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RHODE ISLAND PUBLIC UTILITIES COMMISSION
DOCKET NO. 3942
KENT COUNTY WATER AUTHORITY
PREFILED REBUTTAL TESTIMONY OF
TIMOTHY J. BROWN, P.E.

1 REBUTTAL TESTIMONY

2 TIMOTHY J. BROWN, PE

3
4 Q. Are you the same Timothy Brown that submitted direct testimony in this case?

5
6 A. Yes, I am.

7
8 Q. Have you had an opportunity to review the pre-file testimony of the Division prepared by
9 Mr. Thomas S. Catlin of Exeter Associates Incorporated?

10
11 A. Yes.

12
13 Q. Mr. Catlin, for the Division, has taken a position of not advocating adopting seasonal rates
14 at this time. What are your concerns with the Division's position?

15
16 A. The implementation of seasonal rates by Kent County Water Authority was to introduce the
17 method to all customers on a very small and limited basis. This is a first step to introduce a
18 true seasonal rate to the customers whereby the cost of water will approximate the demand
19 and scarcity of the product. It would introduce commodity based pricing on supply and
20 demand to the customers. Kent County Water Authority was well aware that it could not
21 be fully implemented until the issue of monthly billing and meter reading was available at
22 Kent County Water Authority. Kent County Water Authority is also aware that the State
23 Legislature is investigating the need to implement legislation to limit use of water together
24 with seasonal rates. KCWA is compelled to follow that direction as we were an integral
25 part of the hearing process.

26
27 Q. Does the division's position on operating revenue allowance have an affect on the position
28 of KCWA to the seasonal rate implementation?

1 A. Yes it does. Without a sufficient operating revenue allowance we have insufficient
2 protection from a shortfall. We are less certain of the revenue generated from sales if a
3 seasonal rate was implemented no matter how small and limited it may be.
4

5 Q. Do you agree with the division testimony on line 16, page 31 of Mr. Catlin's testimony
6 "KCWA may no longer wish to propose to adopt seasonal rates."
7

8 A. Even though we believe the Division position is mis-guided, possible legislation mandating
9 seasonal rates and operating revenue allowances is expected. Without a sufficient
10 operating revenue allowance granted by the Commissioner, we will not pursue the seasonal
11 rate option.
12

13 Q. With regards to the proposed enforcement charges by the Kent County Water Authority
14 and the Division's concerns expressed in Mr. Catlin's testimony, what is the Authority's
15 position on the implementation of these charges?
16

17 A. Kent County Water Authority proposed these additional enforcement regulations and
18 charges to assist in the enforcement of the regulation for odd/even watering and potential
19 moratorium restrictions which may be necessary during emergencies within our system.
20 These certainly have occurred in the past and are expected to occur in the future. Mr.
21 Catlin has assumed that the charges would be cumulative. That was not our intent. KCWA
22 was to place a yearly "calendar year" limit on the odd/even restriction for enforcement and
23 single event deadline for full moratoriums. Admittedly it was not emphatic in our filing
24 concerning the calendar year time frame on the odd/even restrictions. The moratoriums
25 when implemented were for the same event as titled in my testimony on Page 10.
26

27 Q. Since it wasn't clear in the filing, what is KCWA's position on the proposal?
28

29 A. Since concerns by the Division through testimony presented by Mr. Catlin have been raised
30 KCWA will not pursue the implementation of the "same event" enforcement charges

1 proposed. We will continue with our current procedure for any violation of the odd/even or
2 violations of any imposed emergency moratoriums.

3
4 Q. In regards to the Division's testimony on page 11, health insurance cost, do you have
5 concern with their proposal?

6
7 A. Yes, we do. Based on our enabling legislation, the Kent County Water Authority is the
8 sole determinant of the coverage. To implement an employee contribution to premium
9 based upon the statement "requiring employee contributions to health insurance premiums
10 has become more and more prevalent in recent years as insurance premiums have increased
11 dramatically" is without merit. To assume that if one entity does it we all must do it is not
12 realistic and must only be viewed on a case by case basis. It is contrary to most business
13 models where benefits are considered in lieu of payroll. We all know that private payroll is
14 considerably more lucrative than public payroll for the very reason that benefits make up
15 the difference. To modify benefits will require a commensurate adjustment in payroll to
16 attract an excellent workforce. There is a desperate need for talented workers in the water
17 field today, in particular, with the increase in technology and the ever changing
18 requirements from EPA. A proposed decrease in pay such as reduction of benefits,
19 recruitment will be hampered and development and retention of adept workers will be
20 strained. We at Kent County Water Authority believe we have exceptionally talented
21 employees and we need to continue to hold and acquire more talent as we grow and
22 develop our use of technology and implementation of treatment facilities for well water.

23
24 KCWA has been aggressive in its due diligence when purchasing health insurance through
25 competitive solicitation and three year contracting to control and limit cost exposure and by
26 the use of expert consultants. We have also increased employee co-payments on services
27 and prescriptions as a cost reduction method. This certainly has kept our cost 8% to 11%
28 below the state payment levels. We believe we have shown and demonstrated our clear
29 commitment to controlling cost through our actions and reject the Division's proposal, as it
30 is without merit and legislative direction and is not reflective of the marketplace reality.

1 Q. In review of the Division's testimony on chemical costs, do you have an opinion?

2

3 A. We do not agree with the proposed averaging of chemical costs over a four year period.
4 Chemical use varies based on water produced for the proper treatment of the product.
5 Chemical dosage remains somewhat consistent based on similar production, but it does and
6 can vary. By reducing the estimated cost as proposed by the Division in a high production
7 year will certainly provide a deficit in chemical cost line item. The increase in cost of
8 chemicals is well beyond prediction based on world demand. As a commodity in demand,
9 the price will continue to be set by market conditions. Attached to my testimony, Exhibit
10 A, we must brace ourselves for another increase in potassium hydroxide by year's end.
11 The Commission must recognize this, and at the very least, disallow the proposed reduction
12 in chemical costs proposed in TSC-7 of \$29,980 and restore that to our costs of service.

13

14 Q. In the Division testimony, page 24, Infrastructure Replacement Funding, their proposal is
15 to reduce the required \$6 million dollars per year in IFR funding to \$5.4 million dollars per
16 year. Do you agree with that?

17

18 A. No, I do not. The Division's position for a reduction from the approved \$6 million dollars
19 per year required expenditure "moderate the rate increase in this proceeding, I am
20 recommending that the IFR funding be increased to \$5.4 million rather than \$6 million, as
21 requested by KCWA" is irresponsible. Kent County Water Authority did not include this
22 in our rate filing for any reason other than to meet the requirement of our approved plan
23 mandated by state law, which established the infratructure replacement program and the
24 necessary funding for it. We believe it is a violation of state law not to provide full funding
25 to meet that approved plan. Kent County Water Authority has never believed that anything
26 less than the full amount should be allocated to this program. We have a successful
27 aggressive program and are "catching up" with the infrastructure deterioration.
28 Infrastructure needs have been recognized by the state legislature not by just passing this
29 act establishing the infrastructure replacement program, but also by recent hearings over
30 the last three years concerning (1) Kent County Water Authority and (2) the water supply
31 systems in this state. It is well known that infrastructure needs exceed \$800 million dollars

1 in Rhode Island and each every year it grows as the systems age. When will the full
2 amount of funds necessary be allocated? We believe it should be now; the need is present
3 and we believe the \$6 million dollars is necessary for our program. We have expended a
4 great deal of funds and energy and are now beginning to see great results in our
5 infrastructure replacement program, increase in fire supply, quality of service to our
6 customers and removal of deteriorated systems, which have been a nightmare for the
7 Authority to maintain. Our program is well known throughout the state, having been
8 presented numerous times to the legislative body. We are certainly one of the most
9 compliant. Authority on the infrastructure program and our system needs it as we are well
10 over 127 years old. It is inappropriate to reduce that amount from the allocated \$6 million,
11 as needed and as planned.

12
13 Q. Funding of your IFR program is restricted. Have you been able to keep up with the
14 funding on a monthly basis?

15
16 A. No we have not. We are currently two months behind in our IFR funding.

17
18 Q. Has this affected your program?

19
20 A. Yes it has. It has decreased the amount of funds available to work with and we have
21 continuously modified our programs, as needed, to match the funding that is available and
22 secured.

23
24 Q. On page 25 of the Division's testimony, a comment is made referencing utilizing the bond
25 funding for other projects in order to reduce the costs that are funded from current
26 revenues? Have you had an opportunity to review that?

27
28 A. Yes I have.

29
30 Q. Please comment on your concerns.

31

1 A. Kent County Water Authority has successfully sold bonds for our Capital Improvement
2 Program. It is different than our Infrastructure Improvement Program, as we have always
3 utilized and continue to profess utilization of a Cash Infrastructure Program because its use
4 is immediate once the infrastructure has been replaced and it is available to the existing
5 customers. It also matches the 5 year, 20 year and 50 year replacement periods that have
6 been authorized. A 50 year replacement period of the system matches exactly what a debt
7 service approach mimics. We have always utilized bond funds for our capital for existing
8 and future customers, as those capital needs, which are much larger and may deal with
9 storage and transmission issues, as well as pumping issues affect customers over a longer
10 period of time. It has worked very well for us, but we do need to consider the limits on our
11 bonding authority since we sell revenue bond versus general obligation bonds. We reject
12 that notion since we will continue to bond our Capital Improvement Program as needed
13 with the funds available and will continue to utilize our cash account for IFR programming
14 as planned and approved.

15
16 Q. Do you have anything further to add?

17
18 A. Yes I do. It is certainly not a mystery that Kent County Water Authority is working on a
19 new infrastructure program and the five year plan must be updated. It is also no mystery
20 that we are working on a capital improvement program as its five year program must be
21 updated. We are not considering those since they are premature at this point, and the plans
22 have not been completed nor approved. It is quite obvious that additional capital will be
23 necessary for the infrastructure and capital programs as we continue to modernize and
24 replace our system. Certainly, the inability to fund our infrastructure program to the full
25 capacity from day one to its five year term will have an affect upon our future program
26 since the unfunded portions of that program will need to be carried on to future years. We
27 believe that the same philosophy has been used over the many decades of infrastructure,
28 non-funding and non-replacement that has occurred. You can not put off a replacement for
29 tomorrow and expect it to continue to operate and provide customers good quality service.
30 We are still trying to “catch up” and get in line with an approved program that will meet
31 our needs for replacement on a yearly basis and to comply fully with that approved plan.

1 We expect to complete our infrastructure and capital program shortly with the necessary
2 filing for an approval. We also fully expect that they will be approved in their entirety and
3 will then be implemented by this Authority seeking funds as needed from the Public
4 Utilities Commission. It is now time to fund our program fully and to reject the Division's
5 position that it is needed to moderate the rate increase. Most certainly we are concerned
6 with rate increases, but we still believe that water is under valued and that the additional
7 needs must be carried out by the Authority by the programs that meet state law on behalf of
8 our customers. We ask that the Commission reject the Division's position and accept our
9 position for full funding for the infrastructure program.

10
11 Q. Does this conclude your testimony?

12
13 A. Yes, aside from new information that may be brought to our attention and without review
14 of the final testimony for the Division or other witnesses.

**BORDEN & REMINGTON CORP**

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July 1, 2008

Kent County Water Authority
PO Box 192
W. Warwick, RI 02893
FAX: 401-823-4810

Dear Customer:

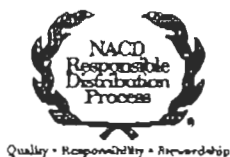
Due to escalating raw material costs for the production of Potassium Hydroxide, Borden & Remington Corp. has increased your price to .50/pound effective July 1, 2008.

Costs have increased dramatically due to the world demand for Potassium Chloride, which is a salt and the raw material that is used making Potassium Hydroxide. Presently, this demand is expected to continue for many years. Both China and India are playing major roles in this increase in global demand for Potassium based products. Market forecasts are predicting that Potassium Hydroxide costs will continue to rise and another increase is expected to be announced before the end of the year.

If you have any questions or concerns, please don't hesitate to contact me directly.

Regards,

Michael F. Relihan
Controller
(508) 675-0096, ext. 222



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EXHIBIT A