Woodcock's testimony, The Providence Water Supply Board claimed City Services expenses are excessive and unsupported. Mr. Woodcock's prefiled direct testimony went unrefuted by Providence Water Supply The testimony of David G. Bebyn of B & E Consulting on behalf of Providence Water Supply Board did not refute Mr. Woodcock's direct or surrebuttal testimony. The Division limited its scope to recommending that two enterprise funds be included in the derivation of the "O" factor and that \$5000 of study expenses be removed. Aside from accepting Providence Water Supply Board explanation for the \$5000 study, there was no focus regarding City Service expenses in the Division surrebuttal testimony albeit nearly four pages of testimony in the Intervenor's prefiled testimony and several related data requests. Providence Water Supply Board failed to refute any of the positions presented by the Intervenor in this docket. By way of illustration, the Intervenor submit the following:

- i. "O" allocator. The Intervenors noted that Mr. Bebyn's "O" formula allocator used to assign the costs of many city departments was over stated for several reasons:
1. City Service costs of \$729,994 were included in both the numerator and denominator used by Mr. Bebyn to derive his "O" allocator which lead to double counting. The City Services portion of costs are not a direct Providence Water Supply Cost - the City does not incur any additional expense or provide any additional service to Providence Water because of the City Service allocations. They should not be included as a part of the Providence Water "costs" in deriving the "O" allocator
  2. The Property taxes paid by Providence Water Supply (over \$6 million) should not be considered a part of the costs in determining the allocations of City Services which have no bearing on the costs incurred by the City; the amount of services provided do not change if Providence Water Supply taxes paid to Scituate go up or down. The services provided by the City would be the same if the taxes were \$1 or \$6,000,000.
  3. Mr. Bebyn's initial calculations failed to include several City enterprise funds in the derivation of the "O" factor. It would appear that Providence Water Supply now accepts that enterprise funds should be included in the calculation of the "O" factor.
  4. Mr. Bebyn's calculation of the "O" factor excludes large portions of City budgets that are funded in part by federal or state grants (See responses to data requests Div 1-11 and KCWA 2-4). Despite this issue being raised in Mr. Woodcock's direct testimony, Providence Water Supply has not refuted this albeit some costs may be externally funded and do not justify a change in the amount of support a department may need. Simply backing out a portion of budget costs which are paid from an external source would be akin to backing out water revenues from the wholesale customers and retail rate payers outside of Providence. The City proposed using an allocator for numerous departments that was presumably grounded in some relationship between the Water Budget and the Total City budget. There was no explanation provided as to why one portion (City costs) should have amounts removed and the other portion (Water costs) should not have amounts removed from outside sources.

5. The Intervenors believe that the 6.51% developed by Mr. Woodcock is unrefuted and should be used by the Commission in arriving at its determination.
- ii. Mr. Woodcock provided substantial testimony regarding the allocation of the City Council, Council Administration, City Finance Department, and City Clerk's office. In each case the Intervenors demonstrated that only half the revised "O" factor should be allocated to Providence Water Supply Rate payers. Providence Water Supply has the burden of proof to support its claimed costs and allocations and Providence Water Supply has not provided any documentation or evidence to support the services sought to be part of this rate case.
    1. Providence Water Supply has a Board that performs many of the policy and oversight duties that a City Council might otherwise provide. Providence Water Supply has a capable Finance staff that all parties have agreed is excellent at performing the duties to which the Providence Water Supply Board is attempting to ascribe to City departments.
    2. Based on the evidence in this docket, the City Council has done very little in the way of administrative support of Providence Water Supply. The Intervenors asked for evidence of City Council involvement as expressed in City Council minutes for the rate year (KCWA 1-10). In the rate year
      - a. The first was that the Providence City Council submitted Providence Water Supply nominations and the subsequent election of a Council member to the Board albeit there was no discussion of the matter,
      - b. The second City Council mention of Providence Water Supply was simply a note about a communication regarding another appointment to the Board and similarly no discussion and in this case, no action,
      - c. Lastly, the City Council read and passed the budget, compensation plan, and classes of positions for Providence Water Supply and similarly no discussion was recorded of the matter. In fact all three ordinances were read and passed in one motion.
    3. Providence Water Supply described Administration Office services similar to the services from the City Council. No evidence of any service from the City Council Administration

offices has been provided by Providence Water Supply. Rather than suggesting that this expense be eliminated in total, the intervenors suggest that only one half of the revised "O" allocator be used to assign costs to the rate payers.

4. The Intervenors provided unrefuted testimony that Providence Water Supply finance staff does the majority of the work for Providence Water Supply and should not be compared to other City Departments that may be devoid of a capable full time staff. Again the intervenors suggest that only-half of the revised "O" allocator be used in recognition that Providence Water Supply has in-house staff that perform the vast majority of finance duties.
  5. Based on the responses to data requests (KCWA 1-12), David Bebyn's use of Exhibit DGB4 regarding City Clerk Office (prefiled testimony) was quite confusing. Mr. Bebyn later corrected his prefiled testimony (transcript day 2, pages 72-78). Apparently Providence Water Supply proposed allocation of the City Clerk office was based on the number of bid awards. Under cross examination (and in Mr. Woodcock's prefiled direct testimony) it was shown that the description of the City Clerk office mentions numerous duties, none of which involve bid awards. When asked what the City Clerk's office did for Providence Water Supply rate payers regarding a number of the duties enumerated on the Clerk's webpage, Mr. Bebyn could find none (transcript day 2, page 78) Similarly, rather than recommend a substantial reduction in the allocation of the Clerk's office to rate payers, the intervenors have recommended an allocation based on one-half the revised "O" factor.
  6. The Commission should only allow one half of the revised "O" allocator for these four departments.
- b. Pumping Expenses: Providence Water Supply has a number of pumping stations (see KCWA 1-7, KCWA 2-3). Many of these only provide distribution pumping, a service that is only for retail customers (see response to KCWA 1-6). As such, the costs associated with these pumping stations should not be assigned to wholesale customers. Providence Water Supply no longer accounts for labor costs associated with pumping, but in the past Providence Water Supply has estimated the costs and made provisions for the operations and maintenance labor at the various pumping stations so that the costs can be fairly allocated.
- i. There was no attempt in Providence Water Supply initial filing in this docket to identify and fairly allocate these costs. Subsequently,

Providence Water Supply Rate Consultant, Harold J. Smith identified a different allocation of treatment related labor costs and benefits in an attempt to account for the pumping labor related costs and benefits. However Mr. Smith used the very lowest end of Ms. Jeanne Bondarevskis (Finance Director of Providence Water Supply) estimate to estimate his pumping costs (Transcript Day 2, page 191 lines 1-20). The intervenors noted that the correct unit would be mid-range of Providence Water Supply estimate.

- ii. In its surrebuttal testimony the Division recognized the pumping labor and benefits and allocated them separately.
  - iii. Providence Water Supply admits that there are labor costs associated with pumping (Transcript Day 2, page 190 lines 8-9) but do not show these costs separately. (Transcript day 2, page 190 lines 10-16).
  - iv. The pumping labor and power costs should be allocated separately from treatment costs. They are different and are allocated differently. All parties agree to this.
  - v. Providence Water Supply admits that there are labor costs associated with pumping (Transcript Day 2, page 190 lines 8-9) but do not show these costs separately. (Transcript Day 2, page 190 lines 10-16)
- c. Updated meters, services, water sales: In response a data requests (Div 1-9, KCWA 4-2) Providence Water Supply updated the number of services by billing frequency and size and the number of fire hydrants. In response to Div 1-5, Providence Water Supply updated its water sales through FY 2007.
- i. The intervenors posit that Providence Water Supply rates should be set based on the most recent and most accurate information. The intervenors believe that the numbers of accounts and services should reflect the values presented in Div 1-9 and KCWA 4-2.
  - ii. The water sales should be updated to account for the FY 2007 actual sales. In a late filed response to a record request asking Providence Water Supply to complete its response to KCWA 3-3(d), Providence Water Supply has shown that its estimated retail sales for FY 2004-2006 were incorrect and did not match the actual metered sales. Had this information been provided as part of the proceedings, the parties could have included the corrected information in the updated exhibits. *This corrected information has an impact on ALL the cost allocations and resulting rate calculations.* The Commission should require Providence Water Supply, in a compliance filing or a late filed exhibit, to correct the

historic sales data, add in the most recent (FY 2007) sales and meter data, update the unaccounted for water, revise all the impact cost allocation symbols, and reallocate expenses.

- d. Funding beyond the rate year. In several instances, Providence Water Supply has asked for revenues that would fund various restricted accounts beyond the rate year in this docket. In his direct testimony regarding the insurance and chemical funds, Mr. Woodcock stated. "If the Commission allows funding of the restricted accounts past the rate year, Providence Water Supply should not have to return to the PUC as soon, saving rate payers the cost of another rate case. This should be a goal of the Commission. I believe this forward looking approach is somewhat unique, but should be accepted with strict controls on the funds to assure they are used for the intended purpose. As a result, I believe the Commission should accept Mr. Edge's adjustments and make this a policy for other utilities in the State." (See page 5 of Woodcock direct testimony) This forward looking approach should be acknowledged by the Commission and explicitly accepted as part of the Report and Order in this Docket.
- e. Cranston Tax Refund: The Intervenor have recommended (page 3, lines 1-13 of Woodcock surrebuttal testimony) that funds received from the Cranston tax refund and any subsequent refunds be restricted. Ms. Pamela Marchand, General Manager and Chief Engineer of Providence Water Supply agreed to all those recommendations (transcript day 1, page 62, line 3). The Commission should adopt these restrictions on the Cranston and any subsequent tax refunds.
- f. Salary increases: Ms. Marchand agreed that if the final salary increases that are negotiated are below the amounts requested in Providence Water Supply filing, that the difference would be placed in a restricted account for future disposition by the Commission (transcript day 1, page 78, line 21). The Commission should include this in its report and order.
- g. Operating Reserve: The Intervenor and Providence Water Supply have demonstrated the need for an increase operating reserve, some part of which is unrestricted and some part restricted to a drop or loss in revenues.
  - i. The only opposition to the request comes from the Division of Public Utilities and Carriers Consultant Thomas Catlin and his primary reason for disallowing this increase is the Commission's prior decision in the Newport Water docket (surrebuttal testimony page 6).
  - ii. Under cross examination (transcript day 1, pages 62-63) Ms. Marchand explained that the allowance proposed by the Division would not even cover half the loss that Providence Water Supply would have with the drop in sales it experienced in FY 2007.

- iii. A generic docket, while welcomed, will add little, if any, new information. The Intervenors posit that the Commission has sufficient information to decide this matter without further hearings and more than ample evidence has been provided to substantiate the need for a restricted revenue allowance to cover losses in revenues due to reduced sales.

### 3. Cost Allocation

- h. Allocation of unaccounted for water: In prior dockets involving Providence Water Supply the Commission has approved cost allocations of unaccounted for water between wholesale and retail accounts. In this docket Providence Water Supply failed to include such an allocation in its direct case. In direct testimony the Intervenors noted this and recommended that the Commission specifically address the matter and include such a calculation in the derivation of the wholesale and retail cost allocations. In direct testimony (page 19) Mr. Woodcock noted: "I believe that the method that has been used in the past fails to consider the losses due to under-registration of meters (primarily a retail only use), I believe that the inch-foot method that we have used may assign too much leakage to larger transmission pipes and too little to distribution pipes, and perhaps most importantly, I know that the current method has no consideration of the losses through miles of service connections to retail homes and fire services. In summary, I believe the current method is a good first step, but that it still assigns too much to the wholesale customers." The intervenors are strong in the conviction that the current inch-foot method does NOT account for leaks from retail service pipes or any accounting of retail meter slippage.
  - i. The Division prefiled direct testimony also included a calculation of unaccounted for water, but did not consider methods other than the inch-foot method.
  - ii. In its rebuttal testimony Providence Water Supply did include an allocation of unaccounted for water, but used the antiquated inch-foot method.
  - iii. Harold Smith was not aware of the American Water Works Association water loss committee papers on water loss prior to this docket (transcript day 2, pages 177 line 17) or that it had been proposed in 2000 (transcript day 2, pages 177 line 19). Mr. Smith never read the articles and could not possibly be aware of the American Water Works Association and International Water Association recommended analyses of water losses (transcript day 2, page 179 line 12) Upon further cross examination, Mr. Smith was unaware of what the AWWA position on this matter was. (transcript day 2, page 180)

- iv. In his testimony Providence Water Supply Director of Engineering, Paul Gadoury, obviously acknowledged that service pipes leak. (transcript day 1, page 52, line 2). He testified that 40% of all leaks are on service lines (transcript day 1, page 52, line 9). The inch foot method proposed by the Division and Providence Water Supply in surrebuttal testimony does not account for the length or any leaks in retail service pipes.
- v. Mr. Gadoury stated (transcript day 1, page 30, line 12) that Providence Water Supply has not performed a leak detection study in over a dozen years. He also testified (transcript day 1, page 38-39) that larger transmission mains were checked and leaks were repaired. It is also true that the retail distribution system has not had a current leak detection survey.
- vi. Mr. Gadoury testified that other components of unaccounted for water include that water used for fire fighting, street sweeping and flushing (transcript day 1, page 53, line 6-13) and that unlike retail use for these purposes, any such use by wholesalers would be reflected in their metered (accounted for) water use. These significant and admitted retail uses are not reflected in the Providence Water Supply allocation of unaccounted for water; they are in effect, assigned to wholesale customers and retail customers despite being a retail use only.
- vii. Mr. Woodcock provided specific surrebuttal testimony which demonstrated that the most recent methods adopted by American Water Works Association (AWWA) and International Water Association (IWA) clearly show that leakage in water pipes is a function of the length of pipe and NOT the diameter of pipe. (Hearing Exhibit 14)
- viii. Providence Water Supply assertion that the Intervenors' proposal is too avantguard to consider is incorrect. The AWWA Article referred to in Mr. Woodcock's testimony and provided as a response to Commission Record Request #10 – Providence Water Supply and Exhibit 14 (Committee Report "Applying Worldwide BMPs in Water Loss Control") makes reference on page 77 of the article to the "Kuichling equation which is still used by many North American water utilities." As the article discloses, this widely used equation was published in 1887 and is a well known engineering equation which estimates water losses based on length of pipe, number of pipe joints, hydrants and stop valves, and number of service connections. As in the updated AWWA/IWA method noted by Mr. Woodcock, pipe length plus service connections form the basis of water losses, **NOT pipe length times size** as proposed by Providence Water Supply. In addition, it cannot be reasonably claimed that a

method based on an equation that was published some 120 years ago is "new".

- ix. The simple truth is that the inch-foot method used in the past is and was NOT an appropriate way to allocate unaccounted for water. The Intervenors have brought forth a method that is widely accepted and has been used for more than a century. The Providence Water Supply Chief Engineer concurred that service pipes are responsible for retail leaks, yet Providence Water Supply continues to try to dismiss the service pipe leaks in the face of uncontroverted evidence.
  - x. Mr. Smith agreed that the length of mains, and service pipes contribute to water losses (transcript day 2, pages 181 line 2-4) albeit dismissive of Mr. Woodcock's proposal to allocate unaccounted for water by considering the American Water Works Association factors.
  - xi. Mr. Jerome D. Mierzwa, Division Consultant agreed that service pipes leak, yet, did not account for any losses from retail service pipes in his allocation of unaccounted for water. (Transcript Day 2, page 211 lines 3-8) Mr. Mierzwa also agreed that the unaccounted for water losses include water lost through service pipes. (Transcript Day 2, page 220 lines 1-6)
  - xii. No one proffered any testimony disputing the findings presented by the Intervenors that simple length of pipe and NOT inch-feet of pipe should be used to assign unaccounted for water. Any suggestion to the contrary the nomenclature ("unaccounted for water" vs. "unavoidable losses") is an obfuscation of the facts.
  - xiii. No one proffered any testimony that service pipes should be excluded from the allocation of unaccounted for water; in fact, all parties in cross examination concurred that service pipes do leak.
  - xiv. The Intervenors acknowledge that the proposed method of allocating unaccounted for water is a departure from prior dockets however, the Commission has adopted changes to cost allocations in the past resulting in equitable allocations of costs, and in this case, it is the right thing to do.
  - xv. The Intervenors propose to assign unaccounted for water based on miles of pipe and service connections rather than just size of pipe times the length. At a minimum, the length of retail service pipes should be included in the calculations and assigned as a retail loss.
- i. Fixed wholesale charge: Providence Water Supply has proposed that the wholesale rate per million gallons be replaced with a combination

metered rate (75%) and fixed charge (25%). The intervenors oppose this posture.

- i. The sole basis for the proposal by Providence Water Supply is to maximize fixed revenues and increase revenue stability. However, Providence Water Supply has also proposed to reduce the fixed revenues from public fire protection charges, a fixed revenue from relatively few customers. Asking for an increase in fixed revenues from wholesale customers and a decrease in fixed revenues from retail customers is inconsistent.
- ii. Wholesale customers pay fixed meter service charges just like all other customers.
- iii. Adopting a fixed wholesale charge for consumption will result in certain revenues exceeding costs for some customers and at less than cost for others. (Woodcock prefiled direct page 27)
- iv. The Division comments on this matter were limited to a few sentences in its prefiled direct testimony. Aside from claiming that such fixed charges are "not uncommon for wholesale customers in the natural gas and electric industries" and "the Division understands the desire to improve revenue stability and the proposal is not unreasonable" (Mierzwa direct testimony page 15), the Division was silent on this matter.
- v. Providence Water Supply did respond to the intervenor's concern in its rebuttal testimony. Mr. Smith (page 3 of rebuttal) admitted that the fixed charge "would ultimately result in over and under charges." Mr. Smith explained that rate setting is not an exact science. However, in relation to the fixed wholesale charge, it is clear that the adoption of a fixed wholesale charge will result in a greater degree of imprecision than no fixed charge.
- vi. There is a much greater variation in retail water sales than wholesale water sales (See Woodcock direct testimony page 28). Providence Water Supply in order to stabilize its revenues should look to a fixed retail charge before considering a fixed wholesale charge. To single out the wholesale customers, where the problem of revenue stability is minimal is unfair.
- vii. All parties have acknowledged that the Bristol County Water Authority will be reducing its reliance on Providence Water Supply in the near future. There can be no clearer example of the fallacy of Providence Water Supply proposal than the future impact on Bristol County. Bristol water purchases will drop and, the Bristol County Water Authority would be left with a high fixed charge based on historic water use that is no longer applicable.

- viii. The imposition of a fixed wholesale charge provides less conservation incentive and is contrary to state policy and common sense. If the Commission allows a fixed charge the incentive of wholesalers to find and develop additional water supplies or reduce customer demands will be diminished; despite a reduction on future purchases from Providence Water Supply, a portion of the charges will not change.
- j. Western Cranston Fund: The Intervenors and Providence Water Supply both acknowledge that the costs associated with the Western Cranston Fund are related to retail distribution and have no bearing on wholesale customers. Providence Water Supply stipulated to this during the hearings (Transcript Day 2, page 187 lines 1-16) The Western Cranston system is a retail distribution system and no cost should be allocated to wholesale customers. This matter was raised in Mr. Woodcock's direct testimony (page 22). In its rebuttal testimony Providence Water Supply revised its cost allocations to account for the issues raised by Mr. Woodcock and allocated these costs based on allocator TD (Transcript Day 2, page 189 lines 1-10). The Division did not respond to this matter. All costs associated with the Western Cranston system should be allocated to retail customers only.
- k. Allocation of Benefits: In its direct testimony both Providence Water Supply and the Division allocated employee benefits based on an old allocation factor from a prior stipulated case. In its direct testimony, the Intervenors noted that this antiquated method from past cases made little sense with Providence Water Supply's accounting of benefit costs within each function (supply, treatment, customer services, etc.), and that the method used by Providence Water Supply and the Division was contrary to normal cost allocation practice. In Providence Water Supply rebuttal testimony and the Division surrebuttal testimony it was acknowledged the claim of the Intervenors and adjusted the allocation of benefits accordingly. While there remains a slight difference between Providence Water Supply and the Division/Intervenors, the Commission should order that labor benefits be allocated based on the allocation of labor within each functional category as proposed by all parties.
- l. Misc. Revenue – Rental of Property: In Providence Water Supply rebuttal testimony and the Division surrebuttal testimony, both proposed allocating each miscellaneous revenue item separately rather than allocating miscellaneous revenues as a whole. While the Intervenors did not present such an allocation of the miscellaneous revenues, the Intervenors agree (with one exception) to the methods used by the Division and Providence Water Supply. It was clear from the testimony (transcript day 1, page 119-120) that the revenues from the Rental of Property relate to easements that are on supply land. Accordingly, the miscellaneous revenues from Rental of Property should be allocated based on allocation symbol "A"

and not "Z". If the income is to be assigned separately it should be done correctly by assigning the rental revenues to supply (allocator A) and not on some nebulous overall basis as suggested by the Division. The Division admitted that this was proper (Transcript Day 2, page 210 line 22)

### **CONCLUSION**

The Intervenors posit that Providence Water Supply's proposed City Service expenses grossly overstate that value and cost of services that are provided by the City of Providence to Providence Water Supply. The proposals offered by the Intervenors are more than generous. There is a scant evidence of services from a number of City Departments, yet the Intervenors have proposed an allowance of one-half the "O" allocator.

There is clear evidence of costs associated with pumping and that much of this expense is related to retail service only. The Commission should require Providence Water Supply to account for these expenses and allocate these costs in the manner proposed by the Intervenors.

Both the Intervenors and Providence Water Supply have demonstrated the need for an adequate reserve that would allow Providence Water Supply to achieve the revenues that are allowed. The Division's proposal to hold on to prior decisions has no factual support. The Commission should allow a revenue reserve equal to 1.5% of total revenues that is restricted and can only be used upon an application demonstrating a need due to dropping sales and approval by the Commission.

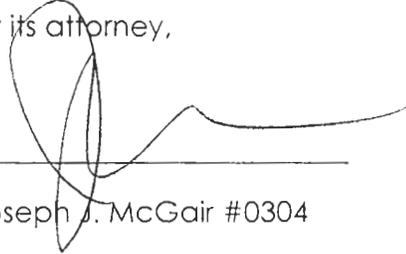
The Intervenors have shown that current industry standards demonstrate that unaccounted for water has no relationship to the size of pipe - it is only related to the length of pipe. Further, all parties agree that retail service pipes are subject to leaks and should be reflected in the allocation of unaccounted for water. The Commission should order Providence Water Supply to prepare a compliance cost allocation that follows the method proposed by the Intervenors and is based solely on the miles of pipe and service pipes.

All parties agree that Providence Water Supply's proposed fixed wholesale charge can only result in charges that are less precise than a simple use based charge. The only reason offered for this change is to maximize fixed revenues. The trade off with an accurate allocation of costs is simply not worth it, especially when Providence Water seeks to reduce the amount of fixed revenues from public fire protection charges. The Commission should deny this requested change to the wholesale tariffs and continue with the more accurate use-based-only charges.

Respectfully submitted on behalf  
Of the Intervenors,

Kent County Water Authority

By its attorney,



\_\_\_\_\_

Joseph J. McGair #0304

PETRARCA AND McGAIR, INC.

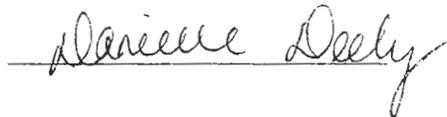
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Warwick, RI 02886

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**CERTIFICATE OF SERVICE**

In accordance with Rule 1.7D of the Rules of Practice and Procedure of the Public Utilities Commission, I hereby certify that on the 12<sup>th</sup> day of October, 2007, a copy of the within Request was mailed electronically to the attached service list.



\_\_\_\_\_

**SERVICE LIST - RIPUC DOCKET NO. 3832**  
**Providence Water Supply Board – Rate Filing**

Updated: 9/4/07

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