

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

**THE NARRAGANSETT)
BAY COMMISSION)** **DOCKET NO. 4026**

**DIRECT TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.**

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

APRIL 2009

EXETER

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

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BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND

THE NARRAGANSETT)
BAY COMMISSION) DOCKET NO. 4026

Direct Testimony of Lafayette K. Morgan, Jr.

Introduction

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- Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?
- A. My name is Lafayette K. Morgan, Jr. I am a Senior Regulatory Analyst with Exeter Associates, Inc. Our offices are located at 5565 Sterrett Place, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.
- Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND QUALIFICATIONS.
- A. I received a Master of Business Administration degree from The George Washington University. The major area of concentration for this degree was Finance. I received a Bachelor of Business Administration degree with concentration in Accounting from North Carolina Central University. I am also a Certified Public Accountant licensed in the State of North Carolina.
- Q. WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?
- A. From May 1984 until June 1990, I was employed by the North Carolina Utilities Commission - Public Staff in Raleigh, North Carolina. I was responsible for analyzing testimony, exhibits, and other data presented by parties before the North

1 Carolina Utilities Commission. I had the additional responsibility of performing the
2 examinations of books and records of utilities involved in rate proceedings and
3 summarizing the results into testimony and exhibits for presentation before that
4 Commission. I was also involved in numerous special projects, including
5 participating in compliance and prudence audits of a major utility and conducting
6 research on several issues affecting natural gas and electric utilities.

7 From June 1990 until July 1993, I was employed by Potomac Electric Power
8 Company (Pepco) in Washington, D.C. At Pepco, I was involved in the preparation
9 of the cost of service, rate base and ratemaking adjustments supporting the company's
10 requests for revenue increases in the State of Maryland and the District of Columbia.
11 I also conducted research on several issues affecting the electric utility industry for
12 presentation to management.

13 In July 1993, I accepted my current position with Exeter Associates, Inc.
14 Since then I have been involved in the analysis of the operations of public utilities,
15 with particular emphasis on utility rate regulation. I have also reviewed and analyzed
16 utility rate filings, focusing primarily on revenue requirements determination. This
17 work has involved natural gas, water, electric and telephone companies.

18 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
19 PROCEEDINGS ON UTILITY RATES?

20 A. Yes. I have previously presented testimony and affidavits on numerous occasions
21 before the North Carolina Utilities Commission, the Pennsylvania Public Utility
22 Commission, the Virginia Corporation Commission, the Louisiana Public Service
23 Commission, the Georgia Public Service Commission, the Maine Public Utilities
24 Commission, the Kentucky Public Service Commission, the Public Utilities

1 Commission of Rhode Island, the Vermont Public Service Board, the Illinois
2 Commerce Commission and the Federal Energy Regulatory Commission (FERC).

3 Q. ON WHOSE BEHALF ARE YOU APPEARING?

4 A. I am presenting testimony on behalf of the Division of Public Utilities and Carriers
5 (the Division).

6 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
7 PROCEEDING?

8 A. Exeter Associates has been retained by the Division to assist in the evaluation of the
9 General Rate Filing submitted by NBC. In this testimony, I present my findings on
10 behalf of the Division regarding the overall revenue increase to which NBC is
11 entitled. My associate, Mr. Thomas S. Catlin, will present the Division's
12 recommendations with regard to the proposed conversion to monthly billing and rate
13 design.

14 Q. IN CONNECTION WITH THIS CASE, HAVE YOU PERFORMED AN
15 EXAMINATION AND REVIEW OF THE COMPANY'S TESTIMONY
16 AND EXHIBITS?

17 A. Yes. I have reviewed NBC's testimony, exhibits and its rate filing, as well as its
18 responses to the Division and Commission's data requests.

19 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR
20 TESTIMONY?

21 A. Yes. I have prepared Schedules LKM-1 through LKM-10. Schedule LKM-1
22 provides a summary of revenues and expenses under present and proposed rates.
23 Schedules LKM-2 through LKM-10 present my adjustments to NBC's claimed
24 revenues and operating expenses.

25

1 Summary and Recommendations

2 Q. PLEASE SUMMARIZE THE RATE RELIEF REQUESTED BY NBC IN
3 ITS FILING.

4 A. As discussed in the testimony of NBC witness Walter E. Edge, NBC's filing seeks an
5 increase in revenues of \$8,990,368, which represents an overall revenue increase of
6 12.89 percent. To develop its claim, NBC utilized the results for fiscal year (FY)
7 2008 as the test year. NBC then adjusted the test year cost of service to reflect
8 changes to become effective for a FY 2010 rate year.

9 Q. PLEASE SUMMARIZE YOUR FINDINGS AND RECOMMENDATIONS.

10 A. As shown on Schedule LKM-1, I have determined the NBC's overall revenue
11 requirement to be \$76,454,165. This represents an increase over revenues at present
12 rates of \$6,692,683. The revenue increase that I have identified is \$2,297,685 less
13 than the revenue increase of \$8,990,368 requested by NBC. This difference is the
14 result of the adjustments to NBC's claimed revenues and operating expenses that are
15 summarized on Schedule LKM-2.

16 Q. WHAT TIME PERIODS HAVE YOU UTILIZED IN MAKING YOUR
17 DETERMINATION OF NBC'S REVENUE REQUIREMENTS?

18 A. Consistent with NBC's filing, I have utilized a test year ended June 30, 2008 and a
19 rate year ending June 30, 2010 as the basis for determining NBC's revenue
20 requirements and the revenue increase necessary to recover those requirements.

21 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

22 A. The remainder of my testimony is organized into sections corresponding to the issue
23 or topic being addressed. These sections are set forth in the Table of Contents for
24 this testimony.

25

1 Salaries and Other Personnel Costs

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO SALARIES AND OTHER
3 PERSONNEL COSTS?

4 A. NBC's rate year salaries and personnel costs for both union and non-union employees
5 were annualized based upon applying a 4.0 percent annual increase to FY2008 to
6 derive the FY 2009 level of salaries and wages, and applying a 4.25 percent increase
7 to FY 2009 salaries and wages to derive the rate year level costs. The rate year
8 projected increase of 4.25 percent increase represents NBC's obligation in accordance
9 with its union contract. However, even though that level of increase was projected
10 for non-union employees, NBC is under no contractual obligation to grant a 4.25
11 percent increase to those employees. Also in its presentation of salaries and
12 personnel costs, NBC also added the salaries and benefits of three new positions that
13 it is seeking to fund (one customer service representative and two laboratory
14 technicians). The personnel costs affected by this adjustment are comprised of
15 pension, retiree health care and payroll taxes. These costs are calculated as a
16 percentage of the salaries and wages using the rates that were known at the time the
17 rate case was prepared.

18 I am proposing two adjustments to NBC's claim. The first adjustment
19 involves the determination of the level of increase for the rate year salaries. Since the
20 union contract governs the increase to be granted to during the rate year, I have
21 accepted the 4.25 percent for those employees. (Although I have accepted the union
22 increase because it is contractually obligated, the Division encourages NBC to
23 aggressively pursue concessions during negotiations for a new contract with the union
24 given that the current contract expires at the end of the rate year.) However, since
25 NBC is not under a similar legal obligation to grant a 4.25 percent increase to non-

1 union employees, I have approached the annual increase determination differently.
2 To derive the rate year non-union pay increase for the rate year, I have applied a 2
3 percent cost of living increase to the FY 2009 salaries. I have used the 2 percent
4 increase as a reasonable cost of living adjustment in view of the fact that annual
5 inflation has been low and is projected to be less than 2 percent during the rate year.
6 Given the current economic conditions in the United States and Rhode Island, in
7 particular, NBC is not likely to need to grant pay increases that virtually double the
8 rate of inflation in order to retain and attract workers. Moreover, the high
9 unemployment level among NBC's customer base diminishes the ability to pass on
10 higher costs to its customers without creating a situation that makes it increasingly
11 more difficult for some customers to pay for service.

12 The second adjustment involves the newly created laboratory technician
13 positions. I have included the salary for only one position. NBC included the two
14 positions citing the increase in the number of samples and parameters it is required to
15 test. As I explain later in this testimony, the increase in the number of parameters
16 appears to be levelling off. NBC also indicates that weather plays a part in
17 determining when tests can be conducted and the requirement for overtime for
18 laboratory employees. Therefore, it is not clear whether the number of test year
19 overtime hours is driven by the number of tests required, or the effects of the weather.
20 It is my recommendation that one position be approved, and if it is later determined
21 that the additional position is needed, the Commission can approve that position in a
22 future proceeding. It is important to note that I have not removed or reduced the
23 overtime costs related to laboratory testing. Hence, I have continued to allow for
24 additional labor costs associated with laboratory testing.

1 previous rate cases. NBC argues that the increases in medical premiums experienced
2 in previous years were less than they would have been otherwise because NBC made
3 changes to its medical care plan in an effort to keep costs down. However, the
4 changes made by NBC to its health plan are a reason why using its historical average
5 medical premium increases is better than a general trend in health care costs. In other
6 words, the general trends in health care costs may not reflect the cost containment
7 efforts that NBC has implemented and do not reflect the unique experience of NBC.
8 With regard to the dental insurance premiums, the use of the 6 percent increase based
9 upon the contractual cap on the annual increase is not reasonable. A review of NBC's
10 recent history show that dental insurance has not increased at the 6 percent rate.

11 Second, I have adjusted the level of employee co-payments to reflect the
12 increase in wage levels from the test year to the rate year. Employee co-payments are
13 based on a percentage of each employee's salary. NBC adjusted the level of co-
14 payments to recognize that the percentage of an employee's salary that must be
15 contributed is increasing from the test year to the rate year is increasing. I have
16 adjusted the level of employee co-payments to reflect the average rate year wage
17 increase that is reflected in annual salary and wages that I have proposed.

18 Third, since I have included only two of the three new positions that NBC
19 proposed, I have adjusted the health care costs associated these positions to reflect
20 only two positions. NBC calculates the cost of health insurance for the new positions
21 based upon the average cost of medical and dental insurance per employee. Since I
22 updated the number of employees enrolled in the plans, the average cost per
23 employee has changed. Using the same methodology as NBC, I have reflected
24 updated average health care costs in my calculation of the costs associated with the

1 new positions. Since NBC presents these costs separately net of co-pays, I have
2 presented these costs in manner that makes it easy to compare.

3 Finally, as I have indicated, I have updated the number of employees enrolled
4 in each of the medical and dental plans to reflect the most recent data provided by the
5 Company. This approach is consistent with the presentation of the rate year level of
6 costs.

7 Q. WHAT IS THE EFFECT OF YOUR CHANGES TO EMPLOYEE HEALTH
8 INSURANCE COSTS?

9 A. As shown on Schedule LKM-4, the four revisions I have identified reduce projected
10 employee health insurance costs for the rate year by \$111,138.

11
12 **Biosolids Disposal Costs**

13 Q. PLEASE EXPLAIN THE ADJUSTMENT YOU HAVE MADE TO
14 BIOSOLIDS DISPOSAL COSTS.

15 A. NBC derived the biosolids disposal costs by applying a projected rate per ton to the
16 applicable biosolids tonnage. To determine the quantity of biosolids to which the rate
17 is applied, NBC used the 3-year average based upon FY 2006 through FY 2008. In
18 my calculation of the quantity of biosolids, I have used the most recent 24-month
19 average instead NBC's 3-year average. The use of a 24-month average is consistent
20 with the number of months used by NBC and the Division to develop biosolid
21 quantity in Docket No. 3905.

22 The rate per ton that NBC pays for biosolids disposal is subject to adjustment
23 annually based on the change in the Consumer Price Index (CPI) for New England
24 from November to November. In its filing, NBC assumed an annual increase of 3.15
25 percent in the disposal rate per ton to derive the FY 2009 and the rate year expense.

1 The 3.15 percent rate of increase is based upon the CPI from November 2006 to
2 November 2007 applied to the FY 2008 disposal rate of \$390.78 as the starting point.
3 In the supplemental response to DIV 1-37, NBC provided a revised current rate per
4 ton and a revised CPI rate. Accordingly, I have calculated biosolids disposal costs
5 based upon the most recent data provided by NBC.

6 Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE
7 CALCULATION OF YOUR ADJUSTMENT?

8 A. Yes. The calculation of my adjustment is shown on Schedule LKM-5. As presented
9 there, I have calculated biosolids disposal costs for the first half of the rate year (July-
10 December 2009) based on the actual rate in effect for 2009. For the second half of
11 the rate year, I have increased the 2009 biosolids disposal rate by 1.70 percent. This
12 represents the projected increase in the CPI for 2010 based on March 2009 *Blue Chip*
13 *Economic Indicators* consensus forecast. As shown on Schedule LKM-5, these
14 updates decrease the projected disposal costs for the rate year by \$466,398 compared
15 to NBC's filed claim.

16 17 Screening and Grit Costs

18 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO
19 SCREENING AND GRIT COSTS?

20 A. In its filing, NBC projected the rate year screening and grit costs by escalating the
21 current rate per ton of \$65.00 by the 3-year average growth of 8.23 percent.
22 Information recently obtained by the Division indicates that the Rhode Island
23 Resource Recovery Corporation (RIRRC) sludge disposal rate is likely to remain
24 unchanged for 2010. Therefore, I have calculated the rate year screening and grit
25 costs based upon the current rate of \$65.00 per ton. Additionally, in NBC's response

1 to DIV 1-42, the quantity of sludge associated with Interceptor Maintenance (IM) was
2 changed from 1,306 to 773 tons. This change has also been incorporated in screening
3 and grit costs that I have calculated. On Schedule LKM-6, I have presented this
4 adjustment which reduces screening and grit costs by \$51,760.

5
6 **Workers' Compensation Expense**

7 Q. HOW DID NBC DEVELOP ITS CLAIM FOR WORKERS'
8 COMPENSATION INSURANCE EXPENSE FOR THE RATE YEAR?

9 A. NBC projected the workers' compensation components of its insurance account
10 expense by calculating the average annual growth rate between the years from FY
11 2006 to FY 2009 and applying the calculated average growth rate of 24.79 percent to
12 FY 2009 workers' compensation costs to arrive at FY 2010 rate year expense. NBC
13 also included \$102,587 to recognize a 2-year amortization of old workers'
14 compensation claims.

15 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO MAKE TO
16 PROJECTED WORKERS' COMPENSATION EXPENSE?

17 A. I am proposing to revise the projection of the rate year workers' compensation
18 expense by utilizing the most recent 2-year average annual increase. However, in
19 order to calculate the average annual increase, the expense amounts presented by
20 NBC need to be presented on a consistent basis from year-to-year. The amounts used
21 to derive average annual increase on NBC's Schedule WEE-9 were not presented on
22 a consistent basis that made the amounts comparable from year-to-year. Specifically,
23 the amounts for FY 2008 and FY 2009 were not calculated using the same cost
24 components used in deriving the expense for FY 2007.

1 Consequently, the amounts NBC used to derive its annual average growth
2 overstates the annual growth rate. I corrected the net annual premiums for each year
3 on Schedule LKM-7. In addition, the average annual increase that NBC has
4 calculated includes data from 2006 that reflects an abnormally high growth rate and
5 distorts the average increase. When asked to explain the change between 2006 and
6 2007 in DIV 1-45, NBC stated:

7
8 There was a significant premium increase between the 2005-06
9 policy and the 2006-07 policy term. This increase was due to a
10 number of variables including the increase in the payroll, reduction
11 in scheduled credit (due to market conditions and loss experience),
12 and an increase in the NBC experience modification.

13 As can be seen on Schedule LKM-7, none of the changes from one year to the next is
14 as dramatic as the 2006/2007 change presented on Schedule WEE-9. The FY 2006
15 data should not be used because of this abnormality.

16 With regard to NBC's presentation of old workers' compensation claim, I
17 have removed the additional costs to recognize the three-year amortization from the
18 cost of service for three primary reasons. First, recovery of non-recurring costs that
19 were incurred prior to the rate year would constitute retroactive ratemaking.
20 Retroactive ratemaking is not allowed, so it is inappropriate to include these costs.
21 Second, citing confidentiality, adequate information was not provided to conduct an
22 analysis of these costs. NBC claims that it has proposed sharing these costs fairly
23 with ratepayers, but without additional information it is not possible to verify the
24 claim. Third, NBC states that with this settlement, it would have only three
25 remaining old claims with annual payments of \$50,000 per year. Hence, with my
26 adjustment, the Company is being allowed to recover its future ongoing level of old
27 workers' compensation claims.

1 Q. HAVE YOU PREPARED A SCHEDULE SHOWING THE
2 DEVELOPMENT OF YOUR PROJECTION OF THE RATE YEAR
3 WORKERS' COMPENSATION COSTS?

4 A. Yes. My analysis is presented on Schedule LKM-7. As shown there, I have
5 projected the rate year workers' compensation expense of \$493,760 by escalating the
6 costs by 9.20 percent based on the average growth rate experienced during the period
7 FY 2007 to FY 2009. Overall, my projection of rate year workers' compensation
8 expense is \$159,568 less than NBC's projection.

9
10 **Laboratory Supplies**

11 Q. WHAT ADJUSTMENT ARE YOU RECOMMENDING FOR
12 LABORATORY SUPPLIES EXPENSE FOR THE RATE YEAR?

13 A. NBC projected rate year laboratory (lab) supplies expense by applying an annual
14 escalation rate of 15.32 percent to the FY 2008 expense to derive the FY 2009
15 expense which was also escalated by 15.32 percent to derive the FY 2010 amount.
16 This 15.32 percent growth rate was based on the average of the increase of 17.14
17 percent from FY 2005 to FY 2006, 8.31 percent from FY 2006 to FY 2007 and 20.50
18 percent from FY 2007 to FY 2008. In the direct testimony of NBC's witness Edge,
19 he explains that the cause of the cost increases is the result of a significant increase in
20 the number of samples and parameters that NBC has had to take and analyze as a
21 result of regulatory changes. However, the data presented on page 37 of Mr. Edge's
22 testimony suggest that the increase in the number of tests appear to be leveling off.
23 Hence, if the projected rate year expense is derived from the historical annual rate of
24 cost increases dating back to 2005, the rate year expense would be increased as if the
25 number of tests is continuing to increase as rapidly as they did during the 2005 to

1 2007 period. As a result, applying that rate of increase would overstate the level of
2 lab supply expenses included in the cost of service.

3 The adjustment I am recommending recognizes the growth in laboratory
4 supplies expense based upon the annualized growth between the calendar year 2008
5 and FY 2008. On Schedule LKM-8, I calculate the growth in these expenses based
6 upon an annual growth rate of 7.26 percent. The use of this rate results in a decrease
7 of \$39,609 in NBC's laboratory expenses claim.

8
9 **Electricity Costs**

10 Q. WHAT ADJUSTMENT ARE YOU PROPOSING TO THIS CLAIM?

11 A. NBC calculated its electricity costs based upon a supply charge of 7.195¢ per kWh
12 for the beginning of the rate year through January 31, 2010 when its current
13 electricity supply contract expires. For the period beginning February 1, 2010
14 through June 30, 2010, NBC has projected its supply charge to increase to the rate of
15 12.4¢ per kWh. At the time of filing this case, NBC was paying the 7.195¢ for its
16 electricity supply, but it was necessary to project the supply costs for a portion of the
17 rate year because NBC's current electricity supply contract is expiring and it has not
18 completed negotiations on a new contract. Also, as part of the electricity cost
19 calculation, NBC projected the rate year costs for the Tunnel Pump Station on the
20 maximum annual electricity usage for each piece of equipment. As I will explain
21 below, the calculation presented by NBC would include electricity costs in rates that
22 are higher than they are likely to be. Therefore, I have made two adjustments to the
23 electricity costs to moderate the level of costs.

24 First, in view of current electricity rates, the use of the supply charge rate of
25 12.4¢ would overstate electricity costs. The first indication that the 12.4¢ rate is not

1 representative of the rate that it is likely to obtain from its new supply contract is the
2 current rate NBC pays for electricity. Another indicator is the rates being offered to
3 the Last Resort service customers by National Grid. The recently filed rate schedule
4 for National Grid's Last Resort Service for the period May 2009 through December
5 2009 shows a range of 6.04¢ to 7.765¢ per kWh, respectively. Recognizing that the
6 load of last resort service customers does not result in the lowest service rates,
7 National Grid's rates provides an indication of how low a rate NBC can get in
8 comparison to the 12.4¢ supply rate it has projected. NBC's search for a new
9 supplier also indicates that it does not intend to take last resort service, and that it can
10 get a better rate by "shopping." Therefore, I have used the 7.195¢ rate (the rate NBC
11 was paying when this case was filed) for period after the current electricity supply
12 contract expires during the rate year. The 7.195¢ rate is a conservative estimate of
13 the supply rate given that negotiating with a new supplier is likely to yield lower
14 rates.

15 The second adjustment relates to the manner in which NBC calculated the
16 electricity for The Tunnel Pump Station. NBC's projected electricity costs, based on
17 the maximum usage of each piece of equipment, is not realistic or appropriate to
18 include as the basis for setting rates. If such an estimate were included in rates on a
19 continual basis, NBC would consistently over recover its actual electricity costs. To
20 reflect a more normal expectation of the costs of electricity for the Tunnel Pump
21 Station, I am proposing to utilize the average of the maximum and minimum expected
22 electricity costs. As shown on Schedule LKM-9, this adjustment reduces rate year
23 electricity costs by \$735,281 to reflect the two changes discussed above.

24

1 Management and Audit Services

2 Q. PLEASE EXPLAIN YOUR ADJUSTMENT TO MANAGEMENT AND
3 AUDIT SERVICES.

4 A. NBC has calculated the projected level of management and audit services by
5 escalating the FY 2009 costs at the historical average annual rate of inflation of 3.26
6 percent to derive the rate year costs. Historical rates of inflation are not good
7 predictors of future inflation levels. Therefore, I have adjusted the level of
8 management and audit services to the rate year by escalating the FY 2009 cost based
9 upon the projected 2010 projected inflation of 1.7 percent as released in the March
10 2009 edition of *Blue Chip Economic Indicators* consensus forecast. As presented on
11 Schedule LKM-10, the use of the forecasted inflation rate results in a decrease in
12 these expenses of \$195,990.

13
14 Net Operating Reserve

15 Q. HOW HAVE YOU ADJUSTED THE NET OPERATING RESERVE
16 ACCOUNT?

17 A. NBC has calculated the net operating reserve based upon 1.5 percent of operating
18 expenses including personnel services cost but excluding debt service costs. The
19 manner in which I have calculated the operating reserve is consistent with the
20 Commission's order in Docket No. 3905. Specifically, I have calculated the
21 operating reserve using 1 percent of operating expenses excluding personnel and debt
22 service costs. This adjustment is shown on Schedule LKM-1 and decreases NBC's
23 claim by \$396,074.

24 Q. DOES THIS COMPLETE YOUR DIRECT TESTIMONY?

25 A. Yes, it does.

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

**THE NARRAGANSETT)
BAY COMMISSION)** **DOCKET NO. 4026**

**SCHEDULES ACCOMPANYING THE
DIRECT TESTIMONY
OF
LAFAYETTE K. MORGAN, JR.**

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

APRIL 2009

EXETER

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

THE NARRAGANSETT BAY COMMISSION

Summary of Revenues and Expenses at
Present and Proposed Rates
Rate Year Ended June 30, 2010

	Test Year Amount Per NBC	NBC Rate Year Adjustments	Rate Year Amount Per NBC	Division Adjustments	Rate Year at Present Rates	Allowable Rate Increase	Rate Year at Proposed Rates
Revenue							
User Fee Revenue	\$ 64,462,985	\$ 2,394,675	\$ 66,857,660	\$ -	\$ 66,857,660	\$ 6,692,683	\$ 73,550,343
Other Service Revenue	1,785,626	(73,000)	1,712,626	-	1,712,626	-	1,712,626
Miscellaneous	1,521,196	(330,000)	1,191,196	-	1,191,196	-	1,191,196
Total Revenue	\$ 67,769,807	\$ 1,991,675	\$ 69,761,482	\$ -	\$ 69,761,482	\$ 6,692,683	\$ 76,454,165
Expenses							
Personnel Services	17,025,207	2,242,271	19,267,478	(253,007)	19,014,471	-	19,014,471
Operating Supplies & Expenses	11,988,810	3,175,384	15,164,194	(1,452,616)	13,711,578	-	13,711,578
Professional Services	2,688,077	329,057	3,017,134	(195,990)	2,821,144	-	2,821,144
Capital Outlays	1,756,133	(1,746,443)	9,690	-	9,690	-	9,690
Lease Interest Expense	37,983	-	37,983	-	37,983	-	37,983
Programmed New Debt	2,670,346	-	2,670,346	-	2,670,346	-	2,670,346
Interest Expense	13,083,478	-	13,083,478	-	13,083,478	-	13,083,478
Debt Service Principal	16,800,972	-	16,800,972	-	16,800,972	-	16,800,972
Debt Coverage	8,138,699	-	8,138,699	-	8,138,699	-	8,138,699
Total Expenses	\$ 74,189,705	\$ 4,000,269	\$ 78,189,974	\$ (1,901,613)	\$ 76,288,361	\$ -	\$ 76,288,361
Net Operating Reserve	146,866	415,012	561,878	(396,074)	165,804	-	165,804
Total Cost of Service	\$ 74,336,571	\$ 4,415,281	\$ 78,751,852	\$ (2,297,687)	\$ 76,454,165	\$ -	\$ 76,454,165
Revenue Surplus/(Deficiency)	\$ (6,566,764)	\$ (2,423,606)	\$ (8,990,370)	\$ 2,297,687	\$ (6,692,683)	\$ 6,692,683	\$ -

THE NARRAGANSETT BAY COMMISSION

Summary of Division Adjustments to
Rate Year Revenues and Expenses at Present Rates
Rate Year Ended June 30, 2010

<u>Description</u>	<u>Amount</u>	<u>Source</u>
<u>Revenue Adjustments</u>		
Total Revenue Adjustments	\$ -	
<u>Expense Adjustments</u>		
Salaries and Personnel Expenses	(141,869)	Schedule LKM-3
Health Benefits Costs	(111,138)	Schedule LKM-4
Biosolids Disposal Costs	(466,398)	Schedule LKM-5
Screening & Grit Costs	(51,760)	Schedule LKM-6
Insurance Premiums	(159,568)	Schedule LKM-7
Lab Supplies Expense	(39,609)	Schedule LKM-8
Electricity Costs	(735,281)	Schedule LKM-9
Maintenance & Audit Service	(195,990)	Schedule LKM-10
Operating Reserve	<u>(396,074)</u>	See Note (1)
Total Expense Adjustments	\$ (2,297,687)	
Total Division Adjustments to Operating Income	<u>\$ 2,297,687</u>	

Regulatory Expense

Note:

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

THE NARRAGANSETT BAY COMMISSION

Adjustment to Salaries and Other Personnel Expenses
to Reflect Actual and Contracted Increases
Rate Year Ended June 30, 2010

	Union	Non-Union	Total
<u>Regular Salaries</u>			
Adjusted Test Year Salaries	\$ 4,739,757 (1)	\$ 7,495,396 (1)	\$ 12,235,153
Actual Increase	104.00% (2)	104.00% (2)	
FY 2009 Adjusted Salaries	\$ 4,929,347	\$ 7,795,212	
Projected Increase	104.25%	102.00%	
Rate Year Salaries	\$ 5,138,845	\$ 7,951,116	
New Employees - Customer Service Rep	-	33,916 (3)	
2 Lab Technicians	34,337	-	
Total Rate Year Adjusted Salaries	\$ 5,173,182	\$ 7,985,032	\$ 13,158,214
<u>Pension</u>			
Rate Year Salaries	\$ 5,173,182	\$ 8,109,368	
Pension Rate	25.03% (1)	10.00% (1)	
FY 2009 Pension Expense	\$ 1,294,847	\$ 810,937	\$ 2,105,784
<u>Retiree Health</u>			
Rate Year Salaries	\$ 5,173,182	\$ -	
Rate	7.67% (5)	0.00%	
FY 2009 Retiree Health Expense	\$ 396,783	\$ -	\$ 396,783
<u>Overtime Pay</u>			
Adjusted Test Year Overtime Pay	\$ 417,126 (1)	\$ 82,718 (1)	\$ 32,074 (1)
Actual Increase	104.00% (2)	104.00% (2)	104.00% (2)
FY 2009 Adjusted Overtime Pay	\$ 433,811	\$ 86,027	\$ 33,357
Projected Increase	104.25%	102.00%	102.00%
Rate Year Overtime Pay	\$ 452,248	\$ 87,747	\$ 34,024
Tunnel Impact on Field's Point	2,052 (1)	2,565 (1)	-
Total Rate Year Adjusted Overtime Pay	\$ 454,300	\$ 90,312	\$ 34,024
<u>Capital Salary & Fringe Reimbursement</u>			
Total Rate Year Adjusted Salaries		\$ (995,137)	\$ (544,688)
Weighted Average Increase Actual Increase		104.00%	104.00%
FY 2009 Adjusted Salaries		\$ (1,034,942)	\$ (566,476)
Weighted Average Projected Increase		102.87%	102.87%
		\$ (1,064,662)	\$ (582,743)
		\$ (1,647,405)	
<u>FICA & Medicare</u>			
Total Rate Year Adjusted Salaries			\$ 13,158,214
Total Rate Year Adjusted Overtime Pay			578,636
Over FICA Limit			(189,318) (1)
FICA @ 6.20%			\$ 839,947
Medicare @ 1.45%			199,184
Total Salaries and Other Personnel Expenses			\$ 15,631,144
Total Salaries and Other Personnel Expenses per NBC (4)			15,773,013
Adjustment to Salaries and Other Personnel Expenses			\$ (141,869)

Notes:

- (1) Company Schedule WEE-4.
- (2) Actual salary increase per the response to DIV 1-27 and discussion on page 30 of Mr. Edge's direct testimony.
- (3) Per the response to DIV 1-28.

(4) Union Salaries	\$ 5,172,761
Union Overtime	454,300
Non-union Salaries	8,195,182
Non-union Overtime	92,248
Non-union Limited	34,775
Union Pension	1,294,742
FICA	1,055,361
Non-union Pension	832,220
Retiree Health	310,883
Salary Reimbursement	(1,078,928)
Fringe Reimbursement	(590,551)
Amount per Company	\$ 15,773,013

- (5) Per the supplemental response to COM 1-20.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Health Benefits Costs
to Reflect Revised Premium and Employee Levels
Rate Year Ended June 30, 2010

	Rate Year Premium (1)	Number of Members (2)	Annual Cost Per Division	Amount Per NBC (3)	Adjustment
Medical Insurance					
HMO Family	\$ 619.73	10	\$ 161,130		
Single	226.80	9	53,071		
PPO Family	\$ 650.74	155	2,622,498		
Single	238.14	54	334,345		
Waiver	\$ 2,500	15	37,500		
Total Medical Insurance		243	\$ 3,208,545	\$ 3,298,551	\$ (90,006)
Less: Employee Co-Payments			(257,371) (3)	(258,808)	1,437
Net Medical Insurance			\$ 2,951,174	\$ 3,039,743	\$ (88,569)
New Positions Net Medical Insurance			26,222 (4)	40,772	(14,550)
Rate Year Net Medical Insurance			\$ 2,977,396	\$ 3,080,515	\$ (103,119)
Dental Insurance					
Family	\$ 40.58	176	185,694		
Single	14.65	62	23,613		
Waiver	110.00	5	550		
Total		243	\$ 209,857	\$ 216,875	\$ (7,018)
New Positions Dental Insurance			1,759 (4)	2,760	(1,001)
Rate Year Dental Insurance			\$ 211,616	\$ 219,635	\$ (8,019)
Net Rate Year Health Benefit Premiums			\$ 3,189,012	\$ 3,300,150	\$ (111,138)

Notes:

(1)	FY2006	FY2007	FY2008	FY2009	Rate Year
PPO					
Family	\$ 491.92	\$ 545.61	\$ 561.06	\$ 606.78	107.25%
Single	180.02	199.67	205.32	222.05	107.24%
					238.14
HMO					
Family	427.38	480.82	504.98	564.75	109.74%
Single	156.41	175.96	184.80	206.68	109.73%
					226.80
Dental					
Family	35.48	37.38	37.38	39.24	103.41%
Single	12.79	13.49	13.49	14.16	103.45%
					14.65

(2) Employee levels per the response to DIV 1-31. Adjusted to reflect the average number of test year employees.

(3) Per Response to DIV 1-34, reflects Division's average salary increase for non-cap portion and the amount for employees at the cap as proposed by NBC.

(4) Recalculated Medical net of co-pay and annual dental premium following format in Response to DIV 1-35, .

THE NARRAGANSETT BAY COMMISSION

Adjustment to Biosolids Disposal Costs
 Rate Year Ended June 30, 2010

	<u>7/1/2009 to 12/31/2009</u>	<u>1/1/2010 to 6/30/2010</u>	<u>Total Cost</u>
Field's Point-Dry Tons (1)	4,332.0	4,332.0	
Field's Point Tunnel Impact (2)	219.0	219.0	
Bucklin Point-Dry Tons (1)	<u>1,208.0</u>	<u>1,208.0</u>	
Total Biosolids for Disposal-Dry Tons	5,759.0	5,759.0	
Rate per Ton	<u>\$ 393.19</u> (3)	<u>\$ 399.87</u> (4)	
Biosolids Disposal Costs	\$ 2,264,381	\$ 2,302,876	\$ 4,567,257
Amount per NBC (3)			<u>5,033,655</u>
Adjustment to Rate Year Expense			<u>\$ (466,398)</u>

Notes:

- (1) Based upon the most recent 24-month average consistent with NBC's position in Docket No. 3905.
- (2) Per Schedule WEE-6.
- (3) Supplemental Response to DIV I-38.
- (4) Blue Chip Economic Indicators Forecast (March 10, 2009).

THE NARRAGANSETT BAY COMMISSION

Adjustment to Normalize Screening & Grit Costs
Rate Year Ended June 30, 2010

	<u>Tons</u>	(1)	<u>Projected Rate</u>	(1)	<u>Total Cost</u>
Field's Point	761.0		\$ 65.00		\$ 49,465
Tunnel Pump Station	764.0		65.00		49,660
IM	773.0	(2)	65.00		50,245
Bucklin Point	362.0		65.00		<u>23,530</u>
Total Rate Year Expense					\$ 172,900
Amount per NBC (1)					<u>224,660</u>
Adjustment to Rate Year Expense					<u>\$ (51,760)</u>

Notes:

(1) Per Schedule WEE-7.

(2) Per Response to DIV 1-42.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Workers' Compensation Expense
 to Reflect Three Year Average Increase
 Rate Year Ended June 30, 2010

	<u>Workers' Compensation Insurance (1)</u>	<u>Amount</u>
FY 2007	\$ 379,230	
FY 2008	461,808	
FY 2009	<u>452,180 (3)</u>	
Average Annual Increase for years 2007-2009	9.20%	
FY 2009 Workers' Compensation Expense		\$ 452,180
Escalation Rate		<u>1.0920</u>
Estimated Rate Year Workers' Compensation Expense		\$ 493,760
Old Workers' Compensation Claims		<u>50,000</u>
Total Rate Year Insurance Expense		\$ 543,760
Rate Year Workers' Compensation Expense & Old Claims per NBC (2)		<u>703,328</u>
Adjustment to Rate Year Expense		<u><u>\$ (159,568)</u></u>

Notes:

(1) Amounts per Response to DIV 1-2 (d).

(2) Per Schedule WEE-9.

(3) Includes additional data provided in Supplemental Response to DIV 1-45 (a).

THE NARRAGANSETT BAY COMMISSION

Adjustment to Lab Supplies Expense
Rate Year Ended June 30, 2010

	<u>Amount</u>
Adjusted Test Year Expense (1)	\$ 220,850
FY 2009 Increase (2)	<u>107.26%</u>
FY 2009 Lab Expense	\$ 236,884
FY 2010 Increase	<u>107.26%</u>
FY 2010 Lab Expense	\$ 254,082
Test Year Expense per NBC	<u>293,691</u>
Total Adjustment to Expense	<u><u>\$ (39,609)</u></u>

Notes:

- (1) Per Schedule WEE-14.
- (2) Annualized growth based on change in costs as of 12 months ending 12/31/2008 per response to DIV 1-55.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Electricity Expense
Rate Year Ended June 30, 2010

	Rate	COB	Field's Point	Tunnel Pump	Bucklin Point	Interceptor Maint.	Total
Total kWh (1)		<u>1,244,867</u>	<u>14,358,848</u>	<u>2,895,265</u>	<u>(3) 11,099,333</u>	<u>834,405</u>	<u>30,432,718</u>
Customer Charge (1)	\$	2,837	\$ 2,837	\$ 2,837	\$ 2,837	\$ 2,837	
Supply Charge (1)	\$0.07195	89,568	1,033,119	208,314	798,597	60,035	
Average Delivery Charge per kWh (2)		35,927	390,417	78,722	305,454	48,128	
Capacity Charge (1)	\$0.00699	<u>8,702</u>	<u>100,368</u>	<u>20,238</u>	<u>77,584</u>	<u>5,832</u>	
Subtotal	\$	<u>137,034</u>	<u>\$ 1,526,742</u>	<u>\$ 310,111</u>	<u>\$ 1,184,472</u>	<u>\$ 116,833</u>	
Gross Earnings Tax (1)	4.1666%	<u>5,710</u>	<u>63,613</u>	<u>12,921</u>	<u>49,352</u>	<u>4,868</u>	
Total Electricity Cost	\$	<u>142,743</u>	<u>\$ 1,590,355</u>	<u>\$ 323,033</u>	<u>\$ 1,233,824</u>	<u>\$ 121,701</u>	<u>\$ 3,411,656</u>
CSO Phase I Impact on FPWWTF							<u>98,785</u>
Total Rate Year Electricity Cost							<u>3,510,441</u>
Total Rate Year Electricity Cost per NBC							<u>4,245,722</u>
Adjustment to Electricity Expense							<u>\$ (735,281)</u>

Notes:

- (1) Per NBC's Response to DIV 1-48.
- (2) 2.886¢/kWh for COB, 2.719¢/kWh for Field Pt. & Tunnel Pt., 2.752¢/kWh for Bucklin Pt., & 5.768¢/kWh for IM per Response to DIV 1-48.
- (3) Per response to DIV 1-50 average of minimum & maximum kWhs.

THE NARRAGANSETT BAY COMMISSION

Adjustment to Management Audit Services
Rate Year Ended June 30, 2010

	<u>Amount</u>
FY 2009 Bucklin Point Management Contract Less Soda Ash (1)	\$ 1,523,340
FY 2009 Soda Ash (1)	<u>649,837</u>
FY 2009 Bucklin Point Management Contract Expense	\$ 2,173,177
CPI (2)	<u>101.70%</u>
FY 2010 Bucklin Point Management Contract Expense	\$ 2,210,121
Other Management/ Audit (1)	<u>162,197</u>
Total Management & Audit Services	\$ 2,372,318
Test Year Expense per NBC	<u>2,406,111</u>
Total Adjustment to Expense	<u>\$ (195,990)</u>

Notes:

(1) Per Schedule WEE-15.

(2) Blue Chip Economic Indicators Forecast (March 10, 2009).