

**PREFILED TESTIMONY**

**OF**

**JAMES L. DeCELLES, P.E.  
CHIEF ENGINEER  
PAWTUCKET WATER SUPPLY BOARD**

**FOR**

**PAWTUCKET WATER SUPPLY BOARD**

**RHODE PUBLIC UTILITIES COMMISSION**

**DOCKET NO.**

**MARCH 28, 2008**

1 **I. INTRODUCTION**

2 **Q. Please provide your full name, title and business address for the record.**

3 A. James L. DeCelles, P.E., Chief Engineer, Pawtucket Water Board, 85 Branch Street,  
4 Pawtucket, RI 02860

6 **Q. How long have you been employed the Pawtucket Water Supply Board?**

7 A. I was hired as Assistant Chief Engineer on March 14, 2005, I assumed the duties of  
8 Acting Chief Engineer in February 2006, and I became Chief Engineer as of June 20,  
9 2007.

11 **Q. What are your responsibilities at the PWSB?**

12 A. I serve as the general manager of the Pawtucket Water Supply Board (PWSB), which  
13 includes water supply, treatment, and distribution systems. The Pawtucket Water Supply  
14 Board serves a population of 99,167 in the City of Pawtucket, the City of Central Falls,  
15 and the Valley Falls section of the Town of Cumberland.

17 **Q. Can you provide a brief description of your previous work experience?**

18 A. From May 1988 to February 1990, I worked for the RIDEM Division of Water  
19 Resources as a Junior Sanitary Engineer responsible for design review and construction  
20 management. From 1990 to 2000 I held the position of Water and Sewer Superintendant  
21 for the Town of North Smithfield. As the Superintendant, I was responsible for the  
22 complete operation and maintenance of the water and wastewater systems for the Town  
23 of North Smithfield. From 2000 to 2005 I was the Utilities Manager for the Town of  
24 North Attleboro, Ma. and was responsible for the management of the water and  
25 wastewater systems for the Town.

27 **Q. What is your educational background?**

28 A. I hold a Masters Degree in Civil Engineering from Worcester Polytechnic Institute  
29 and a BS in Environmental Engineering Technology from Norwich University.

1 **Q. Do you have any professional affiliations?**

2 A. I am a member of the RI Water Works Association, American Water Works  
3 Association, and the New England Water Works Association. For the New England  
4 Water Works Association, I am a member of the Financial Management Committee and a  
5 member of the Program and Legislative Committees for the Rhode Island Water Works  
6 Association. I am also a member of the American Society of Civil Engineers.

7  
8 **Q. What is the purpose of your testimony?**

9 A. To support the PWSB's request for a rate increase to cover the cost of operations and  
10 maintenance expense increases, including the operation of our new water treatment plant,  
11 and the establishment of an increased Operating Revenue Allowance.

12  
13 **Q. What is the amount of the proposed increase?**

14 A. In this Docket, the PWSB is using a test year of July 1, 2006 to June 30, 2007 and a  
15 rate year of January 1, 2009 to December 31, 2010. The PWSB is requesting to increase  
16 its revenues by \$3,109,387 which is an increase of 17.4%.

17  
18 **Q. What does that request consist of?**

19 A. Basically, the increase consists of four major components:  
20 1. An increase in energy related costs;  
21 2. An increase in the contract cost with Earth Tech for the operation of the water  
22 treatment facility;  
23 3. An increase in labor costs;  
24 4. The establishment of an Operating Revenue Allowance equal to 5% of total  
25 revenues.

26  
27 **Q. How is the proposed rate increase to be applied?**

28 A. A full cost of service and rate design study has been prepared by Christopher  
29 Woodcock. As such, please see the testimony and schedules prepared by Mr. Woodcock  
30 for the proposed application of the requested increase.

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33

## **II. NEW TREATMENT PLANT/DISTRIBUTION SYSTEM STATUS**

### **Q. What is the status of the new treatment plant?**

A. The new treatment plant is basically complete at this time. Earth Tech performed acceptance testing between December 6, 2007 and December 20, 2007. We have received and are reviewing the acceptance test report, which appears to be satisfactory and in conformance with the standards set forth in the contract agreement. The test report was also reviewed by the Rhode Island Department of Health and our supervising engineers, CDM. The PWSB received a satisfactory review of the report from the Department of Health and the plant was put into service and began providing water to the PWSB distribution system on March 19, 2008.

One of the issues that recently delayed acceptance testing was the unsatisfactory performance of the raw water pumps. When the pumps were activated, it was clear that they were cavitating. This means water vapor pockets were forming in the pump casing and collapsing when they hit the pump impeller. The collapsing vapor pockets cause noise, vibration, impeller pitting, and pump casing damage. In addition to the possible physical damage, cavitation also causes decreased pump performance and efficiency.

One of the three pumps was returned to the manufacturer for further testing and modification to eliminate the cavitation problem. It appears that the solution to the problem was to increase the size of the impeller and slow down the speed of the pump motor. The pump that was returned to the factory was fitted with a larger impeller and slower motor. The pump was then tested at the factory where it operated properly. This pump has been delivered, installed and re-tested at the new plant under actual pumping conditions. This test was successful. As such, the remaining two pumps will be shipped back to the factory so they can receive the necessary retrofit. The pumps will be repaired one at a time in order to insure that there are two operating pumps on site at all times. This will allow uninterrupted operation of the new treatment plant.

1 The existing water treatment plant is scheduled to run in an “idle mode” for one month  
2 after the new plant is put in service in the event there is a total malfunction of the new  
3 plant and it becomes necessary to produce water at the old plant.

4  
5 In summary, the new water treatment facility is on line and the repair of the raw water  
6 pumps should be completed by the end of May. At this point, the only part of the project  
7 that remains to be completed is slip lining of the 54” main from the raw water station to  
8 the new treatment plant. Since this line is currently utilized as the finished water line  
9 from the existing plant to the pumping station at Branch Street, the slip lining project  
10 can’t be completed until every other aspect of the project is operational and the existing  
11 plant is taken completely out of service.

12  
13 Upon completion of all remaining work, the PWSB must decommission the old water  
14 treatment plant. Preliminary estimates for the decommissioning are in the range of  
15 \$700,000.

16  
17 **Q. What is the status of the water distribution system renovation project?**

18 A. The PWSB continues work on the cleaning, lining and replacement of our distribution  
19 system pipes. The PWSB is about to issue a contract for our final cleaning and lining  
20 project and we are still on schedule to complete the main replacements in 2014. The  
21 scheduled completion dates include the rehabilitation of the Central Falls distribution  
22 system.

23  
24 **III. DOCKET 3674 ISSUES**

25 **Q. Can you discuss the impact of the increase granted to the PWSB in Docket 3674?**

26 A. In Docket 3674, the PWSB sought a total rate revenue increase of 22% to collect  
27 additional operating revenues of \$3,540,101. The rate increase granted by the  
28 Commission in Docket #3674 became effective in November 2005. The Commission’s  
29 Order found that PWSB had a total revenue requirement of \$17,874,873. Thus, the  
30 PWSB was allowed an increase over the then current rates in the amount of \$1,259,117,  
31 or 7.7%. Some of the issues addressed in Docket 3674 are raised again in this Docket -  
32 Rate Year Consumption, Restricted Accounts, Central Falls Distribution System,

1 Employee Funding and Operating Revenue Allowance. In addition, the PWSB has settled  
2 a long standing dispute with the Town of Cumberland regarding property taxes. As such,  
3 I will begin by addressing these issues. I will then address various revenue requests that  
4 are new to this Docket.

5  
6 **Rate Year Consumption**

7 **Q. One of the issues contested in Docket 3674, was the appropriate forecast of rate**  
8 **year consumption. Is this still an issue?**

9 A. Yes, this is still an issue. The PWSB is still experiencing declining consumption and  
10 the PWSB did not reach the projected consumption in our last Docket. In Docket 3674,  
11 the Commission granted annual revenues \$17,874,873. However, as set forth in Mr.  
12 Woodcock's testimony, revenues at current rates would only provide \$16,308,246 in the  
13 rate year.

14  
15 **Q: Do you recall the rate year sales that were used in Docket 3674?**

16 A: Yes, for the rate year (CY2006) the retail sales were projected to be 4,545,437  
17 hundred cubic feet for retail customers. Mr. Bebyn's Schedule DGB-3A shows that use  
18 in FY 2006 and FY 2007 (the periods overlapping CY 2006) were substantially less than  
19 this, averaging 4,056,786 hundred cubic feet – less than 90% of the projected amount.

20  
21 **Q. Is the PWSB making any recommendations in this filing to address this declining**  
22 **consumption?**

23 A. Yes. Mr. Woodcock and Mr. Bebyn have made recommendations regarding the  
24 appropriate method of estimating water usage in the rate year. In addition, both Mr.  
25 Woodcock and I suggest that the PWSB's Operating Revenue Allowance be increased.

26  
27 **Restricted Accounts**

28 **Q. In Docket 3674, the PWSB was ordered to restrict a portion of its revenues. Has**  
29 **this been done?**

30 A. Yes, but funding did not reach the level ordered by the Commission. This subject is  
31 covered more fully in Robert Benson's testimony, and as explained therein, the PWSB

1 has not been able to restrict the full amount ordered by the Commission in Docket 3674.  
2 The Commission will recall that the PWSB was ordered to restrict \$9,519,489 from  
3 rates annually to fund the following accounts: Debt Service, IFR, O&M Reserve, Capital  
4 Leases, WTP Reserve, and Central Falls Franchise Fees. Due to a decline in water  
5 consumption and sales, the PWSB has not been able to restrict this full amount. In  
6 addition, the PWSB was ordered to create a restricted account for Calgon Royalties. This  
7 account was also unfunded due to a lack of revenue. Furthermore, the PWSB was ordered  
8 to restrict funds earmarked for the Central Falls Distribution System once it was finally  
9 purchased by the PWSB. This account was not funded either.

10  
11 **Central Falls Distribution System**

12 **Q. What is the status of the PWSB's purchase of the Central Falls Distribution**  
13 **system?**

14 A. As the Commission knows, the issue of the PWSB purchasing and taking over the  
15 operation and maintenance of the City of Central Falls Water Distribution system has  
16 been discussed in various Dockets since 1988. I am happy to report that the purchase has  
17 been completed and the PWSB took over ownership and operation of the system on  
18 August 30, 2007.

19  
20 **Q. In Docket 3674, the Commission made certain orders regarding the restricted**  
21 **Central Falls Franchise Fee Account. Can you please address the PWSB's**  
22 **compliance with these orders?**

23 A. Yes. In Docket 3674, the Commission estimated that the PWSB would collect  
24 \$172,831 in the restricted Central Falls Franchise Fee Account during CY 2006. The  
25 Commission estimated that the PWSB would expend approximately \$86,000 of this on  
26 the purchase of the Central Falls system at mid year, which would leave a balance of  
27 approximately \$86,000 at the end of CY 2006. The Commission' Order further found that  
28 in CY 2007, PWSB would still be collecting these funds, which, at the end of CY 2007  
29 would total \$172,831. As such, the Commission ordered the PWSB to cease collecting  
30 the franchise fees beginning January 1, 2007 and commence applying those funds

1 (\$172,831) to pay for five employees hired in conjunction with the purchase of the  
2 Central Falls system.

3  
4 As addressed more fully in Mr. Benson's testimony, this account was not fully funded in  
5 FY06 and was not funded at all in FY07. Presently, there is a balance of approximately  
6 \$34,000, which the PWSB would like to utilize to pay for decommissioning the old water  
7 treatment plant.

8  
9 **Q. The Commission also ordered the PWSB to set up a restricted account for funds**  
10 **earmarked for the Central Falls Distribution System. Was this done?**

11 A. Yes, this account was established, but as explained in Mr. Benson's testimony, it was  
12 not funded. The PWSB is requesting that this account be discontinued.

13  
14 **Q. In Docket 3674, the Commission allowed funding for 57 employees, which**  
15 **included an additional five employees once the PWSB completed the purchase of the**  
16 **Central Falls system. How many employees does the PWSB currently have?**

17 A. The PWSB currently has 53 employees. We have not added any employees  
18 specifically for the Central Falls system. Since we have experienced a decline in our  
19 consumption and revenues, we have been forced to adapt our staffing plan and  
20 philosophy. Since Docket 3674, we have added one new crew leader and one new  
21 backhoe operator while eliminating a floater clerk position. This has allowed the PWSB  
22 to create four smaller crews, as opposed to the three larger crews we used in the past.  
23 Each crew currently consists of a crew leader, backhoe operator, and two utility workers.  
24 With the addition of the new crew leader and backhoe operator the PWSB is able to field  
25 four crews on a daily basis – one valve crew and three digging crews.

26  
27 Since our capital plan calls for either relining or replacing the majority of the Central  
28 Falls system, which is handled by outside contractors, we are anticipating being able to  
29 handle the additional O&M work load from the Central Falls acquisition with our  
30 existing crews. However, if the workload in the Central Falls system is more than



1 expected, then in future Dockets we may have to request additional employees for the  
2 Central Falls system.

3  
4 **Employee Funding**

5 **Q. Is the PWSB requesting funding for new positions at this time?**

6 A. Yes, we are requesting funding for a new Customer Service position titled  
7 “Collections Assistant” to assist with the collection of delinquent accounts.

8  
9 **Q. Why is this new position necessary?**

10 A. The number of delinquent accounts has increased significantly in the past year. See  
11 the Aging of Accounts Receivable Summary as of 1/31/2008 (Schedule RB-07). We  
12 presently have one position, “Customer Service Representative”, assigned to collect  
13 delinquent accounts. The addition of a Collections Assistant will enable us to increase  
14 the number of delinquent accounts we can schedule for our collection procedures. At the  
15 present time, when the customer service representative is absent due to illness or  
16 approved vacation periods, we are unable to schedule collection procedures. The primary  
17 responsibilities for the Collections Assistant will be tagging delinquent accounts,  
18 terminating water service, restoring water service, assisting the Customer Service  
19 Representative including performing the duties of the customer service representative in  
20 this individual’s absence.

21  
22 **Operating Revenue Allowance**

23 **Q. You indicated above that the requested rate increase consists of a component for  
24 an increased Operating Revenue Allowance, can you explain this request?**

25 A. Yes. As stated previously, the PWSB has seen a steady decline in water consumption.  
26 With decreased consumption comes decreased revenue. When the PWSB does not collect  
27 the revenue allowed by the Commission, it cannot pay the expenses the Commission  
28 deems necessary to run the utility. It is the PWSB’s position that there is no viable  
29 substitute for a proper operating reserve to pay Commission approved expenses when  
30 revenues decline due to lower consumption.

1 The PWSB is also experiencing a sharp increase in the amount of uncollected revenue  
2 due to the economic climate in our service area. The PWSB has stepped up collection  
3 efforts in order to minimize the impacts of aging accounts, but it is still a factor that  
4 effects our revenue projections. These circumstances, as well as uncertain and volatile  
5 expenses resulting from fuel and electric cost increases make the need for an increased  
6 operating revenue allowance more important than ever.

7  
8 **Q. Will there be any negative effect if the PWSB continues to under collect without**  
9 **the Operating Revenue Allowance it is requesting?**

10 A. Yes. The PWSB has several concerns about being able to properly fund its various  
11 accounts. First, as set forth in Mr. Benson's testimony, the PWSB's bond indentures have  
12 certain requirements as to the funding of accounts. The indentures require that the O&M  
13 budget, Debt Service Fund and O&M Reserve Fund be fully funded first. Then, only after  
14 these accounts have been fully funded, can the remaining restricted accounts, such as the  
15 IFR account, be funded. The PWSB keeps a close eye on its revenues, and when  
16 necessary, maintenance projects are postponed.

17  
18 However, if the PWSB continues to be under-funded for approved expenses, and  
19 accounts are funded in the order established by the bond indentures, the IFR restricted  
20 account will not be funded, resulting in delayed capital projects such as water main  
21 replacement projects. In the future, cutting maintenance will not be an option when  
22 collections are lower than expected. The PWSB cannot indefinitely defer necessary  
23 maintenance.

24  
25 Therefore, considering all these issues, the PWSB requests that the Public Utilities  
26 Commission approve a 5% Operating Revenue Allowance on the total revenues allowed  
27 in this docket as further outlined in Mr. Woodcock's testimony.

1 **Cumberland Tax Dispute**

2 **Q. What is the status of the PWSB's Superior Court tax litigation with the Town of**  
3 **Cumberland?**

4 A. I am pleased to report that the parties have settled all of the outstanding litigation  
5 regarding the Town of Cumberland's tangible tax assessments for the tax years 2002  
6 through 2007.

7  
8 **Q. What were the terms of the settlement?**

9 A. The Town of Cumberland has agreed to refund One Million Five Hundred Seventy-  
10 Four Thousand Three Hundred Forty-Four Dollars and Sixty Eight Cents (\$1,574,344.68)  
11 to the PWSB. This payment will be made as follows: (a) the Town agreed to pay One  
12 Million Dollars (\$1,000,000.00) by December 13, 2007, and (b) the Town agreed to pay  
13 the remaining Five Hundred Seventy-Four Thousand Three Hundred Forty-four Dollars  
14 and Sixty Eight Cents (\$574,344.68) in the form of a credit against future taxes owed by  
15 the PWSB at a rate of Two Hundred Thousand Dollars (\$200,000.00) for each future tax  
16 year until the entire credit is exhausted. As of this date, the one million dollar payment  
17 has been made, and it is assumed that the credits will be processed as agreed upon.

18  
19 **Q. Does this fully resolve all of the PWSB's issues with the Town of Cumberland**  
20 **regarding tax issues?**

21 A. No it does not. The settlement was based on an agreement by the PWSB and the Town  
22 of Cumberland to set the value of the PWSB's tangible property at \$8.5 million dollars  
23 for the tax years 2002 through 2007. However, in the settlement agreement, the parties  
24 agreed that the valuations used and the methodologies employed in settling this dispute  
25 would only apply to the years 2002 through 2007. It was agreed that the settlement would  
26 not be binding on either of the parties in any subsequent valuation of the PWSB's  
27 properties in the Town of Cumberland. Further, the PWSB and the Town of Cumberland  
28 continue to dispute the PWSB's real property assessments for the tax years 2005 through  
29 2007. This dispute was not resolved in the settlement.

1 **Q. Pursuant to the Commission's order in Docket 3674, the PWSB was ordered to**  
2 **hold any settlement payment into a restricted account and to provide the**  
3 **Commission with a recommendation for the disposition of said funds. Has this been**  
4 **done?**

5 A. Yes. The one million dollar payment was received by the PWSB and is currently  
6 being held in a restricted account. Based on conversations with Commission staff, the  
7 PWSB is making its recommendations for the disbursement of said funds in this filing  
8 rather than in a separate filing with the Commission.  
9

10 **Q. What are the PWSB's recommendations for the use of these settlement funds?**

11 A. The PWSB would recommend that the settlement funds be used for the following two  
12 purposes:

- 13 1. The PWSB would complete an ongoing project of surveying and consolidating its  
14 watershed properties in the Town of Cumberland. This would allow us verify that  
15 the acreage of land being taxed in Cumberland is accurate and would also  
16 consolidate any lots that can be merged. We have performed this work on several  
17 lots already and have found several discrepancies in the existing data. The cost of  
18 this project is estimated to be \$350,000
- 19 2. The PWSB would like to restrict \$650,000 of the settlement money for the  
20 purchase of further property for watershed protection. There are several key  
21 pieces of land in the watershed that are available for purchase. The PWSB would  
22 like to acquire this land, or the development rights, before it is developed, as part  
23 of our ongoing watershed protection efforts.  
24

#### 25 **IV. REVENUE REQUESTS**

##### 26 **Debt Service**

27 **Q. The PWSB's debt service requirements are increasing dramatically, yet the**  
28 **PWSB is not requesting an increase from revenues to meet these requirements. Can**  
29 **you explain why?**

30 A. Yes. As explained in Mr. Benson's testimony and Mr. Woodcock's testimony, much  
31 of the increase is due to principal payments that are coming due on bonds that have

1 already been issued. However, the PWSB is able to use funds from its Debt Service  
2 Stabilization account to meet the increased payments. As demonstrated in Mr. Benson's  
3 schedule RB-11, we are able to transfer \$952,529 from the stabilization account to the  
4 debt service account in FY10. Thus, we are able to reduce the revenue increase we are  
5 presently requesting. If these funds were not available, the rate increase requested in this  
6 filing would have been considerably higher.

7  
8 **Q. Even with this transfer in FY10, it appears that there are additional funds**  
9 **available in the Debt Service Stabilization Account that could offset the PWSB's**  
10 **current revenue request. Can you explain why the PWSB has not proposed to use**  
11 **more of these funds?**

12 A. Yes. In the period from FY08 to FY12, the PWSB proposes to undertake  
13 approximately \$35,000,000 of capital projects. This does not include projects currently  
14 funded through existing RICWFA debt. Presently, the PWSB's Capital Improvement  
15 Plan shows all of these projects being funded through IFR. As demonstrated on Mr.  
16 Benson's schedule RB-12, if all of these projects are funded through IFR, there will be a  
17 deficit beginning in FY10. Thus, funds from the Debt Stabilization Account will be  
18 available to offset this deficit. In the alternative, it is likely that some of these projects  
19 will be funded through debt. Thus, whatever funds that are not needed to offset the  
20 increase in IFR, can be used to pay for new debt. This will allow the PWSB to moderate  
21 future rate increases.

### 22 23 **Earth Tech Contract**

24 **Q. The PWSB is requesting revenue to cover the Operating Costs under its contract**  
25 **with Earth Tech.**

26 A. As explained more fully in Mr. Benson's testimony, our costs under the contract with  
27 Earth Tech are increasing due to the CPI increase included in the contract, and the fact  
28 that Earth Tech will now begin running the new plant. As set forth in Mr. Woodcock's  
29 testimony and schedules, the increase over the test year is \$458,942.

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**Power costs**

**Q. Can you explain why the PWSB is seeking an increase in its Power Costs?**

A. Yes. The PWSB’s contract for electricity was signed in 2004 and it expires in January 2009. The co-op that we currently purchase power through is scheduled to rebid the contract in December 2008 and a sharp increase in the cost is expected. The existing purchase price is \$59 per megawatt hour while the market price is approximately \$93 per megawatt hour. We have been informed by the RI League of Cities and Towns that there is real potential for a 100% increase in electric costs for 2009 and that is what should be used for budgetary purposes. The sharp increase in oil prices can also be seen in the abnormally high price increases experienced in water works materials such as, copper tubing, pipe, fittings, and asphalt.

**Q. Does this conclude your testimony?**

A. Yes. Subject to review of further documentation and the testimony of the Division and any Intervenors, this concludes my direct testimony.