

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

**for
PROVIDENCE WATER SUPPLY BOARD**

DOCKET # 3832

AUGUST 2007

1 **Providence Water Supply Board**

2
3 PRE-FILED REBUTTAL TESTIMONY
4 OF WALTER E. EDGE Jr. MBA, CPA
5

6 **Q. Good morning Mr. Edge. Are you the same Walter E. Edge Jr. who has**
7 **previously filed direct testimony in this Docket?**

8 A. Yes.
9

10 **Q. What is the purpose of your rebuttal testimony?**

11 A. My rebuttal testimony will provide the Commission with current information that has
12 recently became available and that is not yet on the record. I have also been asked by
13 Providence Water to respond to certain issues raised by Mr. Catlin for the Division and
14 Mr. Woodcock for Kent County. Other issues raised by the Division and Kent County
15 will be addressed by other Providence Water witnesses.
16

17 **Q. Mr. Edge did you read Mr. Catlin and Mr. Woodcock's testimonies?**

18 A. Yes, I have.
19

20 **Q. What specific issues will you be addressing in this rebuttal testimony?**

21 A. In this testimony I will be addressing Mr. Catlin's issues regarding 1) wholesale
22 water sales, 2) capital reimbursement, 3) purchase power, 4) chemical costs, 5) GASB
23 43/45 costs, 6) city services and 7) property taxes. In addition, I will address Mr.
24 Woodcock's concerns relating to 1) property taxes, 2) regulatory expense and 3) purchase
25 power.
26

27 **Q. Are any of the above Catlin adjustments acceptable to Providence Water?**

28 A. Yes they are as follows:
29

Wholesale Water Sales	\$513,835	a reduction in rate inc.
Capital Reimbursement	226,103	a reduction in rate inc.

1 **Q. Are any of the other areas of adjustment suggested by Mr. Catlin acceptable to**
2 **Providence Water?**

3 A. Yes, in part. Mr. Catlin and Mr. Woodcock recommended two small adjustments in
4 the “city services” section of his testimony. The first adjustment was a \$5,000 reduction
5 to rate case expense for city services. Providence Water does not agree to this
6 adjustment and I will explain why later in this testimony.

7
8 The second adjustment was a \$5,597 reduction to city services to reflect the impact of
9 adding the costs relating to two small enterprise funds and Providence Water expenses to
10 the City’s general fund expenses when calculating the general overhead allocator. Mr.
11 Catlin suggested that if Mr. Bebyn agreed with this minor change to the general overhead
12 allocator that Mr. Bebyn could supply the corrected schedules in his rebuttal testimony.
13 Mr. Bebyn does agree with the addition of the three enterprise funds to the total expenses
14 in the general overhead calculation. I have therefore attached Mr. Bebyn’s corrected city
15 service schedules to this testimony.

16
17 **Q. Mr. Edge why don’t you finish up with your concern about the \$5,000 reduction**
18 **to rate case expense for “City Services” proposed by Mr. Catlin and also suggested**
19 **by Mr. Woodcock?**

20 A. Apparently the presentation of this item was confusing to the parties (Both Mr. Catlin
21 and Mr. Woodcock addressed this issue). The \$5,000 was the amount paid to B&E to
22 review and evaluate the City Service charges for this rate filing. It was not an amount
23 paid to the City as suggested by the Division and Kent County’s testimony. I am sorry
24 for the confusion, but the expense is a proper rate case expense.

25
26 **Q. What is your issue with Mr. Catlin’s proposed adjustment to purchase power**
27 **expense?**

28 A. First, I agree with Mr. Catlin that the percentage increase for the previous two years
29 that I used in my original prefiled testimony was excessive. That is why I agreed in my
30 earlier testimony to update the purchase power cost for the interim year and then make a
31 more appropriate projection for the rate year when I filed my rebuttal testimony.

1 As the Commission knows, it is important for Providence Water to request in the prefiled
2 testimony an amount that will not be exceeded in the rate year because of the statutory
3 notice provisions. My initial purchase power expense projections, although based upon
4 the most recent history, were admittedly too high in light of the information I now have.

5
6 Unfortunately, I believe that Mr. Catlin's (and Mr. Woodcock's) rate year projection of
7 purchase power expense is too low. Both Mr. Catlin and Mr. Woodcock noted that in
8 the test year Providence Water entered into a contract with Constellation, Inc., New
9 England to purchase electricity at a fixed rate of \$9.642 through the rate year (December
10 31st 2008). Based upon this observation, both Mr. Woodcock and Mr. Catlin set their
11 projected rate year cost for purchase power at the test year level (\$1,010,288).

12
13 **Q. What is wrong with that logic?**

14 A. Although the contract was expected to result in \$70,000 of purchase power savings in
15 the test year, it does not mean that there would also be savings in the subsequent interim
16 and rate years. Mr. Catlin's logic assumes that the consumption levels (KWH) would
17 stay the same in the interim and rate years but they have not. Further there was
18 approximately \$46,000 of purchase gas costs in the test year purchase power expense
19 which is not impacted by the contract with Constellation.

20
21 **Q. What happened in the interim year?**

22 A. Purchase power costs were up from the test year amount of \$1,010,288 to the interim
23 year amount of \$1,055,781 as follows:

24

Account #	FY 2006	FY 2007
61510	\$ 0	\$ 0
61523	701,668	734,820
61530	179,721	194,083
61550	9,027	8,733
61580	119,872	118,145
Totals	\$1,010,288	\$1,055,781

25

1 The above only addresses the interim year. I still need to adjust for the purchase power
2 cost to reflect the increases through the rate year December 31st 2008.

3

4 **Q. How did you calculate the increase through December 31st 2008?**

5 I noted that the total electric KWH usage in the interim year was up by 55,721 KWH or
6 .7% over the test year level. Although this is relatively minor I do think that the rate year
7 cost will be greater than the interim year.

8

9 I am proposing a 1.05% increase (.7% per year for 18 months) in the electric purchase
10 power expense applied to the interim year actual electric cost and a 3.75% increase (2.5%
11 per year for 18 months) in the purchase gas expense applied to the interim year actual gas
12 cost. This results in a rate year purchase power expense of \$1,067,856 which includes a
13 \$1,029,830 of electric costs and a \$38,026 of gas costs.

14

15 **Q. What would you like to address next?**

16 A. The next easiest item is property taxes. Mr. Catlin did not reduce my property tax
17 projection because he was awaiting the updated 2008 property tax bills that I promised to
18 provide in my rebuttal testimony. In response to that promise, I have prepared the
19 following table which reflects the 2008 property tax bills. I have increased the actual
20 2008 property tax amounts by 1.55% to reflect the average increase in property taxes over
21 the most recent years.

Municipality	FY 2007	FY 2008
Scituate	\$ 5,131,469	\$ 5,363,500
Foster	278,751	292,391
Cranston	351,185	88,629
North Providence	231,643	234,826
Johnston	59,247	86,135
Glocester	45,275	49,655
West Warwick	4,040	4,294
West Glocester	3,928	3,928
Harmony	120	120
Chepachet	145	145
Warwick	22	101
Totals	\$ 6,105,825	\$ 6,228,539

22

1 **Q. Is your projected property taxes for the rate year now \$6,228,539?**

2 A. No, I have to multiply that amount by 1.55% to address the projected increases from
3 July 1st 2008 through December 31st 2008. My projection of property taxes for the rate
4 year is \$6,325,081. This results in a \$245,711 reduction in my rate year projection of
5 property taxes.

6
7 **Q. What was Mr. Catlin's position regarding the GASB 43/45 requirements that**
8 **require Providence Water to fund a reserve to cover these future costs?**

9 A. Mr. Catlin agreed to my calculations and therefore he made no adjustment in this
10 area.

11
12 **Q. Did Mr. Catlin have any suggestions in this area?**

13 A. Yes. Mr. Catlin is concerned that Providence Water could fund its GASB 43/45
14 liability at a rate greater than the City and suggested that Providence Water be required to
15 fund at the same percentage as the City and if the City fails to fund at the 50% level
16 suggested in this filing that the difference between the City's funding level and 50% be
17 placed into a restricted account.

18
19 **Q. Do you agree with Mr. Catlin?**

20 A. Yes. Providence Water has addressed this same type of issue before with its pension
21 contributions. Therefore, Providence Water agrees with Mr. Catlin's suggestion that
22 Providence Water fund its GASB 43/45 reserve at the same rate (percentage) as the City.

23
24 **Q. It appears that there is only one issue remaining from your list above. What**
25 **are your comments relating to Mr. Catlin's comments regarding chemical costs?**

26 A. Mr. Catlin made no adjustment to my chemical cost projection for the rate year.

27
28 **Q. Did Mr. Catlin realize that the chemical costs had increased since you provided**
29 **you original prefiled testimony?**

30 A. Yes he did.

1 However, he also pointed out that through data responses he determined that there was
2 approximately \$270,000 more in the restricted account, after all reconciliations, than
3 originally presented in the prefiled testimony. To offset that observation he noted that
4 the cost of chemicals has risen since the prefiled testimony was filed and also that he
5 believed that the usage amounts used in the prefiled testimony were “conservatively”
6 high. All things considered and the fact that the chemical account is a restricted fund he
7 made no adjustments.

8

9 **Q. Do you agree with Mr. Catlin’s observations?**

10 A. I agree with Mr. Catlin’s conclusion after reviewing the chemical usage for FYE June
11 30, 2007, the price increases for 2007 and projected for 2008 and the response to Division
12 1-29. I will stay with my initial chemical cost calculation.

13

14 **Q. Does that conclude your rebuttal testimony?**

15 A. Yes.

Summary of City Services - General Overhead Allocator
Includes PPBA and Non-Major Civic Center Enterprise Funds
Providence Water

Schedule WEE-R-1

	<u>Service Cost</u>	Service Cost using Docket 3163 <u>Calculations</u>
Allocation of Departmental Service Costs (DGB-4)		
Mayor's Office	\$ 264,287	\$ 318,308
City Council	55,746	95,105
City Council Administration	63,296	72,769
City Clerk	112,887	112,887
Law Department	40,372	650,860
Finance Department	72,503	83,355
Controller's Office	100,146	153,730
Retirement Department	59,447	59,447
Data Processing	136,550	205,691
Treasurer's Office	32,575	37,303
Purchasing	18,490	58,278
Personnel Department	114,729	149,605
Internal Auditors	30,455	-
Archives	16,310	-
Allocation of Non-Departmental Service Costs (DGB-5)		
Stop Loss Insurance	50,994	-
Annual GASB 42/45 consulting fee	11,605	-
Total City Service Expense	\$ 1,180,392	\$ 1,997,338
Percentage increase to revise to Rate Year (Calendar year 2008) (2% annually)	105.08%	105.08%
Rate Year City Service Expense	1,240,355	2,098,803
Rate Year City Service Expense Originally filed	1,245,952	
Adjustment	<u>(5,597)</u>	

General Overhead Allocator - This allocator is calculated by taking the total PW audited operating expenses less depreciation and dividing it by PW audited operating expenses less depreciation plus the City operating expenses less debt service.

0 8.08%

PW (42,445,314 - 9,890,206) = 32,555,108

PW+City+PPBA+Non Major Civic Center = 402,880,036

PW+City (414,245,691 - 46,657,763 + 32,555,108) = 400,143,036

PPBA less depreciation (623,000 - 0) = 623,000

Non Major Civic Ctr less depreciation (2,241,000 - 127,000) = 2,114,000

PW+City+PPBA+Non Major Civic Center = 402,880,036

~~Originally filed at 5.14%~~