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\*ADMITTED TO PRACTICE IN  
RHODE ISLAND & MASSACHUSETTS

December 6, 2010

Ms. Luly Massaro, Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

**Re: Pawtucket Water Supply Board  
Docket 4171**

Dear Luly:

Enclosed herewith please find an original and nine (9) copies of the Pawtucket Water Supply Board's Memorandum In Support Of Proposed Changes In Rates.

Please note that an electronic copy of this document has been provided to the service list.

Sincerely,



Joseph A. Keough, Jr.

JAK/kf  
Enclosures

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION**

**IN RE: PAWTUCKET WATER SUPPLY BOARD**

**DOCKET NO: 4171**

**MEMORANDUM IN SUPPORT OF THE PAWTUCKET WATER SUPPLY BOARD'S  
PROPOSED CHANGES IN RATES**

**I. INTRODUCTION**

On April 14, 2010, the Pawtucket Water Supply Board (“PWSB”) gave notice of filing an application to increase rates pursuant to Rhode Island General Law §39-3-11 and Part II of the Rhode Island Public Utilities Commission’s (“Commission”) Rules of Practice and Procedure. The PWSB’s proposed rates were designed to collect additional operating revenue of \$2,612,298 to support a total operating revenue requirement of \$19,784,536.

As required by law, the Division of Public Utilities and Carriers (“Division”) reviewed the PWSB’s proposed rate change. After reviewing the PWSB’s rate filing, the Division recommended an increase of \$884,091. During the litigation of this Docket, the respective positions of the PWSB and the Division were revised. At the time of the hearing, the PWSB and the Division had three areas of disagreement.

1. Rate Year Consumption;
2. Debt Service Funding; and
3. Phase II Increase.

During the hearing, a fourth issue – the PWSB’s movement of its quarterly billing customers to monthly billing, and the associated service charge – was raised by the Commission sua sponte. In this Memorandum, the PWSB addresses these four issues.

## **II. LEGAL STANDARD**

Pursuant to R.I.G.L. § 39-3-2, a public utility proposing a rate increase has the burden of proving that the increase is necessary to obtain reasonable compensation for services rendered. In rendering a decision, the Commission's findings must be fairly and substantially supported by specific legal evidence. *Energy Council of Rhode Island v. Public Utilities Commission*, 773 A.2d 853 (R.I. 2001).

## **III. ARGUMENT**

### **A. Rate Year Consumption**

"The first, and perhaps most critical decision the Commission must make in this Docket is a determination of the PWSB's rate year water sales."

PWSB Memorandum In Support of Rate Increase, Docket 3674, October 31, 2005.

As the citation from the PWSB's Docket 3674 Memorandum shows, the PWSB has been waging a campaign to set accurate rate year consumption for years. In Docket 3674, the PWSB argued that test year consumption should be used to forecast the rate year, and the Division claimed that a five year average should be used.<sup>2</sup> Although the parties' positions are different in this Docket – the Division now argues that the test year should be used and the PWSB seeks to use a downward trending forecast – the basic conflict is identical. This Docket is simply the latest installment in this ongoing battle. Once again, the PWSB comes before this Commission with projected rate year consumption as the most critical issue to be decided.

In this Docket, the PWSB requests that consumption be set below the test year level. This request is based on factual, historical and empirical data which demonstrates that the PWSB's consumption has declined *every* year since 2004.<sup>3</sup> Nevertheless, Ms. Crane characterizes this

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<sup>2</sup> See Docket 3674 Order, pp. 4 and 24

<sup>3</sup> Woodcock Direct, p. 16, lines 4-21 and p. 17, line 1

evidence as “speculative.”<sup>4</sup> Ms. Crane argues that “While mathematical trends may be useful in some circumstances, they are not sufficient to utilize in determining pro forma consumption levels for rate making purposes.”<sup>5</sup> Ms. Crane states that “Speculation should not be used to set utility rates.”<sup>6</sup> However, her testimony on rate year consumption is based entirely on speculation: **“Q. Are you accepting the Board's use of a declining usage trend in this case?”**

A. No, I am not. While I acknowledge that total retail sales have declined over the last five years, at least a portion of this decline was likely due to variations in weather conditions. According to the State of the Climate, National Overview, Annual 2008 Report, issued by the National Climatic Data Center of the National Oceanic and Atmospheric Association, the summer of 2008 was wetter than normal, while the "Northeast as a whole experienced their ninth wettest summer on record ... " Therefore, sales in fiscal year 2009, which included the summer of 2008, may have been impacted by higher than normal precipitation resulting in lower water sales. In addition, the test year was undoubtedly impacted by generally poor economic conditions, which may rebound somewhat in the rate year. Accordingly, I do not believe that it is reasonable to assume a continuing decline in usage. Therefore, I am recommending that the actual test year water sales be used to determine pro forma consumption revenue in this case. My recommendation, which is shown in Schedule ACC-2, provides a reasonable balance between the Board's historic level of sales and the recognition that historic sales were likely impacted by factors that may not be present in the rate year. (Emphasis added).”

Furthermore, Ms. Crane’s position is demonstrably wrong. As cited above, Ms. Crane testified “I do not believe it is reasonable to assume a continuing decline in usage.”<sup>7</sup> Therefore, she recommends that the actual test year water sales (FY09) be used to determine pro forma consumption in the rate year (calendar year 2011). This testimony was filed on July 20, 2010. Eleven days later Ms. Crane was proven wrong. The PWSB’s consumption *did* decline as FY10

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<sup>4</sup> Crane Surrebuttal, p. 6, lines 11-13

<sup>5</sup> Crane Surrebuttal, p. 6, lines 13-15

<sup>6</sup> Crane Surrebuttal, p. 6, line 13

<sup>7</sup> Crane Direct, p. 12, lines 12-13

water sales dropped below FY09 levels. Nevertheless, the Division continues to argue that rate year consumption should be set at the FY09 level.

Furthermore, Ms. Crane's position does not strike "a reasonable balance" as she claims. There is one undisputed number the Commission should consider above all else in determining this issue – \$12,380,047.<sup>8</sup> This is the revenue lost between fiscal years 2004 and 2010 due to incorrect and excessive consumption forecasts. This figure is uncontested and unimpeached in this Docket. In fact, Ms. Crane never even addressed it in her testimony. This is revenue *approved* by the PUC that has been unavailable for expenses. As the evidence shows, the account hit hardest by the under collection of revenue is IFR.

The PWSB's bond indenture dictates that accounts be funded in a certain order, with Operations and Maintenance (O&M), Debt Service and the O&M Reserve Fund funded first.<sup>9</sup> Only after these accounts have been fully funded can the restricted IFR and Revenue Stabilization Accounts<sup>10</sup> be funded. Thus, when revenues decline, the IFR Account is not fully funded and the PWSB must delay capital projects authorized by the Commission. This delay results in projects that are more expensive. In no way, shape or form is this beneficial to the PWSB or its customers.

Simply put, the model of the past six years is broken and cannot be sustained. The PWSB cannot continue to lose revenue every year due to faulty consumption forecasts. The recent legislation pertaining to water suppliers in Rhode Island has acknowledged this problem. The Legislature recognizes that water utilities should be allowed to recover their *full* costs through

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<sup>8</sup> Woodcock Rebuttal Exhibit 1

<sup>9</sup> DeCelles Direct, p. 5, lines 29-30, p. 6, lines 1-2

<sup>10</sup> In past Dockets, this account was referred to as the Operating Revenue Allowance. It is now known as the Revenue Stabilization Account in conformance with R.I.G.L. §39-15.1-3

water system revenue.<sup>11</sup> A public water utility should not have to consistently eliminate expenditures and delay projects that the Commission has deemed necessary because revenues are over estimated.

Certainly, there is no absolute way to know what consumption will be in the rate year, and at some point this decline must bottom out. Unfortunately, the anticipated “bottoming out” has failed to occur in each of the last six years, including FY10, and it isn’t likely to occur in the rate year. The PWSB provided testimony that unemployment rates, employment growth and population growth for the PWSB’s service area are bleak, and there seem to be few indicators that economic conditions will improve in the rate year.<sup>12</sup>

The PWSB acknowledges that there is no foolproof method to forecast consumption in the rate year. Therefore, in addition to analyzing the historical consumption figures, the Commission can also consider the alternatives if each party is wrong about forecasted consumption.

If the PWSB is incorrect and sales stabilize, or even increase, any increased revenue can be directed to the restricted revenue stabilization account or the restricted IFR account. In the past six years the PWSB has not been able to fund a revenue stabilization account (formerly known as the operating revenue allowance) due to the drop in consumption. In addition, the IFR Account has been underfunded. Thus, any revenues collected due to increased consumption could be restricted for these purposes. If these excess revenues come to fruition in the rate year, which is highly unlikely, it will allow the PWSB to delay and lessen future rate increases.

Remarkably, the Division finds fault with this proposal. Ms. Crane argues that “Regulation

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<sup>11</sup> See R.I.G.L. § 39-15.1-1

<sup>12</sup> Benson Rebuttal, p.3, lines 33-35 and p. 4, lines 1-10

is supposed to provide protections to rate payers and incentives to management.”<sup>13</sup> Thus, she argues that funding restricted accounts with revenues realized due to excess consumption would in her “view, reduce payer protections and dilute these incentives.” While this may be Ms. Crane’s “view”, the PWSB has clearly demonstrated its fiscal responsibility in this case. It is uncontested that the PWSB took the following steps to lower the rate increase *before* filing this case.

- First, the expenses requested in this Docket are reduced from the amount set by the Commission in the PWSB’s last rate case;
- Second, the PWSB modified its Capital Plan and voluntarily reduced the amount of IFR previously allowed by the Commission by \$600,000; and,
- Third, the PWSB only requested a 1.5% revenue stabilization account, which is less than the 5% requested in the PWSB last rate case (Docket 3674) and is less than the revenue stabilization account (10% of annual operating expenses) authorized RIGL S 39-15.1-3.

The PWSB cut the “fat” from its rate request before it was filed with the Commission. In return, the PWSB’s Board members asked the Commission to set a realistic consumption forecast based on historical and factual data.<sup>14</sup> Any further cut in the form of an excessive consumption forecast will start to reach muscle and bone.

Furthermore, overestimating consumption will actually serve as a disincentive to utilities like the PWSB. There will be no incentive for a utility to voluntarily reduce expenses already set by the Commission or reduce IFR allowances previously granted by the Commission if they are going to be saddled with unrealistic consumption forecasts. In fact, the incentive will be for a utility to set its expenses as high as possible with the expectation that they will be forced to make

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<sup>13</sup> Crane Surrebuttal, p. 7, lines 20-21

<sup>14</sup> DeCelles Rebuttal, p. 1, lines 16-27, p. 2 lines 1-25

cuts due to under collection of revenues due to decreased consumption.

Ms. Crane argues that even if her consumption forecast is wrong, it is more reasonable to keep rates lower and keep the money “in the pockets of rate payers.”<sup>15</sup> On its face, this is an attractive argument, and it appears to favor the ratepayer as it keeps the rate increase lower for now. However, upon closer review, her reasoning is flawed and it contradicts other portions of her testimony. Ms. Crane argues that the PWSB’s customers have seen significant increases over the past ten years.<sup>16</sup> What she ignores is that a large portion of the PWSB’s rate increases – particularly over the past six years – have been required to address reduced consumption.

Thus, if Ms. Crane’s consumption forecast is wrong, the PWSB will have to file another rate case sooner rather than later to address yet another faulty consumption projection. As Mr. Woodcock testified, it is the PWSB’s expectation that it can wait two years before filing another rate case if consumption numbers are not overestimated.<sup>17</sup> If consumption numbers *are* overestimated in this Docket, the PWSB will have to file another case in one year rather than two. Ms. Crane seemed to discount this as an advantage.<sup>18</sup> Once again, this is exceedingly myopic. The estimated rate case cost in this Docket is \$200,000, which includes the Division’s costs.<sup>19</sup> If the PWSB could file cases bi-annually rather than annually, it would represent a significant savings to the ratepayer. In fact, over a six year period it would represent a \$600,000.00 savings to the PWSB’s customers.

The PWSB’s request to set rate year consumption below the test year level is not based on a novel theory. In fact, the Narragansett Bay Commission (“NBC”) used a declining trend in

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<sup>15</sup> Crane Surrebuttal, p. 8, lines 4-5

<sup>16</sup> Crane Direct, p. 9, lines 15-21

<sup>17</sup> Hearing Transcript, p. 22, lines 15-22, p. 37, lines 19-24, p. 38, lines 1-10

<sup>18</sup> Hearing Transcript, p. 188, lines 18-24, p. 189, lines 1-10

its last rate case (Docket 4206). The Division did not object to NBC's use of this downward trend, and it was accepted by the Commission. Ironically, the Division opposes a downward trend in this Docket even though NBC's consumption is based on consumption data it receives from water suppliers, including the PWSB. Ms. Crane testified that "I did not participate in the NBC case and therefore I cannot comment on why the Division took the specific positions that it did in that case."<sup>20</sup> Nevertheless, this did not prevent Ms. Crane from providing rank speculation regarding both the Division's position and the Commission's decision in the NBC Docket.

Ms. Crane testified "I understand that the Commission awarded the NBC an operating reserve allowance based on 1% of operating expenses. In this case the Board is requesting an allowance of 1.5% of its total revenue requirement, including debt service and the Division has not opposed this request." The PWSB asks the Commission to take judicial notice of the filings in the NBC Docket. There is absolutely *nothing* in the record of NBC Docket 4206 that indicates the Division agreed to the downward trend forecast because NBC was awarded an operating reserve allowance of 1% of operating expenses. Furthermore, there is absolutely *nothing* in the Commission's Order that indicates that the downward consumption was based on the award of the operating reserve allowance.

The Commission itself has recognized that consumption is a major issue confronting regulated water utilities. In 2009, the Commission opened Docket 4113 to address policy matters related to the impact of declining consumption on revenues. This is a very serious problem that cannot be allowed to continue. The PWSB has been arguing for the past six years that its consumption was dropping. The PWSB's warnings have been largely ignored. This

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<sup>19</sup>CWSCH. 1.1 p. 2

Docket provides the Commission with an opportunity to address this issue and provide relief to the PWSB by setting the rate year consumption at the level requested by the PWSB.

### **B. Debt Service Funding**

The rate year in this Docket for the proposed Phase I increase is calendar year 2011, and the PWSB has proposed to fund its restricted debt service account based on its FY12 debt requirement. The Phase II increase for calendar year 2012 is based on the PWSB's debt service requirements in FY13. The PWSB's request comports with the requirements of its bond indenture, which requires monthly deposits to the debt service fund so that sufficient funds are available when the payments are due.<sup>21</sup> In effect, the PWSB must pre-fund its debt payments before the payment date. By using the FY12 debt requirement, the PWSB will have built up sufficient funds in the rate year to make its first FY12 debt payment which is due in September 2011. The following is an illustration of the overlap between calendar years 2011 and 2012 fiscal years 2012 and 2013:

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<sup>20</sup> Crane Direct, p. 8, lines 10-11

<sup>21</sup> Woodcock Direct, p. 12, lines 2-7

**Rate Year Phase 1 - Calendar Year 2011**

**Rate Year Phase 2 - Calendar Year 2012**

January 2011		January 2012	
February 2011		February 2012	
March 2011		March 2012	2 <sup>nd</sup> FY12 Payment Due (interest only)
April 2011		April 2012	
May 2011		May 2012	
June 2011		June 2012	
<b><u>Fiscal Year 2012</u></b>		<b><u>Fiscal Year 2013</u></b>	
July 2011		July 2012	
August 2011		August 2012	
September 2011	1 <sup>st</sup> FY12 Payment Due (principal and interest)	September 2012	1 <sup>st</sup> FY13 Payment Due (principal and interest)
October 2011		October 2012	
November 2011		November 2012	
December 2011		December 2012	

As can be seen in the chart above, six months of FY12 fall within the rate year of calendar year 2011. Thus, the deposits made in the first six months of calendar year 2011 are used to meet the first debt payment for FY12, which is in the rate year. Furthermore, the next six months of calendar year 2011 (the rate year) are actually in FY12, and those deposits are used to meet the second debt service payment of FY12. The same is true of the proposed Phase II increase.

Ms. Crane makes two arguments against the PWSB’s proposal. First, she claims that the PWSB has included “Post year debt service costs” which “violate the rate year concept and the matching principal.”<sup>22</sup> Simply put, this is untrue. As discussed in Mr. Woodcock’s hearing testimony, PWSB must make monthly deposits to its debt service fund to accumulate sufficient amounts to pay the bondholders in September and March.<sup>23</sup> The PWSB’s required deposits are

<sup>22</sup> Crane Direct, p. 28, lines 11-12

<sup>23</sup> Hearing Transcript, p. 39, lines 17-24, p. 40, lines 1-24, p. 41, lines 1-24

not “post rate year” as Ms. Crane asserts; they are in the rate year and are in conformance with the matching principal. The Division and Commission have agreed to this in prior dockets (*See* KCWA (Docket 3942), PWSB (Docket 3945), and Newport Water (Docket 4025)).

Second, Ms. Crane testified that the PWSB’s debt service reserve account and debt service stabilization accounts can help manage the timing of debt service payments.<sup>24</sup> Ms. Crane also states that the PWSB’s restricted accounts earn interest that has not been included as income in the PWSB’s revenue requirement.<sup>25</sup> Thus, Ms. Crane concludes that there are “Additional sources of funds available to the PWSB if necessary to manage the cash flow implications of its debt issuances.”<sup>26</sup> Once again, Ms. Crane is wrong.

Mr. Woodcock provided rebuttal testimony on this subject that was not contradicted in Ms. Crane’s surrebuttal nor was it impeached at the hearing. Mr. Woodcock testified as follows:

“The Debt Service Reserve Fund is only to be used in extreme emergencies – it should not be planned to be used as Ms. Crane would have the Commission order. Contemplating the use of this fund is even more absurd when one considers that any funds withdrawn from the Debt Service Reserve Fund must be replenished before the end of the fiscal year. It is only for an extreme cash flow emergency and not to be used as a revenue offset as Ms. Crane has recommended.

The Debt Service Stabilization Fund was used in Docket 3945 when there was an unexpectedly large balance. It was explained in my prefiled direct testimony in this Docket that there are not sufficient funds in that account to offset rates like there was in the last docket.

The interest on the restricted debt service fund must stay within the fund and cannot be used as a revenue offset under both the Board’s Bond Indenture and prior Commission orders.”<sup>27</sup>

Once again, this testimony is uncontested in this Docket. There are no other funds that

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<sup>24</sup> Crane Direct, p. 28, lines 12-14

<sup>25</sup> Crane Direct, p. 28, lines 14-15

can be used to meet the PWSB's debt payments.

The PWSB's total debt service request in this Docket is \$1,117,972 (Phase 1 increase - \$721,311 + Phase 2 increase - \$396,661). The Division argues that the increase should be \$919,946 (Phase 1 increase - \$426,335 + Phase 2 increase \$493,611). The difference between these two positions is \$198,206. This is fairly small amount in the context of the PWSB's overall revenue requirement, and it will be restricted. It is the PWSB's position that its ability make bond payments and comply with its bond indenture should not be jeopardized for this amount of money. This is especially true when Ms. Crane is wrong about PWSB's ability to use other funds to make its debt service payments.

**C. Phase II Increase**

In this Docket, the PWSB is seeking a multi-year rate increase. The rate year for the Phase I increase is calendar year 2011 and the rate year for Phase II is calendar year 2012. The PWSB seeks this multi-year increase in conformance with RIGL §39-15.1-4, which allows water suppliers to file rate plans with the Commission that do not exceed six years.

The primary advantage of a multi-year increase is that it allows for quicker and less frequent rate filings. As a result, it saves money for ratepayers by reducing the number and frequency of rate filings. In compliance with this statute, the PWSB is requesting a Phase II increase in four categories totaling \$900,386.00 for calendar year 2012:<sup>28</sup>

New debt	\$396,661.00
Trustee Fees	\$ 2,500.00
Revenue Stabilization @ 1.5%	\$292,356.00
<u>Inflation (O&amp;M)</u>	<u>\$208,868.00</u>
Total	\$900,386.00

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<sup>26</sup> Crane Direct, p. 28, lines 15-17

<sup>27</sup> Woodcock Rebuttal, p. 13, lines 6-20

<sup>28</sup> CW Rebuttal, Sch. 12.0

The Division has raised two objections to this Phase II increase. First, the Division objects to the inflation adjustment as it is not “known and measurable.” However, there is absolutely no basis for this objection in the statute. The statute requires that multi-year rate plans “shall” set forth proposed rates “to pay for all reasonable costs of service associated with water supply during the period of the plan, and may include *projections* of costs increases...” (emphasis added) Clearly, by using the word “projections”, the Legislature did not contemplate a “known and measurable” standard. In fact, such a standard would be impossible if a utility proposed a six-year plan as authorized by the Statute.

The Division also objects to a revenue stabilization account increase in Phase II. Once again, there is no basis in the law for this objection. RIGL §39-15.1-4 states that a multi-year rate plan “shall” set forth proposed rates “that provide for the establishment and maintenance of operating reserves, capital reserves and debt service reserves...” Furthermore, disallowing an increase for a revenue stabilization account would only help to ensure another PWSB rate case sooner rather than later. Ms. Crane freely acknowledges that a full 1.5% revenue stabilization allowance may be appropriate if the PWSB filed a full rate case.<sup>29</sup> However, she does not believe it is appropriate to include a full 1.5% revenue stabilization allowance in Phase II. It is not at all clear how this benefits the ratepayer. Why is 1.5% revenue stabilization account acceptable in the context of a full rate case, with its attendant costs, but not in this Docket when the costs have already been incurred? Ms. Crane’s position is actually detrimental to the ratepayer and diminishes the effectiveness of a Phase II increase.

#### **D. Monthly Billing**

At the outset, it is important to note that there was very little dispute between the PWSB and the Division regarding monthly billing. In fact, the Division only raised one issue. Mr. Catlin requested that the PWSB cap its monthly customer charge at ten dollars (\$10) per month, and the PWSB agreed. In fact, there was only one Data Request in this Docket that sought comprehensive information regarding this issue – Commission Data Request 1-14 – which was issued on May 27, 2010. The PWSB’s June 17, 2010 response addressed 11 different issues regarding monthly billing. (*See* Exhibit 1 attached) Thereafter, there were no further substantive questions regarding monthly billing from either the Commission or Division.

However, at the hearing, it became clear that the Commission had concerns regarding monthly billing. These concerns were addressed through live testimony, and in the PWSB’s Responses to the Commission’s Hearing Record Request. Nevertheless, the PWSB takes this final opportunity to address the issues raised and to review the state of the evidence in the record regarding monthly billing.

The threshold question of whether the PWSB is *allowed* to bill customers on a monthly basis is not in dispute in this Docket. The PWSB currently has a tariff that allows for monthly billing of its residential customers with a 5/8” meter. (*See* PWSB Tariff Schedules, Schedule D, Effective October 1, 2008). The current monthly customer service charge for this class of customers is \$9.47. However, until this Docket, it was impractical for the PWSB to bill all its residential customers on a monthly basis because it did not have the capability to read meters monthly in a cost effective manner. However, the PWSB, like many other utilities in the state of

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<sup>29</sup>Crane Surrebuttal, p. 11, lines 10-11

Rhode Island, has installed a remote radio read system, which now allows it to read meters on a monthly basis.<sup>30</sup> With this capability, the PWSB has made a managerial policy decision that it is in the best interest of the utility and its customers to issue bills on a monthly basis.<sup>31</sup>

Thus, the question in this case is not whether PWSB can bill its customers on a monthly basis. The question is whether the increase to the PWSB's monthly customer service charge is reasonable. To answer this question, the Commission must look at the evidence in the record.

During the hearing there appeared to be some confusion about how much the move to monthly billing will add to a typical residential customer's bill. In response to the Commission's Record Requests, the PWSB demonstrated the effect of the proposed rate increase on customer bills under two scenarios: (1) If the PWSB continued to bill its residential customers quarterly; and, (2) If the PWSB billed those same customers monthly.

Presently, a typical residential customer pays \$33.91 per month. If a rate increase were granted based on the PWSB's rebuttal position, and quarterly billing is continued, the typical residential customer's bill would increase to \$42.91 per month. If monthly billing were implemented this bill would increase to \$43.33 per month. Thus, the \$112,206.00 of cost associated monthly billing adds just .42¢ per month, or a little over a penny a day, to a residential customer's bill.<sup>32</sup> On a yearly basis, these costs add \$5.04 to a typical residential customer's bill.

In its Response to Commission Data Request 1-14, and during the hearing, the PWSB

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<sup>30</sup> Hearing Transcript, p. 143, lines 18-24, p. 144, lines 1-8

<sup>31</sup> See for example *Providence Water Supply Board v. Public Utilities Commission*, 708 A.2d 537 (R.I. 1998), and *Blackstone Valley Electric Co. v. Public Utilities Commission*, 543 A.2d 253, 255 (R.I. 1988)

<sup>32</sup> See PWSB response to Commission Hearing Record Request 1.

identified some of the benefits of monthly billing.<sup>33</sup> First, customers will receive smaller bills, which spread payments over twelve months rather than four large quarterly bills. For example, if the Commission granted a rate increase based on the PWSB's rebuttal position, residential customers would pay \$128.73 per quarter. If monthly billing is implemented, these same customers would receive monthly bills of \$43.33. As Mr. Woodcock and Mr. DeCelles testified at the hearing, it is PWSB's belief that smaller bills that customers can pay on monthly basis will assist in collections.<sup>34</sup>

Another benefit of monthly billing is leak detection. Currently, if a customer has a leak (i.e. running toilet or leaking underground sprinkler), the leak is not detected for three months. Thus, if the leak resulted in merely twice the normal usage, the customer would receive a quarterly bill of \$257.46<sup>35</sup> before the leak is detected. With monthly billing, that same customer would only receive a bill of \$86.66<sup>36</sup> before being alerted to the problem.

A further advantage of monthly billing is that it will synchronize water and sewer bills for the PWSB's customers. Currently, NBC bills its customers monthly, and its bills to the PWSB's customers are based on the PWSB's meter readings. Since the PWSB is currently only reading meters once per quarter, its customers only receive one bill per quarter from NBC based on an actual reading. The other two bills every quarter are based on estimates. If the PWSB moves to monthly billing, its customers will receive water and sewer bills each month based on actual meter readings. Thus, it is the PWSB's position that the benefits associated with monthly billing are worth the incremental cost of .42¢ per month.

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<sup>33</sup> Hearing Transcript, p. 56, lines 18-24, p. 57, lines 1-23, p. 60, lines 5-24, p. 61, lines 1-24, p. 62, lines 1-12, p. 124, lines 5-24, p. 125, lines 1-5, 20-24, p. 126, lines 1-23

<sup>34</sup> Id.

<sup>35</sup> Based on the PWSB's Rebuttal position.

If the PWSB moves to monthly billing it will be the first water utility in the State of Rhode Island to do so. However, it is likely that all water utilities will eventually bill monthly. In fact, based on the Commission's Order in the Kent County Water Docket (No. 3942) water utilities will *have* to move to monthly billing to implement conservation measures such as seasonal rates.<sup>37</sup> And, while the PWSB may be the first water utility to propose monthly billing, it is not the first utility to issue bills on a monthly basis. Citizens throughout the State of Rhode Island receive utility bills (i.e., sewer, gas, electric, and cable) on a monthly basis.

The PWSB's proposed move to monthly billing mirrors NBC's request in many respects. In the NBC case, there were no conversion costs to move to monthly billing. In this Docket, the PWSB's conversion costs of \$5,767.00 are minimal. In NBC's case the incremental expense to move to monthly billing was \$387,242, and in the PWSB's case it is \$112,206.00. The incremental cost to NBC's customers was \$.25 per month and the incremental costs to PWSB's customers is \$.42 per month.

There was also some question as to whether the PWSB attempted to mislead its customers with its notices in this case. Once again, it must be stressed that the PWSB made no attempt to mislead its customers. The PWSB incorporates by reference its Response to the Division of Public Utilities and Carriers' Motion For Amendment To Notice To Customers. The PWSB will not repeat each and every issue raised in its Response and incorporates that pleading by reference herein. However, it bears repeating that the PWSB's original notice was provided to the Division when the original rate application was filed on April 14, 2010. Yet, the Division did not file its motion until five months later on September 13, 2010.

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<sup>36</sup> Based on the PWSB's Rebuttal position.

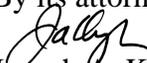
<sup>37</sup> In Re Kent County Water Authority Application to Change Rates Docket #342, Order #1945, p. 33

As for the second notice, which was mailed to the PWSB's customers, there is no doubt that it was poorly worded. However, Mr. DeCelles explained the intent behind this notice.<sup>38</sup> Furthermore, the PWSB made the Commission aware of its intent to notify its customers of the change to monthly billing in its Response to Commission 1-14.

Notices of rate proceedings have historically been based on a standard template that limits the information conveyed. Looking back, the PWSB would have drafted a much clearer notice. In fact, the PWSB would have rather notified its customers that the incremental increase associated with monthly billing is only .42¢ per month. Nevertheless, this type of clarity only comes with 20/20 hindsight, and the PWSB never intended to mislead customers. Perhaps this is a lesson learned and PWSB will attempt to draft notices in the future that more accurately set forth the proposal in its rate applications.

### **III. CONCLUSION**

WHEREFORE, The Pawtucket Water Supply Board prays that The Rhode Island Public Utilities Commission approve its proposed rate increase in this Docket, and that this Commission approve all other relief it deems meet and just.

THE PAWTUCKET WATER  
SUPPLY BOARD  
By its attorney,  
  
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<sup>38</sup> Hearing Transcript, p. 112, lines 8-24, p. 113, lines 1-24, p. 114, lines 1-11

**EXHIBIT 1**

STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION

DOCKET NO. 4171

Response Of

The Pawtucket Water Supply Board

To The Rhode Island Public Utilities Commission's

Data Requests

Set 1

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Comm. 1-14. With regard to the proposal to move to monthly billing, please provide the following:

- (a) What are the benefits/impacts to customers if monthly billing is implemented?
- (b) Is there a service charge or additional costs to customers?
- (c) How would you transition to monthly billing?
- (d) What are your methods of communicating this change to customers?
- (e) Will the bills equate to twelve (12) equal monthly payments?
- (f) Please provide a sample billing.
- (g) Please explain how you currently assess late charge penalties and how this process will be changed if you convert to monthly billing.
- (h) What billing software are you currently using and have you determined its capability of conversion from quarterly to monthly billing. Please explain.
- (i) Will the monthly billing be based on actual monthly reads of all accounts or estimates?
- (j) If approved, when will monthly billing begin?
- (k) Will all bills be mailed simultaneously or will the PWSB stagger them?

RESPONSE:

- (a) From the PWSB's perspective, the customers will receive the following benefits:  
Monthly billing will spread payments over 12 months rather than four large quarter bills. Monthly billing will enable improve leak detection since high consumption will be identified monthly rather than quarterly. The result is the property owner can repair the leak before receiving an abnormally high water bill. In addition, customers will see large water use bills (i.e. irrigation usage) and have time to react the next month and use water more wisely.
- (b) There will be additional bill printing, postage and lockbox processing costs.
- (c) All accounts will receive their usual quarterly bill through the remainder of calendar 2010. Beginning in January 2011 all accounts will receive a water bill. Accounts last billed in October will receive a bill for three months of service; accounts last billed in November will receive a bill for two months of service and accounts last billed in

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December will receive a bill for one month of service. In February 2011 all accounts will receive a bill for one month of service.

- (d) The customers billed quarterly will receive a notice inserted with their quarterly bills in 2010 that PWSB will change to monthly billing beginning in January 2011.
- (e) The bills will not equate to twelve equal monthly payments since the water consumption billed will be computed from actual monthly consumption.
- (f) See Comm. DR 1-14(f) for a sample monthly bill. In addition, a sample bill was included in PWSB's original filing.
- (g) The late charge penalties are assessed monthly and this process will not change with the conversion to monthly billing.
- (h) PWSB is currently using billing software from Naviline by Sungard Public Sector (formerly known as HTE). The design of this software provides for annual to monthly billing frequency. In fact, the PWSB has a billing cycle for its large accounts that is already billed monthly. We have had discussions with this vendor to convert the accounts setup to bill quarterly to be setup to bill monthly. The software is able to process this conversion. This software also provides a "test environment" that we are planning on using to test the conversion of our quarterly accounts to monthly billing during the balance of calendar 2010.
- (i) Yes, remote radio reading equipment has been installed throughout our system so we can obtain actual monthly meter readings and base our billing on actual consumption.
- (j) Monthly billing is planned to begin January 2011, which is the beginning of the rate year in this Docket.
- (k) We are planning on two staggered mailings each month.

Prepared by: R. Benson

**CERTIFICATION**

I hereby certify that on December 6, 2010, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and regular mail.

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