

**DIRECT TESTIMONY OF
WALTER E. EDGE Jr. MBA CPA, PRESIDENT
B&E CONSULTING LLC**

**for
PROVIDENCE WATER SUPPLY BOARD
DOCKET # _____**

March 2007

1 **Providence Water Supply Board**

2
3 PRE-FILED DIRECT TESTIMONY
4 OF WALTER E. EDGE Jr. MBA, CPA

5
6 **Q. Good morning Mr. Edge. Would you please give your name and business**
7 **address for the record?**

8 A. My name is Walter Edward Edge Jr., MBA, CPA and I am the President of B&E
9 Consulting LLC at 21 Dryden Lane, Providence R. I. 02904.

10
11 **Q. What is B&E Consulting LLC?**

12 A. B&E Consulting (B&E) is a full service consulting and accounting firm providing
13 general business, public utility and education consulting for small businesses, public
14 utilities, municipalities, schools, and individuals.

15
16 **Q. Are you the same Walter E. Edge Jr. who has testified as an expert accounting**
17 **and rate witness in previous rate filings for Providence Water and others?**

18 A. Yes. I have provided expert accounting and rate testimony before the Rhode Island
19 Public Utilities Commission (PUC) for Providence Water on numerous occasions
20 including the most recent Abbreviated Filing (Docket 3684). Some of the other clients
21 that I have testified for include Interstate Navigation Company, Block Island Power
22 Company, Narragansett Bay Commission, Pawtucket Water Supply Board, Newport
23 Water, the Town of North Smithfield, Osram Sylvania, and Stone Bridge Fire District.

24
25 In addition to the above, I have also completed rate studies for non-regulated utilities such
26 as Warwick Water, Warwick Sewer, East Providence Water, North Kingstown Water,
27 Greenville Water, Cumberland Water, East Smithfield Water, Pascoag Fire District, and
28 Harrisville Fire District.

1 **Q. What is the purpose of your testimony?**

2 A. Providence Water hired B&E to assist with the development of a normalized test
3 year, FYE June 30, 2006, (which will be prepared and presented by David Bebyn C. P.
4 A., Vice President of B&E) and a rate year, January 1, 2008 through December 31, 2008,
5 which will be addressed by me in this testimony. B&E was engaged to prepare expert
6 testimony and schedules as required by the Rhode Island Public Utilities Commission
7 (PUC) in support of both the test year and the rate year.

8
9 **Q. Mr. Edge has B&E completed any rate design work for this docket?**

10 A. No, the rate design issues in this filing will be addressed by Raftelis Financial in the
11 prefiled testimony of Harold Smith. B&E worked with Mr. Smith by providing the rate
12 year revenue requirement developed in this testimony.

13
14
15 **OVERVIEW**

16
17 **Q. Would you please provide an update as to the status of rate issues raised in the**
18 **last abbreviated rate filing Docket #3684?**

19 A. Certainly. Docket #3684 (filed by Providence Water in June of 2005) was concluded
20 by a settlement between the parties presented to the Commission in November 2005 and
21 approved with new rates effective January 1, 2006. The major issues addressed in that
22 Docket were as follows:

- 23
24 1. The Division's witness proposed a small adjustment to Providence Water's projected
25 revenue at old rates. The reasons for the adjustments were updating the number of
26 water and private fire service customers, updating wholesale water sales results, and
27 using a four year average for the consumption level for retail customers. For this
28 filing, B&E has addressed each of these matters and updated the necessary revenue
29 information.

1 2. The second area that was adjusted was salaries and benefits. The Division's witness
2 made an adjustment for capitalized labor and benefits funded through IFR.
3 Providence Water agreed with the adjustment and has addressed this matter in this
4 filing.

5
6 3. The third area addressed by the Division was to up-date certain expenses to reflect the
7 most current information available. The Division proposed an adjustment to increase
8 chemicals and adjustments to decrease insurance (which proved to be a mistake),
9 property taxes and electricity. Providence Water concurred with each of those
10 adjustments to reach a settlement. In this Docket, I have provided the most current
11 information available at this time and intend to update my estimates when new
12 information is made available.

13
14 4. In addition to making adjustments to the revenue requirement the parties completed a
15 thorough review of the Providence Water restricted accounts in the last Docket. Two
16 restricted accounts were scheduled to close (the Wholesale Valve Restricted Fund and
17 the Alternative Supply Restricted Fund) on or before June 30, 2006. As agreed in the
18 stipulation, Providence Water closed these two accounts and transferred the balance
19 of the Wholesale Valve Restricted Fund in the amount of \$772,051 to the Insurance
20 Restricted Account, and transferred the balance of the Alternative Supply Restricted
21 Fund in the amount of \$451,231 to the Chemical/Sludge Restricted Fund. The
22 parties also agreed that a contingency for the wholesale valve project in the amount of
23 \$400,000 would be added as a line item to the Infrastructure Replacement Restricted
24 Fund and this has been done. The costs are included in the 78"/102" and structure D
25 + E inspection/rehabilitation project.

26
27 For this docket we once again reviewed the restricted fund accounts and made
28 appropriate adjustments when necessary. Providence Water is satisfied with the
29 success that has been achieved by using these restricted accounts.

30

1 5. The last issue was to adjust the Operating Reserve to reflect the adjustments made in
2 items 1 through 4 above.

3
4 **Q. How much of a revenue increase is Providence Water requesting in this docket?**

5 A. Providence Water is requesting additional revenue of \$9,688,321. This represents a
6 revenue increase of 19.07%.

7
8 **Q. Will all rates increase by 19.07%?**

9 A. No, the total revenue requirement for the rate year was given to Mr. Smith who has
10 developed a new rate design model for this filing (see Mr. Smith's testimony).

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1 **Expenses:**

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3 **Q. Mr. Edge, how did you start your rate year analysis of expenses?**

4 A. I obtained the Adjusted Test Year trial balance and the three year comparative
5 expense analysis (DGB-2) from Mr. Bebyn and reviewed the expense accounts to
6 determine which accounts were material and most likely to change in the rate year. The
7 adjusted test year on Mr. Bebyn's Schedules DGB-1 and DGB-2 are the basis of the
8 Adjusted Test Year on my schedules WEE-1 and WEE-2.

9
10 **Q. What adjustments have you made for the rate year in this filing?**

11 A. After reviewing Providence Water's test year financial position I have made rate year
12 adjustments in 12 specific accounts or groups of accounts as follows:

13

Account	Adjustment Amount	Percentage of Major Adjustments	Reference Page #
1. Salaries and Wages	\$947,203	11.2	7
2. Property Taxes	540,738	6.4	8
3. Insurance Expense	1,000,000	11.8	9-11
4. Pension and Other Benefits *	884,140	10.5	11-12
5. Regulatory and Rate Case Expense	89,036	1.1	12
6. Chemical and Sludge	1,073,654	12.7	13
7. Purchase Power	543,698	6.4	13
8. IFR / Restricted Funding	2,000,000	23.7	13-14
9. GASB 43/45 Health Insurance	403,243	4.7	15-16
10. Health Insurance Liability (City)	300,000	3.6	16
11. City Services	515,958	6.1	17
12. Study for Strategic Planning	150,000	1.8	17
		100.0%	
* Excluding GASB 43/45 (Item 9) and Health Insurance (City) (Item 10)			

14
15 In addition to the above adjustments, I have also increased all remaining accounts for
16 inflation (2.5% per year) and made an adjustment for the net operating income allowance
17 at 3%.

Salaries and Wages

1
2
3 **Q. How did you calculate the increase needed for salaries and wages for the rate**
4 **year?**

5 A. I started my calculation with the actual amount for salaries and wages for each
6 account in the test year ending June 30, 2006. Next, I adjusted the test year amounts to
7 reflect a 3% per year increase for the fiscal years ended June 30, 2007, (per the union
8 contract) and June 30, 2008, and by 1.5% for the fiscal year ended June 30, 2009 (to
9 account for July 1, 2008 to December 31, 2008 - the first six months of FYE 2009 that are
10 in the rate year).

11
12 The resulting total payroll expense (sum of all of the payroll accounts for the rate year)
13 was then compared to the test year payroll expense to calculate the rate year adjustment.
14 (See Schedules WEE-3)

15
16 **Q. Mr. Edge why did you use a 3% per year salary increase for the interim and**
17 **subsequent years?**

18 A. I reviewed the Union Contract for the City of Providence with the Public Employees'
19 Local Union 1033 which has an effective term of July 1, 2004 through June 30, 2007.
20 (Note: The City had not yet completed additional negotiations with the union to extend
21 this contract when I was writing this testimony.) I noted on page 11 of the contract under
22 "Article VI Salary and Hourly Rate Schedule" that the percentage increases for FYE June
23 30, 2006 and FYE June 30, 2007 were 3%. Since the contract did not extend through the
24 rate year (CY 2008) in this docket, I used the 3% increase per the contract for FYE 2006
25 and 2007 as a guide to estimate an appropriate increase for FYE 2008 and one half of 3%
26 for the last six months of CY 2008. It is my intent to modify my projection of salary and
27 wages for the rate year when the new union contract is signed if the increase differs from
28 the 3% per year which I have projected.

1 **Q. Mr. Edge, are there other items in the contract that may be changed?**

2 A. Yes, there are. I am using the 3% increase to salaries and wages as a place holder to
3 cover all of the changes that may come out of the contract negotiations. If other items in
4 the contract increase or decrease Providence Water's rate year expenses, I will address
5 them in my rebuttal testimony. (See Schedule WEE – 6)

6
7 Property Taxes

8
9 **Q. The next adjustment in your list of adjustments is property taxes. How did you**
10 **calculate the rate year property taxes for this filing?**

11 A. I started with the actual FYE June 30, 2007 property taxes and increased the property
12 taxes for each municipality to reflect the projected increases for FYE 2008 (5%) and one
13 half of the projected increase for FYE 2009 (2.5%). (See Schedules WEE-4 and WEE
14 4A)

15
16 **Q. Mr. Edge, you have used projected property tax increases for FYE 2008 and**
17 **FYE 2009. Is it your intention to update the estimates for CYE 2008 property taxes**
18 **when the actual percentage increases are known?**

19 A. Yes. I will advise the Division and Commission as to the actual FYE 2008 property
20 taxes when they become known (in about July –August of 2007 when the tax bills are
21 issued) and I will adjust my estimates for CY 2008 if needed. It should be noted
22 however that the Scituate property taxes alone represent over five million dollars of the
23 approximate six million dollars in annual property taxes. Therefore, the percentage
24 increase used to calculate the Scituate property taxes is by far the most important
25 percentage for projecting the CY 2008 total property taxes.

1 Insurance

2
3 **Q. What account would you like to discuss next?**

4 A. Insurance expense. The insurance expense is made up of six different activities as
5 shown on my Schedule WEE-5. The largest premiums on the insurance expense
6 schedule are for 1) Property and Casualty (P&C) premiums and 2) Worker's
7 Compensation (WC) premiums. These two items represent about 90% of the insurance
8 expense accounts. To estimate the rate year CY 2008 insurance expense, I started with
9 the actual insurance expense for the FYE June 30, 2007. I then estimated insurance
10 expense for FYE June 30, 2008 and FYE June 30, 2009 by using a 10% increase per year
11 (provided by Providence Water's insurance carrier as a reasonable estimate) for the two
12 major accounts P&C and WC. I will update this estimate should additional information
13 become available.

14
15 **Q. Has the insurance restricted fund worked well in the past?**

16 A. No, in fact while testifying in the last abbreviated rate case, Ms. Bondarevskis,
17 Director of Finance testified as follows:

18
19 *"Like I said, my only concern is the insurance. If the insurance expense go up*
20 *dramatically more than what we have anticipated, if there is another terrorist*
21 *attack and insurance prices get outrageous, we may have to go without insurance*
22 *or come back to the Commission and do an abbreviated filing because that fund is*
23 *very tight on cash"* Transcript pages 102-103.

24
25 **Q. Were Ms. Bondarevskis' concerns well founded?**

26 A. Yes. Insurance rates have continued to rise at a rate far greater than the rate of
27 inflation. The increases in insurance costs over the past two years have resulted in
28 funding shortfalls in the insurance restricted fund which needs to be addressed in this
29 filing.

1 **Q. What were the increases in insurance rates?**

2 A. The increases have been significant. For example, the insurance projection in the
3 most recent Abbreviated Rate Filing, Docket 3684, (which had a rate year ending
4 December 31, 2006) was \$1,777,444. The actual test year in this docket, FYE June 30,
5 2006, which is only half way through the rate year in the abbreviated docket, had actual
6 insurance costs of \$1,989,616, which is an increase of 11.9%. This means that the
7 projected increase for the rate year in the abbreviated filing was inadequate and that the
8 11.9% (at a minimum) funding shortfall needs to be addressed in this docket.

9
10 I have projected the FYE 2007 insurance expense to increase by 10% per year for FYE
11 2008 and FYE 2009 with the exception of Safety Supplies and Program Expense. These
12 two smaller accounts were left at the FYE 2007 budget amounts through FYE 2009. I
13 then used the average of the FYE 2008 and FYE 2009 insurance costs by line item to
14 project the rate year insurance costs. (See Schedules WEE-5 and Schedule WEE-5A)

15
16 **Q. Mr. Edge, your Schedule WEE-5 shows the need for an increase in insurance**
17 **expense for the rate year of \$399,604. However, your overall total adjustment to**
18 **the Insurance Restricted Fund shown on your Schedule WEE-10G (and posted to**
19 **your Schedule WEE-2) is \$1,000,000 (\$399,604 + \$600,396). What is the difference?**

20 A. First, it is important to understand that the Insurance Restricted Fund (like all
21 restricted funds) is created to operate at a small surplus so that the restricted fund is self
22 sufficient. In the past, Providence Water has found that the Insurance Restricted Fund
23 has not operated at a small surplus because, unlike the other restricted funds, the charges
24 to the fund, the insurance premiums, normally increase each year (and frequently at a
25 greater rate than inflation). These annual premium increases have resulted in shortfalls
26 in the Insurance Restricted Fund in the year following the rate year and sometimes even
27 in the rate year itself. The Insurance Restricted Fund is projected to operate at a loss in
28 FYE June 30, 2007, which will require Providence Water to advance \$115,000 from its
29 operating funds to pay the insurance bills.

30

1 A review of the history of this account shows wide swings in the funding requirements
2 because this restricted fund has, in the past, had significant deficits and has seldom had
3 surpluses. I went back and reviewed my Schedules WEE-7, WEE-7A and WEE-12I
4 from the last Abbreviated Docket #3684. It is obvious from those schedules that the
5 insurance funding requested in that docket would result in inadequate funds by no later
6 than June 30, 2008 (it actually happened much sooner).

7
8 **Q. How have you calculated the total funding needed for the Insurance Fund?**

9 A. I completed the calculation of the rate year estimated insurance cost as explained
10 above. I then compared the projected rate year insurance cost requirement to the test
11 year level of insurance cost. I then posted the rate year estimated insurance costs to the
12 Insurance Restricted Fund Schedule WEE-10G and calculated the FYE balances for fiscal
13 years ended 2008, 2009 and 2010. The results were deficits in each year. To correct
14 the deficits I added an additional revenue source of \$600,396 to increase the funding to
15 allow for modest, but reasonable surpluses to eliminate the problem. (See Schedule
16 WEE-10G)

17
18 Pension and Other Benefits

19
20 **Q. I notice that the next set of accounts is Pension and Other Benefits. How did
21 you calculate the rate year level of expense for these related accounts?**

22 A. I have listed the Pension and Other Benefits accounts on my Schedule WEE-6.
23 This schedule shows the test year level of expense for each item, the proposed adjustment
24 and the pro-forma expense for each item. It further shows the percentage increase used
25 to calculate the pro-forma adjustment and the referenced back-up schedules.

26
27 **Q. Mr. Edge what back-up schedules have you completed in support of the Pension
28 and Other Benefits calculations?**

29 A. I have three Pension and Other Benefits schedules.
30

1 As stated above, the first (Schedule WEE-6) is a summary of the Pension and Other
2 Benefits activities. This schedule lists two new issues for this docket: 1) the calculation
3 of an allowance to fund the new GASB 43/45 health insurance requirements and 2) the
4 pay back of the City for prior year retiree Health Insurance. Both of these new issues
5 will be discussed later in this testimony. Please note that the first three items on
6 Schedule WEE-6; 1) Union Pension, 2) Training and 3) Other Benefits have been left at
7 the test year level for the rate year. As I have previously stated my estimate of a 3%
8 increase in salaries and wages was intended to cover all contract increases through CY
9 2008. Therefore, I have left these three accounts at the test year levels for now. I will
10 adjust these three items if necessary, when the new contract is available.

11

12 The second, Schedule WEE-6A presents the allocation of the total Pension and Other
13 Benefits to the appropriate NARUC accounts. The results of Schedule WEE-6A were
14 posted to Schedule WEE-2.

15

16 The third, Schedule WEE-6B provides the actual increase in health insurance from the
17 test year through the FYE June 30, 2007. The percentages on Schedule WEE-6B were
18 used to calculate the rate year estimated cost of Health Insurance.

19

20 Regulatory Commission and Rate Case Expense

21

22 **Q. How did you calculate the regulatory and rate case expense for the rate year?**

23 A. Regulatory Commission expense is made up of a number of activities, the largest of
24 which is the PUC annual assessment. I increased the test year amount of the assessment
25 by about 4% per year (10% total) to arrive at the rate year level of assessment. Other
26 regulatory expenses were estimated to cover the cost of various PUC and DPUC activity.
27 In total the regulatory utility expense was increased by about \$16,000. Rate case expense
28 was estimated (using contract amounts where available) and then amortized over two
29 years. The total calculated rate year regulatory and rate case expense was compared to
30 the test year level of expense and an adjustment was calculated. (See Schedule WEE-7
31 for details)

1 Chemicals and Sludge

2
3 **Q. The next set of accounts that you have listed above requiring adjustment are**
4 **Chemicals and Sludge. How did you calculate the rate year level of expense for**
5 **chemicals and sludge?**

6 A. Please see my schedule WEE-8 and WEE-8A. The pro-forma rate year level of
7 chemical cost was calculated by taking the projected FYE 2008 usage times the projected
8 CY projected price. The results were compared to the test year actual expenses to
9 determine the rate year adjustment. It was necessary however to increase the rate year
10 adjustment by \$200,000 to address significant deficits in the Chemical Fund through FY
11 2010. The estimates in unit price shown on Schedule WEE-8A will be updated as they
12 become known.
13

14 Purchase Power

15
16 **Q. You have made an adjustment for purchased power. What are these accounts?**

17 A. These accounts are mostly electricity and one gas account. Purchased power
18 increased from FYE June 30, 2004 to FYE June 30, 2006 by about \$320,023 which is
19 approximately 46%. I do not know if this level of increase will continue, but to be safe, I
20 have used the percentage increase from FYE 2004 to FYE2006 to project the increase
21 from FYE 2006 to FYE 2008. I then increased that amount by 5% to arrive at the pro-
22 forma amount and in turn the pro-forma adjustment. (See Schedule WEE-9) Please
23 note that I will up-date the actual FYE June 30, 2007 activity when it becomes available
24 and recalculate the pro-forma rate year adjustment.
25

26 Restricted Accounts

27
28 **Q. Mr. Edge the next item on your schedule is IFR Restricted Accounts. Would**
29 **you please explain what adjustments have been made to this and any other**
30 **restricted accounts?**

1 A. Yes. I have completed a detailed review of each of Providence Water's restricted
2 accounts and the cash balances in each at June 30, 2006 available for future expenditures.

3 In summary, I found the following:

- 4 1. The two restricted accounts 1) 102" Valve Fund and 2) the Alternate Supply Fund
5 were eliminated in the last docket and the balances were closed to the appropriate
6 accounts.
- 7 2. As stated earlier, I increased the funding for the Insurance Fund by \$1,000,000 per
8 year in an effort to keep the insurance fund from running a deficit balance.
- 9 3. As stated earlier, the funding for the restricted Chemical Fund was increased for
10 the projected rate year increase over the test year level of chemical expense. In
11 addition, \$200,000 was added to the rate year adjustment for the chemical
12 restricted account in order to eliminate deficits for the period FYE 2007 through
13 FYE 2010.
- 14 4. IFR was increased by \$2,000,000 to cover improvements to the treatment facility
15 and an intensive lead abatement program for the distribution system. In addition,
16 Providence Water is in the process of borrowing \$35,000,000 from Clean Water.
17 The debt service for that borrowing will flow through the IFR restricted fund. See
18 the testimonies of Ms. Jeanne Bondarevskis and Mr. Paul Gadoury for further
19 details. There was also one reclassification made to the restricted accounts.
20 Providence Water is requesting \$600,000 be transferred from the IFR restricted
21 account to the AMR restricted account so that all meter related items can be done
22 in one restricted account.
- 23 5. The funding for the remaining restricted funds did not change.

24
25 **Q. Have you provided any schedules in support of your restricted account**
26 **findings?**

27 A. Yes I have, see Schedules WEE-10 (A-G). I have provided the projected source and
28 use of funds for each of the restricted accounts for the fiscal years ended June 30, 2007
29 through June 30, 2010. Each schedule further shows the beginning cash balance at July
30 1, 2006, and carried forward the available cash balance for each successive year.

1 I believe that these schedules clearly show the projected activity of each of the restricted
2 accounts through June 30, 2010. Further, I believe that these schedules show that the
3 funding levels that I am recommending for each restricted fund is reasonable.

4
5 **Q. Mr. Edge, are there any other adjustment that we need to discuss?**

6 A. Yes there are. I still have six additional areas that require adjustment. They are:

- 7 1. The establishment of a reserve for post retirement health benefits in accordance
8 with GASB 43/45,
- 9 2. The repayment of the City for health insurance for retirees paid by the City for
10 former Providence Water employees,
- 11 3. City Services,
- 12 4. Strategic Planning,
- 13 5. An adjustment to eliminate the health insurance for certain Board members,
- 14 6. Inflation,
- 15 7. Net operating reserve.

16
17 GASB 43/45
18

19 **Q. Mr. Edge what is GASB 43/45?**

20 A. GASB is the Governmental Accounting Standards Board. This Board recently
21 issued two pronouncements which addressed post retirement benefits other than pension
22 (GASB 43 and GASB 45). The pronouncements require governmental entities to
23 recognize future liabilities for post retirement health insurance.

24
25 **Q. What does this mean for Providence Water?**

26 A. It means two things. First Providence Water will have to recognize the liability it
27 has for post retirement benefits for its current retirees and its current employees and
28 second Providence Water must start funding this liability.

1 **Q. What is the basis for your adjustment in this filing?**

2 A. The City of Providence hired Buck Consultants to complete a study of post
3 retirement benefits (other than pension) for the entire City of Providence which included
4 Providence Water. That study determined that the Providence Water post retirement
5 liability should be funded over 30 years.

6
7 **Q. What are the components of the Buck funding requirements for the Rate Year?**

8 A. The Buck report concluded that the normal cost for the rate year (current cost) will be
9 \$432,896 and the 30 year amortization will be \$601,920 in the rate year for a total cost of
10 \$1,034,816. B&E asked the City if it intended to fund its 30 year amortization as
11 suggested in the Buck report and was told that the City intended to fund 50% of the
12 liability. Therefore, for this filing I have included the current cost of \$432,896 plus 50%
13 of the 30 year amortization (\$300,960) for a total rate year cost of \$733,856 (See WEE-
14 6).

15
16 Re-payment to the City for Retiree Health Insurance

17
18 **Q. What is the issue relating to the re-payment of the City for retiree health**
19 **insurance?**

20 A. During the City's and Providence Water's review of the GASB 43/45 requirements it
21 became obvious that as a result of an accounting oversight the City had not been
22 reimbursed for the Providence Water retiree health insurance for a number of years. See
23 Ms. Bondarevskis' testimony for more details regarding how the oversight occurred.

24
25 **Q. What is the impact of the oversight in the rate year?**

26 A. I have included a \$300,000 amount to pay back the City over the next 5.5 years. The
27 total owed for the period 1997 through 2005 was calculated to be \$1,635,592, excluding
28 interest, which the City has waived. The City has also waived the repayment of all sums
29 paid before 1997.

1 **Q. Did Providence Water pay the retirement health insurance prior to 1997?**

2 A. I believe not, however the City only went back to 1997 in its calculation.

3 **Q. Have the ratepayers ever paid for this appropriate cost of service before last**
4 **year?**

5 A. Certainly not during the period used by the City for the calculation of the re-payment.
6 In order for the ratepayers to have paid the retiree health insurance cost, that cost would
7 have had to be included in the test year or added to the rate year as a rate year adjustment.
8 Since 1997 that has not been the case.

9
10 City Services

11
12 **Q. Mr. Edge, have you made an adjustment to increase City Services?**

13 A. Yes. Mr. Bebyn completed a very detailed review of the City Services allocations to
14 Providence Water and significantly amended the model used in previous Providence
15 Water rate filings. Although Mr. Bebyn calculated a City Service allowance that was
16 greater than the test year level of City services, his model results in an approximate
17 \$800,000 reduction of allocation of city services when compared to the previous model
18 used in Docket #3163.

19
20 Strategic Planning Study

21
22 **Q. Mr. Edge what is your adjustment for strategic planning?**

23 A. My adjustment in the amount of \$150,000 was made at the request of the Chief
24 Engineer. (Please see the testimony of Ms. Marchand for the details of this adjustment.)

25
26 **Q. I noticed that your adjustment on page 6 of your testimony is \$150,000 but the**
27 **adjustment on Schedule WEE-2 is only \$118,000. Why?**

28 A. The account that I posted this adjustment to had a test year balance of \$32,000 for a
29 study that was completed in the test year. Since that study was a "one time only" item I
30 removed the \$32,000 from the rate year and then added the \$150,000 for the Strategic
31 Planning Study. The net adjustment on schedule WEE-2 then became \$118,000.

1
2
3 Board Member Health Insurance
4

5 **Q. What is the adjustment to eliminate the health insurance cost for certain Board**
6 **Members?**

7 A. The Commission ordered that as Board Members terms end that they could no longer
8 receive paid health insurance. This adjustment in the amount of \$13,022 was made to
9 address this Commission concern.
10

11 **Q. Mr. Edge, do you agree with the Commission's decision on this issue?**

12 A. No I do not. This adjustment was made after the conclusion of the hearings in the
13 abbreviated filing and I was never allowed to express my opinion on this issue.
14 Although I have made this immaterial adjustment to comply with the Commission's
15 order, I believe that the adjustment is inappropriate when one knows the time and energy
16 that the few Board members that this adjustment affects provide to Providence Water. (It
17 should be noted that this adjustment does not apply to all Board Members). This
18 adjustment to save \$13,000 on a \$60,000,000 budget which is .0002 of the total budget is
19 in my opinion misguided.
20

21 Inflation
22

23 **Q. What have you done to address the inflationary increases that Providence**
24 **Water will face in the rate year?**

25 A. For all of the accounts not previously addressed I calculated inflation at 2.5% a year
26 through the rate year. Providence Water suggested that I use
27 2.5% for inflation because that is the percentage approved in the most recent Pawtucket
28 Water Supply case recently decided.
29

30 **Q. Mr. Edge do you have any other rate year adjustments?**

31 A. Yes, I have calculated the net operating revenue adjustment for the rate year.

1 (See Schedule WEE-1)

2
3 Net Operating Reserve

4
5 I calculated the net operating reserve by subtracting miscellaneous revenue from total
6 expense times 3.0% to arrive at a net operating allowance of \$1,725,719. This is the
7 same calculation made in Providence Water's last rate filing, however using 3% instead
8 of 1.5%.

9
10 **Q. Mr. Edge, why have you used 3% instead of the 1.5% approved in previous**
11 **Providence rate cases?**

12 A. The short answer is that the 1.5% has proved to be inadequate. Providence Water
13 has significant rate year risks relating to cash shortfalls from both currently unknown
14 expenditures (such as State and Federal regulatory requirements to emergency repairs)
15 and unpredictable fluctuations in water sales. (See Ms. Marchand's testimony for more
16 detail relating to the need for a 3% allowance.)

17
18 **Q. Does that conclude your prefiled testimony?**

19 A. Yes.
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**COST OF SERVICE SUMMARY
PROVIDENCE WATER**

Schedule WEE-1

	ADJUSTED TEST YEAR	COMBINED ADJUSTMENTS	PROFORMA OLD RATES	ADDITIONAL REVENUE REQUIREMENT	PROFORMA NEW RATES
Revenue					
Retail Water Sales	\$ 30,088,423	\$ -	\$ 30,088,423		
Wholesale	13,787,955	(958,829)	12,829,126		
Retail Service Charge	3,895,171	-	3,895,171		
Private Fire Service Charge	1,222,140	-	1,222,140		
Public Fire protection	1,526,521	-	1,526,521		
Miscellaneous Income	1,245,739	-	1,245,739	B	
Total Revenue	\$ 51,765,949	\$ (958,829)	\$ 50,807,120	\$ 9,688,321	\$ 60,495,441
				19.07%	
Expenses					
Operation and Maintenance	\$ 24,084,952	\$ 3,514,352	\$ 27,599,305		\$ 27,599,305
Insurance	1,967,655	1,000,000	2,967,655		2,967,655
Chemical & Sludge	2,058,911	1,073,654	3,132,565		3,132,565
City Service Expense	729,994	515,958	1,245,952		1,245,952
Property Taxes	6,030,054	540,738	6,570,792		6,570,792
Capital Labor	(743,041)	(15,575)	(758,616)		(758,616)
Net Operations	34,128,525	6,629,127	40,757,652		40,757,652
Capital Fund Cash	2,450,000	-	2,450,000		2,450,000
Debt Service CIP Fund	-	-	-		-
Western Cranston Fund	62,069	-	62,069		62,069
Infrastructure Replacement *	12,500,000	1,400,000	13,900,000		13,900,000
Debt Service IFR Fund	-	-	-		-
102" Valve	-	-	-		-
Alternative Source of Supply	-	-	-		-
Meter Replacement	400,000	600,000	1,000,000		1,000,000
Equipment Replacement	600,000	-	600,000		600,000
Net Restricted	16,012,069	2,000,000	18,012,069		18,012,069
Total Expense	\$ 50,140,594	\$ 8,629,127	\$ 58,769,721	\$ -	\$ 58,769,721
Revenues Over (Under) Expenses (1)	\$ 1,625,355	\$ (9,587,957)	\$ (7,962,602)	\$ 9,688,321	\$ 1,725,719
					(1)

(1) Includes Net Operating Revenue at 3.0%, Calculated (A-B) x .030

* The \$1,400,000 adjustment represents a \$2,000,000 increase to the IFR fund less a reclassification of \$600,000 to meter replacement

RATE YEAR WHOLESALE BILLING UNITS AT PRESENT RATES
PROVIDENCE WATER

Schedule WEE-1A

Billing Unit	Test Year	Rate Year Adjustments	Rate Year	Unit Rate	Annual Revenue
	Units of Service		Units of Service		
Wholesale Consumption Charges					
East Providence	2,397,994		2,397,994		
East Smithfield	339,786		339,786		
Greenville	463,126		463,126		
Kent County	3,777,169		3,777,169		
Smithfield	428,798		428,798		
Warwick	4,404,569		4,404,569		
Lincoln	1,086,668		1,086,668		
Johnston	197,547		197,547		
Bristol County	1,817,850	(1,037,101)	780,749		
Narra. Bay Commission	0	-	-		
Consumption (HCF)	<u>14,913,507</u>	<u>(1,037,101)</u>	<u>13,876,406 *</u>	\$ 0.92453	<u>\$ 12,829,126</u>
(Million Gallons)	11,155.30	(775.75)	10,379.55	\$ 1,236.00	

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
601	Operating Fund			
	<u>Source of Supply</u>			
60110	Salaries + Wages - Emp	332,332 A	\$ 25,528	\$ 357,859
60120	Salaries + Wages - Emp	364,716 A	28,015	392,732
60320	Sal. + Wages - Officers, Dir	- A	-	-
60410	Employee Pension + Ben	180,684 D	42,454	223,138
60420	Employee Pension + Ben	198,291 D	46,591	244,882
61510	Purchase Power	- G	-	-
61610	Fuel for Power Purch	-	-	-
62010	Material + Supplies	9,580 I	611	10,191
62020	Material + Supplies	45,309 I	2,891	48,200
63110	Contractual Services - Engineer	4,500 I	287	4,787
63120	Contractual Services - Engineer	-	-	-
63420	Contractual Services - Mgt. Fees	-	-	-
63510	Contractual Services - Other	81,771 I	5,217	86,988
63520	Contractual Services - Other	19,753 I	1,260	21,013
64210	Rental of Equipment	-	-	-
64220	Rental of Equipment	-	-	-
65010	Transportation Exp.	-	-	-
65020	Transportation Exp.	-	-	-
67510	Misc. Expenses	8,764 I	559	9,323
67520	Misc. Expenses	3,799 I	242	4,041
	Total-Source of Supply	1,249,499	153,655	1,403,154
	<u>Pumping</u>			
60123	Salaries + Wages - Emp	- A	-	-
60126	Salaries + Wages - Emp	- A	-	-
60423	Employee Pension + Ben	- D	-	-
60426	Employee Pension + Ben	- D	-	-
61523	Purchase Power	701,668 G	385,041	1,086,708
61623	Fuel for Power Purch	16,651 I	1,062	17,713
62023	Material + Supplies	453 I	29	482
62026	Material + Supplies	-	-	-
63123	Contractual Services - Engineer	-	-	-
63126	Contractual Services - Engineer	-	-	-
63523	Contractual Services - Other	4,871 I	311	5,181
63526	Contractual Services - Other	-	-	-
64223	Rental of Equipment	-	-	-
64226	Rental of Equipment	-	-	-

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
65023	Transportation Exp.	-	-	-
67523	Misc. Expenses	-	-	-
67526	Misc. Expenses	-	-	-
	Total-Pumping	723,642	386,443	1,110,085
	<u>Water Treatment</u>			
60130	Salaries + Wages - Emp	1,902,231	A 146,117	2,048,348
60140	Salaries + Wages - Emp	287,769	A 22,105	309,874
60430	Employee Pension + Ben	991,095	D 232,869	1,223,964
60440	Employee Pension + Ben	156,436	D 36,761	193,217
61530	Purchase Power	179,721	G 85,689	265,410
61630	Fuel for Power Purch	122,959	I 7,845	130,804
61830	Chemicals	-	-	-
62030	Material + Supplies	94,329	I 6,018	100,347
62040	Material + Supplies	92,559	I 5,905	98,464
63140	Contractual Services - Engineer	-	-	-
63240	Contract Services - Acctg	-	-	-
63430	Contractual Services - Mgt. Fees	14,710	I 938	15,648
63530	Contractual Services - Other	182,083	I 11,617	193,700
63540	Contractual Services - Other	55,705	I 3,554	59,259
64140	Rental Buildg/Real Prop	-	-	-
64230	Rental of Equipment	2,245	I 143	2,388
64240	Rental of Equipment	-	-	-
65030	Transportation Exp.	-	-	-
65640	Insurance Vehicle	-	-	-
65830	Insurance - W/C	-	-	-
65840	Insurance - W/C	-	-	-
66730	Regularity Com Exp. -Other	-	-	-
67530	Misc. Expenses	60,381	I 3,852	64,233
67540	Misc. Expenses	171	I 11	182
	Total-Water Treat. Exp.	4,142,413	563,425	4,705,839
	<u>Transmission & Distribution</u>			
60150	Salaries + Wages - Emp	834,719	A 64,118	898,837
60160	Salaries + Wages - Emp	2,228,839	A 171,205	2,400,044
60250	Payroll Clearing -Emp	-	A -	-
60260	Payroll Clearing -Emp	-	A -	-

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
60450	Employee Pension + Ben	453,824 D	106,631	560,455
60460	Employee Pension + Ben	1,211,787 D	284,724	1,496,511
60550	Overhead Rate Applied	-	-	-
60560	Overhead Rate Applied	-	-	-
61550	Purchase Power	9,027 G	2,168	11,195
62050	Material + Supplies	138,933 I	8,864	147,797
62060	Material + Supplies	12,637 I	806	13,443
62560	Inventory Clearing	-	-	-
63150	Contractual Services - Engineer	-	-	-
63160	Contractual Services - Engineer	-	-	-
63460	Contractual Services - Mgt. Fees	-	-	-
63550	Contractual Services - Other	1,028,353 I	65,609	1,093,962
63560	Contractual Services - Other	37,731 I	2,407	40,138
64150	Rental Buildg/Real Prop	-	-	-
64160	Rental Buildg/Real Prop	-	-	-
64250	Rental of Equipment	4,009 I	256	4,265
64260	Rental of Equipment	-	-	-
65060	Transportation Exp.	-	-	-
65850	Insurance W/C	-	-	-
65860	Insurance W/C	-	-	-
65950	Insurance Other	-	-	-
66750	Regulatory Com Exp - Other T & D	-	-	-
66760	Regulatory Com Exp - Other T & D	-	-	-
67550	Misc. Expenses	3,625 I	231	3,856
67560	Misc. Expenses	675 I	43	718
	Total-Trans/Dist Exp.	5,964,159	707,062	6,671,221
	<u>Customer Accounts</u>			
60170	Salaries + Wages - Emp	1,828,083 A	140,421	1,968,504
60270	Payroll Clearing -Emp	- A	-	-
60470	Employee Pension + Ben	993,902 D	233,529	1,227,431
60570	Overhead Rate Applied	-	-	-
61670	Fuel for Power Purch	-	-	-
62070	Material + Supplies	10,731 I	685	11,416
63370	Contractual Services - Legal	-	-	-
63570	Contractual Services - Other	33,883 I	2,162	36,045
65070	Transportation exp. - CAO	-	-	-
65870	Insurance - Other	-	-	-

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
65970	Insurance Other	-	-	-
67070	Bad Debt Expense - CAO	-	-	-
67570	Misc. Expenses	121,241	7,735	128,976
	Total-Cust Accts Exp	2,987,840	384,532	3,372,372
	Administration			
60180	Salaries + Wages - Emp	4,718,358	362,434	5,080,792
60380	Salaries + wages - Officers, Dir.	36,918	2,836	39,754
60480	Employee Pension + Ben	2,569,882	603,824	3,160,684
60480	Board Health Insurance		(13,022)	
61580	Purchase Power	119,872	70,801	190,673
61680	Fuel for Power Purch	184,535	11,773	196,308
62080	Material + Supplies	184,160	11,749	195,909
63180	Contractual Services - Engineer	24,377	1,555	25,932
63280	Contract Services - Acclg	-	-	-
63380	Contractual Services - Legal	87,716	5,596	93,312
63480	Contractual Services - Mgt. Fees	32,000	118,000	150,000
63580	Contractual Services - Other	449,756	28,694	478,450
64180	Rental Buildg/Real Prop	-	-	-
64280	Rental of Equipment	9,646	615	10,261
65080	Transportation Exp.	104,702	6,680	111,382
66080	Advertising Expense	3,351	214	3,565
66680	Reg Com Exp - Amort of Rate Case	-	-	-
66780	Regulatory Com Exp. -Other	202,951	89,036	291,987
67580	Misc. Expense	289,175	18,449	307,624
	Total-Admin/Gen Exp	9,017,399	1,319,236	10,336,634
	Total Operating Fund	24,084,932	3,514,352	27,599,305
	857 Insurance Fund			
	Total Insurance Fund	1,967,655	1,000,000	2,967,655
	878 Chemical and Sludge Maintenance Fund			
	Total Chemical and Sludge Maintenance	2,058,911	1,073,654	3,132,565
	Total Operation and Maintenance Expenditu	28,111,518	5,588,007	33,699,525

DETAIL COST OF SERVICE - EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	Adjusted Test Year	Rate Year Adjustments	Proforma Rate Year
	Other Expenditures			
	City Services	729,994 T	515,958	1,245,952
	Property Taxes	6,030,054 B	540,738	6,570,792
	Capital Reimbursement	(743,041) A	(15,575)	(758,616)
	Total Other Expenditures	6,017,007	1,041,121	7,058,128
	Capital Fund Cash			
	Western Cranston Fund	2,450,000	-	2,450,000
	Infrastructure Replacement (1)	62,069	-	62,069
	Meter Replacement	12,500,000 H	1,400,000	13,900,000
	Equipment Replacement	400,000 H	600,000	1,000,000
	Total Restricted Expenditures	600,000	-	600,000
		16,012,069	2,000,000	18,012,069
	Total Other & Rest. Expenditures	22,029,076	3,041,121	25,070,197
	GRAND TOTAL	\$ 50,140,594	\$ 8,629,127	\$ 58,769,721

- (A) = Payroll Expense Adjustments WEE-3.
- (B) = Property Taxes WEE-4.
- (C) = Insurance Expenses WEE-5 and WEE 10G.
- (D) = Pension and Other Benefits Adjustment WEE-6A.
- (E) = Regulatory and Rate Case Expenses WEE-7.
- (F) = Adjustment for Chemicals and Sludge Maintenance WEE-8.
- (G) = Purchase Power Expense WEE-9.
- (H) = Restricted Accounts WEE-10A-G.
- (I) = Inflation at 2.5% per year.
- (J) = Other adjustments covered in WEE testimony.
- (T) = Mr. Bebyn and WEE testimony
- (1) = The \$1,400,000 adjustment is the net of two adjustments a \$2 million increase less a \$600,000 reclassification.

DETAIL PAYROLL EXPENSE
PROVIDENCE WATER

ACCOUNT	TITLE	TEST YEAR	ACTUAL x 1.0768135	PRO-FORMA ADJUSTMENTS
SOURCE OF SUPPLY				
60110	Salaries & Wages - Emp	\$ 332,332	\$ 357,860	\$ 25,528
60120	Salaries & Wages - Emp	364,716	392,731	28,015
60320	Sal & Wages - Officers, Dir	-	-	-
	TOTAL SOURCE OF SUPPLY	697,048	750,591	53,543
PUMPING				
60123	Salaries & Wages - Emp	-	-	-
60126	Salaries & Wages - Emp	-	-	-
	TOTAL PUMPING	-	-	-
WATER TREATMENT				
60130	Salaries & Wages - Emp	1,902,231	2,048,348	146,117
60140	Salaries & Wages - Emp	287,769	309,874	22,105
	TOTAL WATER TREATMENT	2,190,000	2,358,222	168,222
TRANSMISSION & DISTRIBUTION				
60150	Salaries & Wages - Emp	834,719	898,837	64,118
60160	Salaries & Wages - Emp	2,228,839	2,400,044	171,205
	TOTAL TRANSMISSION & DISTRIBUTION	3,063,558	3,298,881	235,323
CUSTOMER ACCOUNT EXPENSE				
60170	Salaries & Wages - Emp	1,828,083	1,968,504	140,421
	TOTAL CUSTOMER ACCTS EXPENSE	1,828,083	1,968,504	140,421
ADMINISTRATION				
60180	Salaries & Wages - Emp	4,718,358	5,080,792	362,434
60280	Payroll Clearing	-	-	-
60380	Sal & Wages - Officers, Dir	36,918	39,754	2,836
	TOTAL ADMINISTRATION EXPENSE	4,755,276	5,120,545	365,269
	Capitalized Reimbursement - Labor	(202,766)	(218,341)	(15,575)
O/M LABOR SUMMARY				
	SOURCE OF SUPPLY	\$ 697,048	750,591	\$ 53,543
	PUMPING	-	-	-
	WATER TREATMENT	2,190,000	2,358,222	168,222
	TRANSMISSION & DISTRIBUTION	3,063,558	3,298,881	235,323
	CUSTOMER ACCOUNTS	1,828,083	1,968,504	140,421
	ADMINISTRATION	4,755,276	5,120,545	365,269
	Capitalized Reimbursement - Labor	(202,766)	(218,341)	(15,575)
	TOTAL	\$ 12,331,199	\$ 13,278,402	\$ 947,203
RECAP:				
	Adjusted Test Year		1.076814%	\$ 12,331,199
	Contractual increases			947,203
	Pro-forma CY 2008			\$ 13,278,402

ANALYSIS OF PROPERTY TAXES
PROVIDENCE WATER

Schedule WEE-4

MUNICIPALITY	Interim Year	ADJUSTMENTS	NOTE	PRO-FORMA AMOUNT *
Scituate	\$ 5,131,469	\$ 391,275	1	\$ 5,522,744
Foster	278,751	21,255	1	300,006
Cranston	351,185	26,778	1	377,963
North Providence	231,643	17,663	1	249,306
Johnston	59,247	3,937	2	63,184
Glocester	45,275	3,452	1	48,727
West Warwick	4,040	308	1	4,348
West Glocester Fire	3,928	300	1	4,228
Harmony Fire Dist.	120	-	3	120
Chepachet Fire Dist.	145	-	3	145
Warwick	22	-	3	22
Total Expense	\$ 6,105,825	\$ 464,967		\$ 6,570,792
Test Year				6,030,054
Total Adjustment				\$ 540,738
				9.0%

* See Schedule WEE-4A for 6 year historical

Note:

1. These Towns increased 5% per year for 1.5 years
2. Johnston increased 4.37% per year for 1.5 years.
3. FY 06 amount used.

COMPARATIVE SCHEDULE OF PROPERTY TAXES
PROVIDENCE WATER

Schedule WEE-4A

MUNICIPALITY	FISCAL YEAR 7/1/01-6/30/02	FISCAL YEAR 7/1/02-6/30/03	FISCAL YEAR 7/1/03-6/30/04	FISCAL YEAR 7/1/04-6/30/05	FISCAL YEAR 7/1/05-6/30/06	FISCAL YEAR 7/1/06-6/30/07
Scituate	\$ 4,125,554	\$ 4,229,623	\$ 4,657,788	\$ 4,604,051	\$ 4,857,896	\$ 5,131,469
Foster	315,703	315,703	297,825	295,106	308,492	278,751
Cranston	431,198	508,299	493,535	524,718	531,738	351,185 **
North Providence	213,155	213,406	224,322	243,883	224,715	231,643
Johnston	158,168	166,877	96,550	54,464	56,424	59,247
Glocester	17,642	31,109	135,693	55,075	43,112	45,275
West Warwick	6,012	6,070	6,223	3,766	3,855	4,040
West Glocester Fire	988	1,921	3,363	3,363	3,536	3,928
Harmony Fire Dist.	69	137	142	142	120	120 *
Chepachet fire Dist.	55	131	145	145	145	145 *
Warwick	24	25	26	20	21	22

Total	\$ 5,268,568	\$ 5,473,301	\$ 5,915,612	\$ 5,784,733	\$ 6,030,054	\$ 6,105,825
% Increase	-	3.89%	8.08%	-2.21%	4.24%	1.25%

5 Yr average % Increase

** Please note that Cranston decreased significantly as the result of legal action. Non-recurring.
* Estimate

INSURANCE EXPENSE
PROVIDENCE WATER

Schedule WEE-5

	TEST YEAR	ADJUSTMENTS	PRO-FORMA AMOUNT *
Property and Casualty	\$ 1,253,949	\$ 212,147	\$ 1,466,096
Worker's Compensation	559,078	(2,540)	556,538
Injuries & Damages	146,737	55,388	202,125
Safety Training/WSASC-TPA	24,449	30,551	55,000
Program Expense	5,403	82,097	87,500
Total Expenses	\$ 1,989,616	\$ 377,643	\$ 2,367,259
Test Year			\$ 1,967,655
Pro-Forma Amount			2,367,259
Total Adjustment			\$ 399,604
Funding requirement per Schedule WEE-10G Adjustment above			\$ 1,000,000
Additional adjustment required to support restricted fund activity			399,604
			\$ 600,396

* See Schedule WEE-5A for calculations

INSURANCE EXPENSE
PROVIDENCE WATER

Schedule WEE-5A

	FY 2006 Actual	FY2007 Actual *	FY2008 ESTIMATE	FY2009 ESTIMATE	Pro-Forma AMOUNT
Property and Casualty premium	\$ 1,253,949	\$ 1,269,347	\$ 1,396,282	\$ 1,535,910	\$ 1,466,096
Worker's Compensation premium	559,078	481,851	530,036	583,040	556,538
Injuries & Damages *	146,737	175,000	192,500	211,750	202,125
Safety Training/WSASC-TPA *	24,449	55,000	55,000	55,000	55,000
Program Expense *	5,403	87,500	87,500	87,500	87,500
Total Expenses	\$ 1,989,616	\$ 2,068,698	\$ 2,261,318	\$ 2,473,200	\$ 2,367,259

* Injuries & Damages, Safety Training, and Program expense are estimated base upon PW 2007 budget

PENSION AND OTHER BENEFITS
PROVIDENCE WATER

Schedule WEE-6

FRINGE BENEFIT	TEST YEAR	ADJUSTMENTS	PRO-FORMA AMOUNT	% INCREASE	REFERENCE
1 Union Combined Benefits	610,235	-	610,235		See Testimony p. 12
2 Laborers International Pension	360,878	-	360,878		See Testimony p. 12
3 Life Insurance Premium	1,839	-	1,839		See Testimony p. 12
4 FICA	926,110	71,138	997,248	7.68%	See Note *
5 1/2% Wage Assignment	38,710	2,973	41,683	7.68%	See Note *
6 Blue Cross/United Health	1,774,881	485,430	2,260,311	27.35%	Schedule WEE-6B
7 Delta Dental	190,221	20,316	210,537	10.68%	Schedule WEE-6B
8 GASB 43/45 Reserve Required	330,613	403,243	733,856		See Testimony p. 15-16
9 Reimburse City for Retired Health	-	300,000	300,000		See Testimony p. 16
10 City Retirement	2,522,433	304,284	2,826,717		Per Buck Report
Total	\$ 6,755,920	\$ 1,587,383	\$ 8,343,304		
Test Year FY 2006			6,755,920		
Adjustment			\$ 1,587,383		

* Compounded salary increase used 1.0768135%.

FRINGE ALLOCATION TO NARUC ACCOUNTS
PROVIDENCE WATER

Schedule WEE-6A

<u>NARUC ACCOUNT</u>	<u>TEST YEAR</u>	<u>ALLOCATION</u>	<u>PRO-FORMA ADJUSTMENT</u>
60410	\$ 180,684	2.67%	\$ 42,454
60420	198,291	2.94%	46,591
60423	-	0.00%	-
60426	-	0.00%	-
60430	991,095	14.67%	232,869
60440	156,456	2.32%	36,761
60450	453,824	6.72%	106,631
60460	1,211,787	17.94%	284,724
60470	993,902	14.71%	233,529
60480	2,569,882	38.04%	603,824
	<u>\$ 6,755,921</u>	<u>100.00%</u>	<u>\$ 1,587,383</u>

SCHEDULE OF INSURANCE RATES (HEALTH)
PROVIDENCE WATER

Schedule WEE6B

DESCRIPTION	FYE 06/30/05	FYE 06/30/06	FYE 06/30/07	% INCREASE/ (DECREASE)	AVERAGE
<u>United Healthcare</u>					
Union:					
Individual	n/a	n/a	n/a	0.00%	
Family	765.61	821.32	960.94	25.51%	25.51%
Non-Union:					
Individual	323.39	348.03	407.19	25.91%	<u>25.69%</u>
Family	821.37	880.88	1,030.63	25.48%	<u>25.58%</u>
<u>Delta Dental</u>					
Union:					
Individual	25.12	26.38	27.81	10.71%	10.68%
Family	77.54	81.42	85.80	10.65%	<u>10.68%</u>
Non-Union:					
Individual	25.12	26.38	27.81	10.71%	10.68%
Family	77.54	81.42	85.80	10.65%	<u>10.68%</u>
<u>Blue Cross</u>					
Union:					
Individual	312.78	334.68	341.37	9.14%	9.14%
Family	764.85	818.39	834.76	9.14%	9.14%
Non-Union:					
Individual	312.78	358.53	419.48	34.11%	<u>35.23%</u>
Family	764.85	891.38	1,042.91	36.35%	<u>18.18%</u>

REGULATORY COMMISSION (66780 & 66680) AND RATE CASE EXPENSE

Schedule WEE-7

PROVIDENCE WATER

	<u>TEST YEAR</u>	<u>PRO-FORMA AMOUNT</u>
Regulatory Commission Expense:		
Meter Reading Investigation	\$ 278	\$ -
Credit Card Payment	656	2,500
Other Matters	3,649	
Winter/Summer Moratorium	-	5,000
Miscellaneous PUC Matters	5,545	10,000
Customer Billing Disputes	24,822	15,000
Docket 3684 Abbreviated Filing	27,922	-
Proportionate Share PUC Expenses	140,079	154,087
Sub-total	\$ 202,951	\$ 186,587

(A)

This Filing (Estimated):

Accounting (Rate Year and Test Year)	\$	36,500
City Services		5,000
Rate Design		44,300
Legal		75,000
Division of Public Utilities estimated		50,000
Total Estimated Rate Case this filing	\$	210,800
Two Year Amortization	\$	105,400

(B)

Estimated Regulatory Commission Expense (A) + (B)

Test Year \$ 291,987

Adjustment 202,951

Adjustment \$ 89,036

CHEMICAL & SLUDGE MAINTENANCE EXPENSE
PROVIDENCE WATER

Schedule WEE-8

	TEST YEAR	ADJUSTMENTS	NOTE	PRO-FORMA AMOUNT
Chemicals:				
Ferric	\$ 1,000,602	\$ 595,398	1	\$ 1,596,000
Quicklime	281,824	120,980	1	402,804
Liquid Flouride	86,515	64,805	1	151,320
Chlorine	122,444	11,956	1	134,400
Sub-total Chemicals	1,491,385	793,139		2,284,524
Calgon	17,526	(17,526)	3	-
Sludge Maintenance	550,000	98,042	2	648,042
Total Expenses	\$ 2,058,911	\$ 873,654		\$ 2,932,565
Pro-Forma Amount				\$ 2,932,565
Restricted Account balancing requirement				200,000
Rate year requirement			A	\$ 3,132,565
Test Year Balance			B	\$ 2,058,911
Total Adjustment			A-B	\$ 1,073,654

- 1 Per WEE-8A
- 2 Per contract amount \$50,000 reduction plus \$148,041 Cycle 2 True-up.
- 3 No longer used

ADJUSTMENT TO CHEMICAL EXPENSE
TO REFLECT ESTIMATED QUANTITIES AND PRICES
PROVIDENCE WATER

CHEMICAL	QUANTITY USED FY 2006 (1)	Projected (2) FYE 2007	Projected FYE 2008 (A)	UNIT PRICE (3)	CY08 EXPENSE	FY 06 EXPENSE (4)	ADJUSTMENT
Ferric Sulfate (gallons)	1,027,481	1,242,455	1,200,000	1.33 \$	1,596,000 \$	1,000,602 \$	595,398
Lime (tons)	2,107	2,469	2,467	163.3	402,803	281,823	120,980
Chlorine (tons)	146	155	160	840	134,400	122,444	11,956
Flouride (gallons)	103,828	100,000	97,000	1.56	151,320	86,515	64,805
Total Projected Costs					\$ 2,284,523	\$ 1,491,384	\$ 793,139

Notes:

(1) Per Exhibit I, Table C accompanying the testimony of PWSB witness J. Bondarevskis

(2) Chemical quantities projected for FYE July 2007

(3) FY 2008 bid prices as projected below

Prices	FY 04	FY 05	FY 06	FY 07 Est.	CY08 Projected Price (A)
Ferric Sulfate (gallons)	0.707	0.772	0.974	1.276	1.33
Lime (tons)	130.675	133.75	133.75	148.5	163.3
Chlorine (tons)	450	490	840	840	840
Flouride liquid (gallons)	n/a	0.83225	0.83225	1.35	1.56

(A) Information provided by Mr. Crosby, Manager of Operations /Treatment, from FYE June 30, 2008 bid documents.

PURCHASE POWER EXPENSE
PROVIDENCE WATER

	FY04	FY05	FY2006	PRO-FORMA AMOUNT *	PRO-FORMA ADJUSTMENT
61510	\$ 4	\$ -	\$ -	\$ -	\$ -
61523	475,707	568,227	701,668	1,086,709	385,041
61530	127,781	145,680	179,720	265,409	85,689
61550	7,643	9,027	9,027	11,195	2,168
61580	79,129	103,302	119,872	190,673	70,801
	\$ 690,264	\$ 826,236	\$ 1,010,287	\$ 1,553,985	\$ 543,698

* The pro-forma amount was calculated by increasing the test year purchase Power cost by the percentage increase from FY 2004 through FYE 2006 and then increasing that balance by 5% to reflect the second half of the rate year (July 1st through December 31st).

**Providence Water
Capital Improvement Fund
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

Source of Funds

	Fy 2007	Fy 2008	Fy 2009	Fy 2010
\$ 2,450,000	\$ 2,450,000	\$ 2,450,000	\$ 2,450,000	\$ 2,450,000
95,774	81,307	29,204	-	-
3,830,974	3,252,269	1,168,177	(60,873)	(60,873)
Total Sources	6,376,748	5,783,575	3,647,382	2,389,127

D3684 (effective 1/1/2006)
Interest
Carryover funds from prior year estimated

Less obligated uses of funds:

Fruit Hill Bonds (P)	915,000	950,000	1,010,000	990,000
Fruit Hill Bonds (I)	164,381	120,325	73,255	24,255
RICWFA 2002 (P)	405,000	415,000	-	-
RICWFA 2002 (Security) (I)	15,098	5,073	-	-
Sub-total Debt Service	1,499,479	1,490,398	1,083,255	1,014,255

Cash Funded Projects

Total Uses	3,124,479	4,615,398	3,708,255	1,639,255
Total	\$ 3,252,269	\$ 1,168,177	\$ (60,873)	\$ 749,872

Providence Water
 WCWDS Fund
 Sources and Uses of Funds
 Projected FY 2007 - FY 2010

Source of Funds	Fy 2007	Fy 2008	Fy 2009	Fy 2010
D3684 (effective 1/1/2006)	\$ 62,069	\$ 62,069	\$ 62,069	\$ 62,069
Interest	80,018	54,274	35,393	6,042
Impact Fees estimated	125,423	100,000	100,000	100,000
Carryover funds from prior year estimated	1,184,465	2,170,944	1,415,718	241,674
Bond Proceeds maintained at RICWFA	877,562	-	-	-
Total Sources	2,329,537	2,387,287	1,613,180	409,785
Less obligated uses of funds				
Western Cranston Acquisition Debt (P)	-	-	-	-
Western Cranston Acquisition Debt (I)	-	-	-	-
RICWFA 2002B (P)	100,434	103,920	107,527	111,259
RICWFA 2002 (Pippin Main & WilburPS) (I)	58,159	67,649	63,979	60,182
Sub-total Debt Service	158,593	171,569	171,506	171,441
Cash Funded Projects	-	800,000	1,200,000	-
Total Uses	158,593	971,569	1,371,506	171,441
Total	\$ 2,170,944	\$ 1,415,718	\$ 241,674	\$ 238,344

**Providence Water
Infrastructure Replacement Restricted Fund
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

Source of Funds

	Fy 2007	Fy 2008	Fy 2009	Fy 2010
D3684 (effective 1/1/2006)	\$ 12,500,000	\$ 12,500,000	\$ 12,500,000	\$ 12,500,000
New Docket effective 1/1/08 proposed	1,000,000	1,000,000	2,000,000	2,000,000
Transfer of Meter Replacements to AMR/MR fund	(300,000)	(300,000)	(600,000)	(600,000)
Estimated Bond drawdowns		7,500,000	7,500,000	7,500,000
Interest	177,894	227,376	51,102	(660)
Carryover funds from prior year estimated	10,104,618	9,095,053	2,044,061	(26,398)
Total Sources	22,782,512	22,522,429	23,495,163	21,372,942
Less obligated uses of funds:				
RICWFA Debt (1994 \$12M) Refi 2005 (P)	740,000	756,000	774,000	794,000
RICWFA (various projects) (I)	160,950	147,368	132,561	116,364
RICWFA Debt (2001 \$5M) (P)	1,046,676	-	-	-
RICWFA (90" Transmission) (I)	14,833	-	-	-
Estimated Debt Service *	-	-	-	576,571
Sub-total Debt Service	1,962,459	903,368	906,561	1,486,935
Cash Funded Projects **	11,725,000	19,575,000	22,615,000	19,535,000
Total Uses	13,687,459	20,478,368	23,521,561	21,021,935
Total	\$ 9,095,053	\$ 2,044,061	\$ (26,398)	\$ 351,007

* Estimated on prior year draw of \$7.5 million, for 20 years, @ subsidized 4.5% interest
 ** Net of Meter Replacement costs moved to AMR Meter Replacement fund as of 1/1/08

**Providence Water
AMR/Meter Replacement Fund
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

Source of Funds

	Fy 2007	Fy 2008	Fy 2009	Fy 2010
\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000	\$ 400,000
-	300,000	600,000	600,000	600,000
13,525	50,615	7,741	-	22,906
300,000	100,000	-	-	-
713,525	850,615	1,007,741	1,022,906	1,022,906
D3684 (effective 1/1/2006)				
Transfer of Meter Replacements from IFR				
Carryover funds from prior year estimated				
Line of Credit				
Total Sources				
Less obligated uses of funds				
276,000	218,055	271,396	271,396	375,028
-	7,209	7,569	7,569	7,948
-	300,000	600,000	600,000	600,000
1,910	17,610	5,870	5,870	-
385,000	300,000	100,000	100,000	-
662,910	842,874	984,835	984,835	982,976
\$50,615	\$7,741	\$22,906	\$22,906	\$39,930
Total				

**Providence Water
Equipment/Vehicle Replacement Fund
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

Source of Funds	Fy 2007	Fy 2008	Fy 2009	Fy 2010
D3684 (effective 1/1/2006)	\$ 600,000	\$ 600,000	\$ 600,000	\$ 600,000
Interest	16,268	13,514	7,641	405
Carryover funds from prior year estimated	689,840	300,320	169,809	9,010
Total Sources	1,306,107	913,834	777,451	609,416
Less obligated uses of funds				
Vehicle and Equipment purchases	584,837	417,125	424,941	497,217
Computer Equipment purchases	120,950	76,900	268,500	73,000
Office Furniture purchases	25,000	25,000	25,000	25,000
Reserve to Replace Computer System	275,000	225,000	50,000	-
Total Uses	1,005,787	744,025	768,441	595,217
Total	\$ 300,320	\$ 169,809	\$ 9,010	\$ 14,199

**Providence Water
Chemicals
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

	Fy 2007	Fy 2008	Fy 2009	Fy 2010
Source of Funds				
D3684 (effective 1/1/2006)	\$ 2,069,714	\$ 1,034,857	\$ -	\$ -
New Docket effective 1/1/08	-	1,566,283	3,132,565	3,132,565
Carryover funds from prior year estimated	920,015	213,354	29,971	242,536
Total Sources	2,989,729	2,814,494	3,162,536	3,375,101
Less obligated uses of funds				
Chemicals	1,822,250	2,284,523	2,400,000	2,500,000
Sludge Maintenance	954,125	500,000	520,000	950,000
Total Uses	2,776,375	2,784,523	2,920,000	3,450,000
Total	\$ 213,354	\$ 29,971	\$ 242,536	\$ (74,899)

**Providence Water
Insurance Fund
Sources and Uses of Funds
Projected FY 2007 - FY 2010**

Source of Funds	<u>FY 2007</u>	<u>FY 2008</u>	<u>FY 2009</u>	<u>FY 2010</u>
D3864 (effective 1/1/2006)	\$ 1,777,444	\$ 1,777,444	\$ 1,777,444	\$ 1,777,444
New Docket effective 1/1/08 proposed	-	500,000	1,000,000	1,000,000
Insurance Reimbursement for Spill	147,192	-	-	-
Carryover funds from prior year estimated	33,104	4,041	20,167	209,412
Borrowing from Operations	115,000	-	-	-
Total Sources	2,072,739	2,281,485	2,797,611	2,986,856
Less obligated uses of funds				
Property & Casualty	1,269,347	1,396,282	1,535,910	1,689,501
Workers Compensation	481,851	530,036	583,040	641,344
Injuries & Damages	175,000	192,500	211,750	232,925
Safety Supplies & Other	55,000	55,000	55,000	55,000
Program Expense	87,500	87,500	87,500	87,500
Repayment of Borrowing from Operations	-	-	115,000	-
Total Uses	2,068,698	2,261,318	2,588,200	2,706,270
Total	\$4,041	\$20,167	\$209,412	\$280,586