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September 24, 2009

Mrs. Luly Massaro, Commission Clerk
RI Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Docket 3832-A Public Utilities Commission; Set I Responses

Dear Luly:

Enclosed for filing is an original and four copies of Providence Water's responses to the first set of data request from the Commission in Docket 3832-A.

If there are any questions, I can be reached at 521-6300, extension 7217.

Sincerely,


Mary Deignan-White
Regulatory Manager

cc: Dk 4061 Service List

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PROVIDENCE WATER DOCKET NO. 3832-A
Commission Data Requests Set I

- Com 1-1 Please point to evidence in the record or any discussion in the record of Docket No. 3832 to support Providence Water Supply Board's ("Providence Water") proposal to "book the balance, \$4,345,864 less \$1,565,650, or \$2,780,214 as Due to Operating in the Revenue Reserve Fund."
- A. There was no direct evidence in the record in Docket 3832 to support Providence Water's Due to Operating proposal. However, during the proceedings in Docket 3832, Providence Water's consumption had fluctuated (see attached excerpt from R&O #19145). In fact, a four year average was used, with several adjustments, to establish the consumption basis for setting rates. The plant effluent for the same period of time fluctuated between 70.31, 69.13, 70.62, and 66.80 Million Gallons per Day (MGD) (see attached). Providence Water agreed to the average and assumed that revenues would hover in or about the average. Never in our wildest dreams would we have anticipated a revenue shortfall to the extent experienced in FY 2009 where the plant effluent dropped to a staggering **62.22** MGD. In fact, this is the lowest plant effluent in the fourteen years depicted on the attached schedule, and it was over 2 MGD below the previous low (which translates to 754,000,000 gallons below the previous lowest year). Because of this heretofore unseen consumption pattern, Providence Water never thought that it would underbill revenues far in excess of the 2% restricted revenue reserve that was established in Docket 3832. Moreover, just because a "Due to" was not anticipated or specifically included in the record back in 2007, does not preclude the concept of recording the full amount of the revenue shortfall for the year against the revenue reserve account. It does require the creation of a "Due to" in this case, because sufficient funds have not yet accumulated in the restricted reserve fund. If several years had passed, and sufficient funds had accumulated in the restricted reserve fund, this would be a non-issue.

PROVIDENCE WATER DOCKET NO. 3832-A
Commission Data Requests Set I

Also, it should be noted that Providence Water expressed concern in the 2007 docket with Providence Water's high dependence on consumption based revenues as opposed to fixed revenues. We testified to our concerns about revenue stability and we recommended that the service charge be increased disproportionately to attempt to reduce the total variable consumption revenue. However, the Commission did not agree.

Hopefully, the terrible consumption revenue recorded in FY 09 does not recur, and consumption patterns will revert to more average amounts. The Revenue Reserve fund will then be able to provide the needed support to the Operating Fund by restoring average funding levels, which was the overall intent of the establishment of the restricted reserve, as we understand the Commission's Order. The only requirement in the Order was that "once Providence Water demonstrates to the Commission the need for such funds as a result of reduced sales levels." (Page 74). Providence Water has met that requirement.

If the recording of the "Due to" is disallowed, Providence Water will essentially then have to make filings with the Commission on a monthly basis in order to remove whatever funds are transferred to the Revenue Reserve fund, thus requiring Commission approval on a monthly basis, as well as a great deal of administrative work for Providence Water, the Commission and the Division. The amount of the "Due to" is not in dispute, and recording it would avoid multiple filings that are not needed in Providence Water's opinion because the amount due has been established on the record.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY :
BOARD'S APPLICATION TO CHANGE : DOCKET NO. 3832
RATE SCHEDULES :

TABLE OF CONTENTS

REPORT AND ORDER.....	1
I. Introduction.....	1
II. Providence Water's Pre-Filed Testimony.....	3
III. KCWA's Pre-Filed Testimony.....	14
IV. Division's Pre-Filed Testimony.....	23
V. Providence Water's Rebuttal Testimony.....	31
VI. Kent County Water Authority's Surrebuttal.....	37
VII. Division's Surrebuttal.....	43
VIII. Hearing.....	47
IX. Post-Hearing Briefs.....	53
X. Commission Findings.....	55
A. Pro Forma Consumption, Number of Services, Meters & Connections, Conservation Notice.....	56
B. Reimbursement to the City of Past Retiree Health Care.....	57
C. City Services Expense.....	67
D. Restricted Accounts, Positions and Salaries, Cranston Property Tax Refund, Operating Revenue Allowance, Reporting Requirements.....	71
E. Cost Allocations and Rate Design.....	75
Appendix A.....	85
Appendix B.....	86

REPORT AND ORDER

I. Introduction

On March 30, 2007, Providence Water Supply Board ("Providence Water") made a general rate filing with the Public Utilities Commission ("Commission"). The rate filing, if approved, would result in an overall revenue increase of \$9,688,321 or 19.07 percent, increasing rates by 19.6 percent, for a total cost of service of \$60,495,441. The effect on a typical residential customer with annual consumption of 100 HCF would be an increase of \$41.60 or 17 percent, from \$244.56 to \$286.16 per year or approximately

Explaining Providence Water's request to pay to the City of Providence ("City") approximately \$1.6 million over five and one-half years, Ms. Bondarevskis stated that Providence Water had not been reimbursing the City for the cost of Providence Water's retirees' health care. She stated that "this was discovered in fiscal year 2006."¹⁵ She opined that it was not discovered earlier because "[f]or some time now Providence Water has not reimbursed the City for Health care costs for employees in a direct manner," but rather, when payroll is completed, the City wires the amount needed for payroll and fringe benefits.¹⁶ Therefore, there was no invoice for Providence Water to process and according to Ms. Bondarevskis, Providence Water was unaware that the utility was not being charged for its retirees' health care.¹⁷ In order to calculate the amount to be paid back, the City Controller's office started with actual costs for fiscal years 2005 and 2004, discounted the costs back for each fiscal year 2003 through 1997, based on the annual working rate increase.¹⁸ In Ms. Bondarevskis' opinion, this was "a reasonable method of estimating the outstanding liability."¹⁹

Finally, addressing cash flow issues, Ms. Bondarevskis expressed support for Providence Water's proposed changes to rate design which would allow Providence Water to collect more revenue from fixed service charges rather than from metered consumption charges. In addition, she expressed support for the increased net operating revenue allowance. She indicated that this would provide more of a cushion against reduced revenues.²⁰

¹⁵ *Id.* at 6-7.

¹⁶ *Id.*, at 7.

¹⁷ *Id.*

¹⁸ *Id.* at 8.

¹⁹ *Id.*

²⁰ *Id.* at 8-9.

review and the costs would be paid for through bonds and an increase in IFR rate revenue.²⁵

Discussing annual demand for water, Mr. Gadoury indicated that summer weather patterns have the most effect on the demand. Mr. Gadoury noted that over the most recent 10 year period, average demand had fluctuated from year to year. Because of the “up and down variations in the total demand from year to year,” he noted that Providence Water was proposing changes to the rate structure to reduce the effect of demand fluctuations on revenue.²⁶

Mr. Bebyn provided testimony to explain the normalizing adjustments he made to the Test Year (FYE June 2006).²⁷ Mr. Bebyn also provided testimony regarding the proposed \$1.24 million City Service expenditures for the Rate Year (CY 2008), an increase of almost 50 percent over the previously allowed City Service expense. Mr. Bebyn discussed his review of City Service expenses, including meeting with some department heads, reviewing actual fiscal year expenses for each department and reviewing the fiscal year 2007 budgeted expenses. He indicated that the previous allocation model used for City Service expense was not detailed enough to properly allocate the costs. He stated that using the prior model approved in Docket No. 3163, City Service expense would increase to almost \$2.1 million.²⁸

Mr. Bebyn summarized his reasons for allocating costs to Providence Water from various City departments. He stated that the mayor’s office “deals with Providence

²⁵ *Id.* at 12-13.

²⁶ *Id.* at 13-15.

²⁷ Providence Water Exhibit 5 (Pre-Filed Testimony of David Bebyn), pp. 2-3.

²⁸ *Id.* at 5-6.

revenue allowance pending the outcome of a new docket to address the appropriateness and funding for such reserve.²⁵⁷

By a decision of 2-1, Providence Water is allowed a 3 percent net operating reserve, with 2 percent of it restricted to cover revenue shortfalls resulting from reduced consumption once Providence Water demonstrates to the Commission the need for such funds as a result of reduced sales levels. However, because the State of Rhode Island has made it a priority to encourage conservation, the Commission is requiring Providence Water to file a rate proposal on or before July 1, 2009 which includes proposed conservation rates. If Providence Water fails to file such a proposal by that date, the 2 percent revenue reserve will end at July 1, 2009, and Providence Water shall immediately file with the Commission to adjust rates to eliminate collection of the 2.0 percent revenue reserve for usage on and after July 1, 2009. The Commission notes that Providence Water advocated many rate design proposals which would shift more costs from consumption based rates to fixed service charges. While the Commission recognizes Providence Water's desire for such revenue stability, conservation is an equally important goal. With the allowed operating revenue allowance, Providence Water should be able to find an appropriate balance between expenses and revenues.

The Commission recognizes the impact of fluctuating sales on revenues which puts pressure on the non-investor owned water utilities to manage expenses. While weather has a big impact on usage and sales, so too does conservation, which is a priority of the State of Rhode Island. As conservation becomes more important and customers take measures to reduce their usage, revenues are reduced while many fixed costs remain in place. When sales are reduced, either due to weather or conservation, some expenses

²⁵⁷ Public Utilities Commission, Minutes of Open Meeting, August 30, 2007.

are likewise reduced. However, items such as capital projects, infrastructure, and personnel expenses resulting from labor contracts not within the control of the water utility management do not decrease. Therefore, like other non-investor owned water utilities, Providence Water experiences challenges in funding restricted accounts such as IFR and Capital Improvements due to prioritization of bills. When this occurs, the competing interests of conservation and the desire to keep rates low collide as water utilities petition the Commission for rate increases to cover increased costs and reduced sales. Of course, not all water utilities are the same. Some have been experiencing clear downward trends in water sales while others, like Providence Water have been experiencing fluctuations from year to year. In addition, looking at Providence Water in light of long-standing Commission policy to attempt rate stabilization, the Commission believes that a net operating revenue reserve of 3 percent with 2 percent restricted, continuation of which is contingent upon filing a conservation rate, will further this policy.

E. Cost Allocations and Rate Design

Providence Water proposed a fixed, monthly wholesale service charge based on 25 percent of the wholesale customer's revenues. The Division did not oppose this fixed charge because the Division agreed with Providence Water that this would improve revenue stability from the wholesale class. KCWA opposed the fixed charge for the following reasons: (1) as water use among wholesale customers changes, the fixed charge will result in rates that are not cost-based and (2) that allocating 25 percent of wholesale revenues to a fixed charge results in a lower commodity rate which provides less

Providence Water
Monthly and Cumulative (Million Gallons)

Month	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09	Actual	08-09	09-10	Variance
	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	CUMUL.	Monthly	CUMUL.	From Prior	W/out
															Average	Average	09-10	Average
															Max	Min		
J	2,916.86	2,522.37	2,366.18	2,069.98	2,643.79	2,643.79	3,033.04	3,033.04	2,710.54	2,710.54	3,329.25	3,329.25	2,820.49	2,820.49	2,829.25	2,522.37	2,634.55	11.96
A	2,858.05	2,500.33	2,366.18	2,080.86	2,552.72	2,552.72	2,936.78	2,936.78	2,655.85	2,655.85	3,000.28	3,000.28	2,617.63	2,617.63	2,430.96	2,024.69	2,234.55	-236.93
S	2,340.06	2,057.07	2,057.07	2,057.07	2,148.98	2,148.98	2,138.32	2,138.32	2,218.34	2,218.34	2,220.66	2,220.66	2,204.78	2,204.78	2,130.96	2,024.69	2,215.33	-147.58
O	2,000.60	1,946.56	1,946.56	1,946.56	1,850.60	1,850.60	1,928.85	1,928.85	1,974.42	1,974.42	2,038.29	2,038.29	1,982.87	1,982.87	2,104.15	2,024.69	1,993.98	-154.88
N	1,762.73	1,787.54	1,787.54	1,787.54	1,792.42	1,792.42	1,839.77	1,839.77	1,859.75	1,859.75	1,899.74	1,899.74	1,774.99	1,774.99	1,860.48	1,618.85	1,787.00	-168.15
D	1,793.43	1,671.73	1,671.73	1,671.73	1,612.59	1,612.59	1,608.36	1,608.36	1,607.04	1,607.04	1,655.28	1,655.28	1,599.18	1,599.18	1,589.18	1,618.81	1,789.72	-139.34
J	1,838.34	1,510.07	1,510.07	1,510.07	1,478.14	1,478.14	1,496.50	1,496.50	1,480.31	1,480.31	1,545.05	1,545.05	1,489.89	1,489.89	1,595.05	1,642.72	1,609.45	-133.84
F	1,728.04	1,238.11	1,238.11	1,238.11	1,257.80	1,257.80	1,260.65	1,260.65	1,267.31	1,267.31	1,319.61	1,319.61	1,279.77	1,279.77	1,381.79	1,523.48	1,663.28	-139.80
M	1,813.10	1,051.21	1,051.21	1,051.21	1,077.75	1,077.75	1,086.03	1,086.03	1,091.02	1,091.02	1,145.56	1,145.56	1,099.99	1,099.99	1,181.79	1,523.48	1,798.34	-200.82
A	1,862.21	837.42	837.42	837.42	1,677.12	1,677.12	1,698.07	1,698.07	1,703.33	1,703.33	1,759.79	1,759.79	1,704.00	1,704.00	1,881.12	1,523.48	1,983.34	-175.50
M	2,067.89	2,905.31	2,905.31	2,905.31	1,882.27	1,882.27	2,093.07	2,093.07	2,094.77	2,094.77	2,197.30	2,197.30	2,124.78	2,124.78	2,541.49	1,882.27	2,135.13	-605.43
J	2,507.75	2,541.06	2,541.06	2,541.06	2,591.95	2,591.95	2,662.29	2,662.29	2,662.29	2,662.29	2,734.02	2,734.02	2,716.83	2,716.83	3,040.36	1,889.46	2,494.89	-2,235.77
Total days	366	366	366	366	366	366	366	366	366	366	366	366	366	366	366	62.22		
Annual MGD	69.43	64.28	66.22	68.19	68.71	70.92	70.31	69.13	70.62	66.80	67.12	67.12	62.22					

PROVIDENCE WATER

Cumulative Plant Effluent actual thru June 2009

Million Gallons

Month	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09
J	2,916.86	2,522.37	3,069.98	2,643.79	3,033.04	2,752.87	2,710.54	3,329.25	2,657.87	2,667.37	3,025.80	2,652.22	2,673.31	2,831.60
A	5,774.91	5,022.70	5,436.16	5,196.51	5,668.78	5,080.02	5,366.39	6,329.53	5,165.72	5,160.38	6,147.56	5,242.62	5,313.18	5,229.22
S	8,114.97	7,079.77	7,517.02	7,345.49	7,812.57	7,218.34	8,550.19	8,578.52	7,431.45	7,405.50	8,578.52	7,267.31	7,711.63	7,296.97
O	10,115.57	9,026.33	9,503.35	9,196.09	9,724.86	9,227.56	10,588.48	10,682.67	9,457.33	9,479.35	10,682.67	9,159.69	9,722.71	9,135.47
N	11,878.30	10,813.87	11,295.77	10,894.77	11,559.75	11,018.29	11,527.95	12,516.80	11,269.18	11,339.83	12,516.80	10,923.07	11,420.60	11,516.80
D	13,671.73	12,432.68	13,108.36	12,635.29	13,366.79	12,824.58	13,239.01	14,324.23	13,116.01	13,116.01	14,324.23	12,648.89	13,139.61	14,324.23
J	15,510.07	14,075.40	14,896.50	14,407.28	15,187.10	14,659.21	16,111.34	16,117.05	15,184.06	14,965.04	16,117.05	14,435.65	14,888.44	14,080.31
F	17,238.11	15,603.20	16,490.65	15,990.16	16,875.31	16,303.74	17,065.85	17,825.70	17,065.85	16,692.84	17,722.22	16,084.61	15,603.79	15,603.79
M	19,051.21	17,310.95	18,236.03	17,772.18	18,641.41	18,101.74	18,690.92	19,701.02	18,583.96	19,518.78	21,332.88	17,879.51	18,202.75	19,701.02
A	20,837.42	18,988.07	19,998.30	19,581.38	20,364.79	19,923.90	20,572.33	21,555.79	20,840.34	20,462.72	21,332.88	19,648.93	19,980.41	21,555.79
M	22,905.31	20,870.34	22,093.07	21,847.40	22,401.89	22,711.77	23,099.78	23,676.11	22,479.09	23,427.09	21,869.40	24,381.41	21,997.30	23,676.11
J	25,413.06	23,462.29	24,170.09	24,887.76	24,666.24	25,020.91	25,080.60	25,886.29	25,734.02	25,232.68	25,776.83	24,565.34	22,708.65	25,886.29

Annual MGD	69.43	64.28	66.22	68.19	67.39	68.55	68.71	70.92	70.31	69.13	70.62	66.80	67.12	62.22
Jul-Dec MGD	74.30	67.57	71.24	68.67	72.65	69.70	72.62	77.46	71.95	71.28	77.85	68.74	71.41	67.42
Avg changed	4.87	3.29	5.02	0.48	5.25	1.15	3.91	6.54	1.64	2.15	7.23	1.95	4.29	5.20

Bristol County Water Authority starts purchasing water Jan '99

Conversion to HCF	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06	06-07	07-08	08-09
Annual HCF	33,974,679	31,366,698	32,312,955	33,272,406	32,976,257	33,450,414	33,530,214	34,607,340	34,403,770	33,733,529	34,461,003	32,595,468	32,841,364	30,359,158
Max	34,607,340	30,359,158	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161
Min	33,348,161	30,359,158	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161
Avg	33,348,161	30,359,158	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161	33,348,161
vs. Avg	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003	-2,989,003

PROVIDENCE WATER DOCKET No. 3832-A
Commission Data Requests Set I

Com 1-2 Please provide the most recent balance of the restricted revenue reserve fund.

A. The account balance as of 9/22/09 is \$1,933,548.55.

Prepared by: J. Bondarevskis, 9/24/09

PROVIDENCE WATER Docket No. 3832-A
Commission Data Requests Set I

Com 1-3 Does Providence Water fund its restricted accounts on a whole dollar basis or a percentage of collections basis?

Answer: Providence Water funds its restricted accounts on a whole dollar basis, when we have sufficient cash to do so.