

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**THE NARRAGANSETT)
BAY COMMISSION)** **DOCKET NO. 3905**

SURREBUTTAL TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

APRIL 2008

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
Suite 310
Columbia, Maryland 21044

1 A. Mr. Edge has accepted many of the adjustments I recommended in my direct testimony.
2 As a result, only three issues remain between NBC's position and the Division's. First,
3 Mr. Edge has disagreed with my adjustment to eliminate the 7.5 percent cap on non-
4 union employee contributions toward health insurance premiums. I continue to support
5 my initial recommendation, but I am not further addressing this issue in surrebuttal.

6 Second, Mr. Edge has accepted my adjustment for maintenance and service
7 agreements, with one exception. That is, that NBC has entered into a new agreement for
8 the process control and automation system at Bucklin Point. Because this is a new
9 agreement that was not initially included in NBC's request, I agree that it is appropriate
10 to add the \$58,776 annual fee to the level of service contract costs that I identified as
11 appropriate in my direct testimony. (See updated Schedule TSC-6.)

12 Finally, Mr. Edge disagrees with my adjustment to reflect only a 3 percent
13 increase in the PUC Assessment from FY 2008 to FY 2009. Based on further discussions
14 with the Division, it is my understanding that the amount assessed to utilities in FY 2009
15 is now expected to increase by \$400,000. This is due to an increase attributable to the
16 loss of the States' contribution from the General Fund, offset by a reduction in the PUC's
17 budget. Based on NBC's approximate 3 percent share of the overall assessment, this will
18 result in a \$12,000 increase in NBC's FY 2009 assessment. I have revised my
19 recommended adjustment to regulatory expense on updated Schedule TSC-8 to reflect
20 this change.

21 Q. DO YOU HAVE ANY COMMENTS WITH REGARD TO MR. EDGE'S
22 REBUTTAL TESTIMONY?

23 A. Yes. I would like to clarify that it is my position that any Revenue Stability Fund or
24 O&M Reserve be funded from the debt service coverage carry-forward. I recognize this
25 differs from my position in NBC's last rate proceeding. However, for the reasons

1 explained in my direct testimony, funding such a reserve from the debt service coverage
2 carry-forward is clearly preferable to requiring the ratepayers to pay an additional
3 \$1.5 million per year for the next five to six years. Consistent with this recommendation,
4 I have continued to exclude the \$1.5 million funding requirement and the \$7,000 of
5 interest income from my cost of service recommendation. I have also continued to reflect
6 my recommendation that the operating revenue allowance be set at one percent of
7 operating expenses excluding debt service because the separate reserve fund will be
8 available to address significant revenue shortfalls. Mr. Edge indicates that this is
9 acceptable to NBC as long as either a Revenue Stability Fund or an O&M Reserve is
10 approved.

11 Q. HAVE YOU PREPARED AN UPDATED RECOMMENDATION
12 REGARDING NBC'S REVENUE DEFICIENCY?

13 A. Yes. As shown on my Schedule TSC-1 Revised, I have determined NBC's overall
14 revenue requirement to be \$75,316,533. This represents an increase of \$7,552,291 over
15 revenues at present rates. As shown on updated Schedule TSC-11, the concomitant
16 overall increase in user fee revenue is 11.68 percent. Updated Schedule TSC-12 shows
17 the calculation of the rates required to generate this increase in revenue.

18 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

19 A. Yes, it does.

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

**THE NARRAGANSETT)
BAY COMMISSION)** **DOCKET NO. 3905**

**SCHEDULES ACCOMPANYING THE
SURREBUTTAL TESTIMONY
OF
THOMAS S. CATLIN**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

APRIL 2008

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
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THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at
 Present and Proposed Rates
 Rate Year Ended June 30, 2009

	NBC Rate Year Amount Per Rebuttal	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
Revenue					
User Fee Revenue	\$ 64,383,218	\$ -	\$ 64,383,218	\$ 7,522,291	\$ 71,905,509
Other Service Revenue	2,497,190	-	2,497,190	-	2,497,190
Miscellaneous	920,834	(7,000)	913,834	-	913,834
Total Revenue	\$ 67,801,242	\$ (7,000)	\$ 67,794,242	\$ 7,522,291	\$ 75,316,533
Expenses					
Personnel Services	17,687,447	(50,000)	17,637,447	-	17,637,447
Operating Supplies & Expenses	13,750,251	-	13,750,251	-	13,750,251
Professional Services	2,868,999	(12,450)	2,856,549	-	2,856,549
Capital Outlays	-	-	-	-	-
Amortization	9,690	-	9,690	-	9,690
Debt Related Costs	26,562	-	26,562	-	26,562
Debt Service	32,554,796	-	32,554,796	-	32,554,796
Debt Coverage	8,138,699	-	8,138,699	-	8,138,699
Total Expenses	\$ 75,036,444	\$ (62,450)	\$ 74,973,994	\$ -	\$ 74,973,994
Operating Reserve	514,746	(172,207)	342,539	-	342,539
Revenue Stability Fund	1,500,000	(1,500,000)	-	-	-
Total Cost of Service	\$ 77,051,190	\$ (1,734,657)	\$ 75,316,533	\$ -	\$ 75,316,533
Revenue Surplus/(Deficiency)	\$ (9,249,948)	\$ 1,727,657	\$ (7,522,291)	\$ 7,522,291	\$ -

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to
 Rate Year Revenues and Expenses at Present Rates
 Rate Year Ended June 30, 2009

<u>Description</u>	<u>Amount</u>	<u>Source</u>
<u>Revenue Adjustments</u>		
Residential Measured Use Fees	\$ -	Schedule TSC-3
Interest Income	(7,000)	Schedule TSC-10
Total Revenue Adjustments	\$ (7,000)	
<u>Expense Adjustments</u>		
Health Benefits Costs	(50,000)	Schedule TSC-4
Biosolids Disposal Costs	-	Schedule TSC-5
Maintenance & Service Agreements	-	Schedule TSC-6
Insurance Premiums	-	Schedule TSC-7
Regulatory Expense	(12,450)	Schedule TSC-8
Electricity Costs	-	Schedule TSC-9
Revenue Stability Fund	(1,500,000)	Schedule TSC-10
Operating Reserve	(172,207)	See Note (1)
Total Expense Adjustments	\$ (1,734,657)	
Total Division Adjustments to Operating Income	<u>\$ 1,727,657</u>	

Note:

(1) Adjusted to reflect 1.0% of Division Operating Expenses excluding debt costs per Schedule TSC-1. Refer to testimony for explanation.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Consumption Based User Fee Revenue
 to Reflect Test Year Volumetric Billing Units
 Rate Year Ended June 30, 2009

<u>User Fee Revenues</u>	<u>Units</u>	<u>Docket 3797 Rates</u>	<u>Revenue at Present Rates</u>
Residential			
Dwelling Units	116,795	\$ 112.35	\$ 13,121,918
Consumption	9,711,064	\$ 2.309	\$ 22,422,847
Non-Residential - Metered Accounts			
5/8"	3,827	\$ 253	968,120
3/4"	973	378	367,780
1"	1,089	628	683,644
1 1/2"	839	1,259	1,056,130
2"	1,685	2,013	3,391,518
3"	76	3,771	285,043
4"	38	6,285	240,393
6"	56	12,574	707,239
8"	18	20,118	372,169
10"	1	28,920	36,130
Total Flat Fees from Metered Accounts	8,602		\$ 8,108,166
Commercial Consumption	5,780,405	\$ 3.349	\$ 19,358,576
Industrial Consumption	637,116	\$ 2.153	\$ 1,371,711
Total User Fee Revenue at Current Rates			\$ 64,383,218
Revenues at Present Rates per NBC (1)			\$ 64,383,218
Adjustment to Revenues at Present Rates			\$ -

Notes:

(1) Per Schedule WEE-1R.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Health Benefits Costs
 to Reflect Revised Premium and Employee Levels
 Rate Year Ended June 30, 2009

	<u>Rate Year Premium (1)</u>	<u>Number of Members (2)</u>	<u>Annual Cost Per Division</u>	<u>Amount Per NBC (3)</u>	<u>Adjustment</u>
<u>Medical Insurance</u>					
HMO Family	\$ 540.70	15	\$ 210,873		
Single	197.87	8	41,157		
PPO Family	\$ 600.75	154	2,405,403		
Single	219.84	50	285,792		
Waiver	\$ 2,500	15	37,500		
Total		<u>242</u>	<u>\$ 2,980,725</u>	\$ 2,980,725	\$ -
<u>Dental Insurance</u>					
Family	\$ 38.67	179	179,970		
Single	13.96	58	21,052		
Waiver	110.00	5	550		
Total		<u>242</u>	<u>\$ 201,572</u>	\$ 201,572	\$ -
Total Rate Year Premiums			<u>\$ 3,182,297</u>	<u>\$ 3,182,297</u>	<u>\$ -</u>
Less: Employee Co-Payments (4)			<u>(249,313)</u>	<u>(199,313)</u>	<u>\$ (50,000)</u>
Net Rate Year Premiums			<u><u>\$ 2,932,983</u></u>	<u><u>\$ 2,982,984</u></u>	<u><u>\$ (50,000)</u></u>

Notes:

- (1) Revised premiums per the response to DIV I-21.
- (2) Employee levels per the response to DIV 1-20, adjusted to reflect average annual employee levels.
- (3) Per Schedule WEE-1R.
- (4) Reflects \$50,000 increase over NBC estimate for FY 2008 increase due to elimination of cap on non-union employee contributions per response to DIV IV-6.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Biosolids Disposal Costs
 Rate Year Ended June 30, 2009

	<u>7/1/2008 12/31/2008</u>	<u>1/1/2009 to 6/30/2009</u>	<u>Total Cost</u>
Field's Point-Dry Tons (1)	4,834.0	4,834.0	
Field's Point Tunnel Impact (1)	109.0	219.0	
Bucklin Point-Dry Tons (1)	<u>1,204.0</u>	<u>1,204.0</u>	
Total Biosolids for Disposal-Dry Tons	6,147.0	6,257.0	
Rate per Ton (2)	<u>\$ 390.89</u>	<u>\$ 402.62</u>	
Biosolids Disposal Costs	\$ 2,402,801	\$ 2,519,173	\$ 4,921,974
Amount per NBC (3)			<u>4,921,974</u>
Adjustment to Rate Year Expense			<u><u>\$ -</u></u>

Notes:

(1) Per Schedule WEE-6.

(2) Revised rate for 2008 per response to DIV 1-26. Projected 2009 rate based on projected increase in CPI for 2008 based on Blue Chip Economic Indicators consensus forecast of February 10, 2008.

(3) Per Schedule WEE-1R.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Maintenance & Service Agreement Costs
Rate Year Ended June 30, 2009

	<u>Amount</u>
Maintenance & Service Agreement Expense (1)	
FY 2005	\$ 493,658
FY 2006	416,867
FY 2007	509,827
FY 2008	<u>510,459</u>
Average Annual Increase	<u>1.12%</u>
FY 2008 Maintenance & Service Agreement Expense	\$ 510,459
Escalation Rate	<u>1.0112</u>
Estimated Rate Year Expense	\$ 516,176
New Bucklin Point Agreement (3)	<u>58,776</u>
Updated Division Recommendation	\$ 574,952
Amount per NBC (2)	<u>574,952</u>
Adjustment to Rate Year Expense	<u>\$ -</u>

Notes:

(1) Per Schedule WEE-7 and the response to DIV 1-28.

(2) Per Schedule WEE-1R.

(3) Per Schedule WEE-4R.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Insurance Expense
 to Reflect Three Year Average Increase
 Rate Year Ended June 30, 2009

	<u>Liability Insurance (1)</u>	<u>Workers' Compensation Insurance (1)</u>
FY 2004	\$ 347,689	\$ 246,501
FY 2005	375,827	265,731
FY 2006	337,257	284,825
FY 2007	368,536	419,906
FY 2008	<u>369,036</u>	<u>456,223</u>
Average Annual Increase for the 4 years 2004-2008	1.50%	16.64%
Average Annual Increase for the 3 years 2005-2008	<u>-0.61%</u>	<u>19.74%</u>
FY 2008 Insurance Expense	\$ 369,036	\$ 456,223
Escalation Rate (2)	<u>1.0150</u>	<u>1.1974</u>
Estimated Rate Year Expense	\$ 374,572	\$ 546,281
Amount per NBC (3)	<u>374,572</u>	<u>546,281</u>
Adjustment to Rate Year Expense	\$ -	\$ -
Combined Total		<u>\$ -</u>

Notes:

(1) Amounts per Schedule WEE-8 except FY 2004 and FY 2005 per response to DIV 1-32.

(2) Liability escalation based on the four year rate in lieu of utilizing the negative rate for the period from FY 2005 to FY 2008.

(3) Per Schedule WEE-1R.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Regulatory Expense
Rate Year Ended June 30, 2009

	<u>Amount</u>
PUC Assessment-FY 2008 (1)	\$ 179,011
Projected Growth from FY 2008 to FY 2009 (2)	<u>12,000</u>
Rate Year PUC Assessment	\$ 191,011
Assessment per NBC (3)	<u>203,461</u>
Adjustment to PUC Assessment	\$ (12,450)
Exclude FY 2006 RIPDES Permit Fees (4)	<u>-</u>
Total Adjustment to Regulatory Expense	<u><u>\$ (12,450)</u></u>

Notes:

(1) Per PUC records.

(2) Refer to testimony. Reflects projected increase in PUC Assessment based on loss of General Fund contribution.

(3) Per Schedule WEE-13.

(4) Adjustment included in NBC Rebuttal on Schedule WEE-1R

THE NARRAGANSETT BAY COMMISSION

Adjustment to Tunnel Pump Station Electricity Expense
Rate Year Ended June 30, 2009

	<u>Amount</u>
Maximum Requirments Expense (1)	\$ 275,863
Minimum Requirements Expense (2)	<u>216,259</u>
Average of Maximum and Minimum Expense	\$ 246,061
Amount per NBC (3)	<u>246,061</u>
Adjustment to Reflect Average Expense	\$ -
Gross Earnings Tax at 4.1666%	<u>-</u>
Total Adjustment to Expense	<u><u>\$ -</u></u>

Notes:

(1) Per Schedule WEE-10.

(2) Per response to DIV IV-3.

(3) NBC has accepted use of average as reflected on Schedule WEE-1R.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Reflect Funding of Revenue Stability Fund
from Debt Service Coverage Carry-Forward
Rate Year Ended June 30, 2009

	<u>Amount (1)</u>
Eliminate Rate Funding of Revenue Stability Fund	\$ (1,500,000)
Eliminate Interest Income on Fund Balance	<u>(7,000)</u>
Net Cost of Service Effect	<u>\$ (1,493,000)</u>

Note:

(1) Amounts per Schedule WEE-1

THE NARRAGANSETT BAY COMMISSION

Calculation of Uniform Percentage Increase in Rates
Required to Generate Additional Revenues
Rate Year Ended June 30, 2009

Overall Revenue Increase Required (1)	<u>\$ 7,522,291</u>
Revenues from Services Subject to Increase (2)	
Flat Fees-Residential	\$ 13,121,918
Measured Fees-Residential	22,422,847
Flat Fees-Commercial and Industrial	8,108,166
Measured Fees-Commercial	19,358,576
Measured Fees-Industrial	1,371,711
Discharge Permit Fees	-
Connection Permit Fees	-
BOD/TSS Surcharge	-
Septage Fees	-
Total Revenues from Services Subject to Increase	<u>\$ 64,383,218</u>
Uniform Percentage Increase	<u>11.68%</u>

Notes:

(1) Per Schedule TSC-1.

(2) Per Schedule WEE-15.

THE NARRAGANSETT BAY COMMISSION

Calculation of Proposed Rates and
 Proof of Revenues at Proposed Rates
 Rate Year Ended June 30, 2009

	Current Rate	Percent Increase	Proposed Rate	Billing Units (1)	Revenue at Proposed Rates
Flat Fees					
Residential	\$ 112.35	11.68%	\$ 125.48	116,795	\$ 14,655,437
Commercial & Industrial					
Meter Size					
5/8"	\$ 253.00	11.68%	283.00	3,827	1,082,917
3/4"	\$ 378.00	11.68%	422.00	973	410,591
1"	\$ 628.00	11.68%	701.00	1,089	763,112
1.5"	\$ 1,259.00	11.68%	1,406.00	839	1,179,444
2"	\$ 2,013.00	11.68%	2,248.00	1,685	3,787,448
3"	\$ 3,771.00	11.68%	4,212.00	76	318,377
4"	\$ 6,285.00	11.68%	7,019.00	38	268,467
6"	\$ 12,574.00	11.68%	14,043.00	56	789,864
8"	\$ 20,118.00	11.68%	22,469.00	18	415,661
10"	\$ 28,920.00	11.68%	32,299.00	1	40,351
Total Commercial & Industrial Flat Fees				8,602	\$ 9,056,232
Measured Fees					
Residential	\$ 2.309	11.68%	2.579	9,711,064	25,044,834
Commercial	3.349	11.68%	3.740	5,780,405	21,618,715
Industrial	2.153	11.68%	2.405	637,116	1,532,264
Total Measured Fees					\$ 48,195,813
Other Revenue					
Discharge Permit Fees	-	11.68%			-
Connection Permit Fees	-	11.68%			-
BOD/TSS Surcharge	-	11.68%			-
Septage Fees	-	11.68%			-
	-				\$ -
Total Service Revenue					\$ 71,907,481
Target Revenue (2)					71,905,508
Variance					\$ 1,973

Notes:

(1) Per Schedule WEE-14

(2) Per Schedule TSC-11. Target equals revenue at present rates plus required increase.