GENERAL RATE FILING

REBUTTAL TESTIMONY & EXHIBITS

OF THOMAS G. LIPPAI

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Submitted to:
State of Rhode Island and Providence
Plantations Public Utilities Commission

RIPUC Docket No. 4255

Submitted by:

United Water Rhode Island Inc.

Q. State your name and business address.

A. My name is Thomas G. Lippai and my business address is 200 Old Hook Road, Harrington Park, New Jersey 07640.

Q. Are you the same Thomas G. Lippai who previously testified on behalf of United Water Rhode Island, Inc. ("UWRI" or the "Company")?

A. Yes I am.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to address several operation and maintenance expense adjustments made by Mr. Thomas S. Catlin, witness for the Division of Public Utilities and Carriers (the Division), in the following areas:

- Incentive compensation
- Rate case amortization
- Outside services expense

Q. Are there any adjustments that UWRI is not contesting?

A. Yes. UWRI is not contesting adjustments relating to:

- Incentive compensation – portion relating to the reduction of full target bonus level percentage for Manager and Superintendent
- Benefits transferred out
- Medical benefits expense

Incentive Compensation

Q. Please summarize the Division's incentive compensation recommendation.

A. The Division proposes to lower the Company's projected payroll expense by the targeted bonus payments made to exempt employees of UWRI under the Company's Short Term Incentive Plan (STIP) and to the STIP portion of the Management and Services (M&S) fee billed to the Company by United Water Management and Services (UWM&S) which includes incentive compensation paid to UWM&S employees.

Q. Please briefly explain what the Company's STIP program is.

A. The STIP is an annual compensation plan offered to all active exempt employees not covered by another annual incentive that supports the Company's business objectives. The program is based on two different measures of performance, financial and personal, that are critical to the Company's success.

Q. How does the STIP support the Company's business objectives?

The STIP program supports the Company's business objectives in some of the following ways:

- provides an annual incentive strategy that drives performance towards objectives critical to creating shareholder value;
- awards outstanding achievement among employees who can directly impact the Company's results;
- provides cash awards for both qualitative and quantitative results;
- provides cash compensation opportunities for making sound business decisions that impact the Company's financial performance and the overall success of the Company.

Q. What part of the STIP did the Division adjust?

A. As stated above, the STIP program is based on two different measures of performance, financial and personal. The Division adjusted the achieving of the financial goal portion of the STIP, which comprises forty percent of the award. Additionally, the Division reduced the full target incentive compensation percentages for the Superintendent and Manager from 10% and 15% to 7.55% and 12.45%, respectively. However, the Company accepts the proposed reduction in the percentages for the Superintendent and Manager.

Q. How was the forty percent determined?

A. The forty percent is the actual average percentage of STIP paid to eligible employees for achieving the financial goals using the years 2008, 2009 and 2010.

Q. Why did the Division eliminate the financial portion of the STIP?

A. The Division stated that the portion of STIP directly attributable to meeting financial goals is not properly recoverable from ratepayers for several reasons.

Q. What are some of the reasons Mr. Catlin provided?

A. Mr. Catlin stated that if financial goals are set properly, achieving the necessary performance should be self-supporting. Measures that achieve additional cost savings, improve sales, or otherwise improve the financial results of the Company should provide the income necessary to fund the awards.

Q. Did Mr. Catlin present any other reasons?

A. Yes he did. He additionally stated that the payouts are made independent of the quality of service, efficiency or safety goals. Lastly, he stated that the incentive to improve financial performance is not necessarily consistent with ratepayers' interests.

Q. Do you agree with the adjustment to the financial portion of the STIP?

A. No, I do not.

Q. Why not?

A. The total compensation package for all employees is based on salary at risk. The annual compensation for UWRI personnel has incentive pay built in and that incentive represents a method to pay for performance, attract qualified new staff and retain existing qualified staff. As stated, the incentive award is the portion of an individual's pay that is at risk, and therefore, an individual's pay can vary from one year to the next based on his or her performance. Thus, incentive pay is an important tool in the Company's continual workforce efficiency initiative who's achieved savings are embedded in the current reduced expense levels provided in the

Company's filing. Without the efficiencies gained, the normalized expense levels of the Company would have been greater.

Q. Are there any other benefits for providing a total compensation package which includes pay at risk?

A. Yes there is. By providing a total compensation package including pay at risk, the pay at risk is not considered into base pay for benefit calculations. If these incentives were consolidated as part of base pay, certain fringe benefits along with pension benefits would be impacted which would drive up the labor cost and increase the revenue requirement to include the increased benefit cost.

Q. Does the STIP provide any benefits to the customers?

A. Yes. The company's proposed revenue requirement reflects significant cost reductions from which the customers have already benefited in the form of lower rates, and that they will continue to benefit in the form of a reduced revenue requirement on a going forward basis. These cost reductions, which have been and will continue to be passed through to customers, are a part of the incentive program the Division recommends to be adjusted.

Q. Are there any additional benefits to customers?

A. Yes, as mentioned above, the incentive compensation, or pay at risk, is part of an employee's total compensation package and is designed to attract and retain top talent by offering competitive pay. Through retention of employees (and lowering turnover), customers benefit through consistency of service and increased efficiency. This, once again, keeps costs down and lowers the overall revenue requirement.

Q. What is your recommendation regarding the STIP adjustment to UWRI employees?

A. I recommend that a $3,526 reduction in labor costs, net of capitalized, and a related $145 reduction in payroll taxes, net of capitalized, be applied versus the $10,332 and $790 proposed by the Division. These adjustments represents the Company's acceptance of the reduction in the incentive compensation target percentages for the Superintendent and Manager and the Company's rejection of the elimination by the Division of the incentive compensation related to the achieving of the financial goals by UWRI employees. Please refer to Exhibit 4 (Lippai), Schedule 24 for the computation of this amount.

Q. What is your recommendation regarding the STIP adjustment related to UWM&S employees?

A. I recommend that the $17,000 STIP reduction adjustment made by the Division, which eliminates the achieving of the financial goals of UWM&S employees, and the related payroll tax reduction of $1,301, be added back to UWM&S fees and be included in computing the revenue requirement.

Rate Case Amortization

Q. What adjustment did the Division recommend to rate case amortization?

A. The Division recommended an extension of the amortization period for rate case expenses from the Company's proposed three years to five years.

Q. What explanation did Mr. Catlin provide concerning the extension of the amortization period?

A. Mr. Catlin stated that the average interval between the last two rate cases (1991 and 1999) to the current case is approximately ten years. In light of this, Mr. Catlin opted for a conservative approach and recommends five years as the amortization period.

Q. Do you agree with the amortization period recommended by Mr. Catlin?

A. No, I do not. The Company intends on filing for rate changes more frequently going forward. Although UWRI has not filed a rate case in over twelve years, as indicated in the testimony of Company witnesses Michaelson and Knox, the Company does not anticipate being out so long moving forward. Future planned capital spending, coupled with cost increases out of the control of the Company, will require more frequent filings.

Q. **Could you discuss some of the major capital projects, scheduled to go in service over the next few years that will require the Company to seek an additional increase in rates?**

A. Yes. Within the next few years the Company will be taking two of its older water tanks (Tower Hill Tank and Sherman Tank) out of service and replacing them with larger tanks in order to increase storage, pressure and service reliability. Because of their small size, the existing tanks encounter problems meeting high demands during the summer months. Both of the replacement tanks are estimated to cost $3.5 Million. In addition, the Company will be placing in service the Enterprise Asset Management (EAM) system as part of its Business Technology Master Plan (BTMP) which was discussed in detail in Mr. Knox's direct testimony. These major projects are in addition to the Company's routine capital spending and will drive the need for a new rate case filing in the near future. For this reason and the reasons discussed previously a 3 year amortization period for the current rate case expenses is appropriate.

Q. What is your recommendation regarding the amortization period of rate case expenses?

A. I recommend that the three year amortization period proposed by the Company be accepted and the $42,733 reduction to amortization expense proposed by the Division be added back in computing the revenue requirement.

Other Outside Services

Q. Did the Division make any adjustments to Other Outside Services?

A. Yes, there was a reduction of $4,403 proposed to the other outside service expense.

Q. Why did the Division make this adjustment?

A. Mr. Catlin stated that there was no need for the Company to adjust this account to effectively include 2009 and 2010 CCR costs that were included elsewhere in the rate year cost of service, and thus eliminated the Company's proposed adjustment of $4,403.

Q. Do you agree with the proposed adjustment?

A. No, I do not. The $4,403 adjustment to "Other Outside Services" does not include the 2009 and 2010 CCR costs, only the 2008 CCR costs. The 2009 and 2010 costs were included in the "Other Operation and Maintenance Expense" category, specifically Exhibit 4 (Lippai), Schedule 17A, account number 905 and adjusted by applying the inflation factor to the three year average costs using 2008, 2009 and 2010. The "Other Outside Services" account, which only included the 2008 CCR costs, was adjusted the same way, by applying the inflation factor to the three year average. Furthermore, there are costs other than CCR costs in this category and by eliminating the total Company proposed adjustment of $4,403, these other costs would not be adjusted accordingly.

Q. What are you proposing?

A. I am proposing that the $4,403 reduction to "Other Outside Services" account reflected by Mr. Caitlin be added back and the Company's proposed rate year cost of service amount for this category be accepted.

Q. Mr. Lippai, do you have a revised operation and maintenance expense total.

A. Yes I do. The total operation and maintenance expense proposed by the Company in its original filing was $1,877,083. As a result of the adjustments noted in my testimony above, the revised total for operation and maintenance expenses is $1,864,587. Please refer to Exhibit 4 (Lippai), Schedule 25 for the computation of this amount. Also refer to Exhibit 4 (Lippai), Schedule 1-Rebuttal, Page 1 of 1 for the components of operation and maintenance expense.

Q. Has Federal income tax changed as a result of your operation and maintenance adjustments?

A. Yes it has. Please refer to Exhibit 4 (Lippai), Schedule 21-Rebuttal, Page 1 of 1 for a computation of the amount. This amount can be referenced to Exhibit 3 (Michaelson), Schedule 10-Rebuttal.

Q. Mr. Lippai, does this conclude your testimony?

A. Yes it does.

United Water Rhode Island, Inc.
Summary of Utility Proposed Adjustments at Current and Proposed Rates
For the Test Year Ending December 31, 2010 and Rate Year at Present and Proposed Rates

Line No.	Elements of Operating Income	Schedule Number	Test Year 12/31/2010	Adjustments	Rate Year: Present Rates	Rate Year: Proposed Rates
1	Operating Revenues	Exh 1 Sch 1	$ 2,910,449	$ (52,147)	$ 2,858,302	$ 4,036,808
2						
3	Operation and Maintenance Expenses:					
4	Wages and Salaries	Exh 4 Sch 2	$ 552,561	$ (20,185)	$ 532,376	$ 532,376
5	Fringe Benefits Transferred	Exh 4 Sch 3	(53,510)	(24,561)	(78,071)	(78,071)
6	Power Expense	Exh 4 Sch 4	216,464	(28,439)	188,025	188,025
7	Chemical Expense	Exh 4 Sch 5	60,710	4,867	65,577	65,577
8	Pension Expense	Exh 4 Sch 6	126,294	(27,227)	99,067	99,067
9	PEBOP Expense	Exh 4 Sch 7	78,430	(12,436)	65,994	65,994
10	Employee Health and Welfare Expense	Exh 4 Sch 8	113,318	21,719	135,037	135,037
11	Tank Painting Amortization	Exh 4 Sch 9	-	38,574	38,574	38,574
12	Transportation/Vehicle Expense	Exh 4 Sch 10	66,255	(12,257)	53,998	53,998
13	Insurance Expense	Exh 4 Sch 11	57,945	256	58,201	58,201
14	Customer Information/Billing Expense	Exh 4 Sch 12	53,857	659	54,516	54,516
15	Rate Case Expense	Exh 4 Sch 13	-	106,833	106,833	106,833
16	Rent Expense	Exh 4 Sch 14	28,006	(4,864)	23,142	23,142
17	Outside Services Expense	Exh 4 Sch 15	297,498	3,140	300,638	300,638
18	Regulatory Commission Expense	Exh 4 Sch 16	6,940	368	7,308	10,343
19	Other Operation and Maintenance Expense	Exh 4 Sch 17	211,667	1,705	213,372	213,372
20						
21						
22	Total Operation and Maintenance Expenses		$ 1,816,435	$ 48,151	$ 1,864,586	$ 1,867,622
23						
24	Taxes:					
25	Property Tax Expense	Exh 4 Sch 18	$ 247,500	$ 23,522	$ 271,022	$ 271,022
26	Payroll Tax Expense	Exh 4 Sch 19	48,773	7,489	56,262	56,262
27	Gross Receipts Tax Expense	Exh 4 Sch 20	35,349	380	35,729	50,460
28	Federal Income Tax Expense	Exh 4 Sch 21	17,363	(90,005)	(72,641)	333,617
29			$ 348,985	$ (58,615)	$ 290,371	$ 711,361
30						
31						
32	Depreciation/Amortization Expense	Exh 4 Sch 22	$ 413,616	$ 97,016	$ 510,632	$ 510,632
33						
34	Inflation Rate Computation	Exh 4 Sch 23				
35						
36	Interest Expense **(a)**	Refer to Exh 4 Sch 21	$ 285,898	$ 28,383	$ 314,281	$ 314,281
37	**(a)** calculated to synchronize for ratemaking					

United Water Rhode Island, Inc.
Payroll Expense - Incentive Compensation
Docket No. 4255

Exhibit 4 (Lippai)
Schedule 24 - Rebuttal

	2012 Base Salary	Incentive Compensation % (a)	Recoverable Incentive Compensation	Charged to Capital 21.09%	Wages & Salaries Expense	Payroll Tax (b) 7.65% 1.45%	Charged to Capital 21.09%	Net Expense
Original Filing:								
Supervisor Office	$ 64,277	5.00%	$ 3,214	$ 678	$ 2,536	246	52	194
Superintendent	78,632	10.00%	7,863	1,658	6,205	602	127	475
Manager UWRI	99,695	15.00%	14,954	3,154	11,800	217	46	171
			$ 26,031	$ 5,490	$ 20,541	$ 1,064	$ 224	$ 840
Revised Position:								
Supervisor Office	$ 64,277	5.00%	$ 3,214	$ 678	$ 2,536	246	52	194
Superintendent	78,632	7.55%	5,937	1,252	4,685	454	96	358
Manager UWRI	99,695	12.45%	12,412	2,618	9,794	180	38	142
			$ 21,563	$ 4,548	$ 17,015	$ 880	$ 186	$ 694
Adjustment			$ (4,469)	$ (942)	$ (3,526)	$ (184)	$ (39)	$ (145)

(a) Company accepted reduction in incentive compensation % proposed by Division for Superintendent and Manager from 10% and 15% to 7.55% and 12.45%, respectively.
(b) Manager reached maximum base for Fica, only Medicare Tax applies (1.45%)

United Water Rhode Island, Inc.
Operation and Maintenance Expenses
Docket No. 4255

Exhibit 4 (Lippai)
Schedule 25 - Rebuttal

	Original Filing (Company)	Division	Company Adjusted	
Operation and Maintenance Expenses	$ 1,877,083	$ 1,877,083	$ 1,877,083	
Adjustments:				
Incentive Compensation - Company Employees		$ (10,332)	$ (3,526)	**(a)**
Incentive Compensation - UWM&S Fees		(18,301)		
Benefits Transferred Out		(1,078)	(1,078)	
Benefits Transferred Out - Payroll Tax			39	
Medical Benefits		(7,931)	(7,931)	**(b)**
Rate Case Amortization		(42,733)		
Other Outside Services		(4,403)		
Total Adjustments	$ -	$ (84,778)	$ (12,496)	
Grand Total Operation and Maintenance Expenses	$ 1,877,083	$ 1,792,305	$ 1,864,587	

(a) $145 reduction in payroll taxes as a result of $3,526 reduction in net of capitalized labor costs.
(b) Net of amount capitalized.

United Water Rhode Island, Inc.
Federal Income Tax Expense
Part of Account Number 408
For the Rate Year
Docket No. 4255

Purpose and Description: To reflect Federal Income expense based upon Rate Year changes in taxable income at present and proposed rates.

	[--------------------Rate Year--------------------]			
Description	At Existing Rates		At Proposed Rates	
Revenues	$ 2,858,302		$ 4,036,808	
Operating Expenses:				
Operation and Maintenance	1,864,586		1,867,622	
Depreciation and Amortization	510,632		510,632	
Taxes other than income	363,012		377,743	
Operating Expenses Before Income Taxes	2,738,230		2,755,997	
Operating Income Before Income Taxes	120,072		1,280,811	
Interest Expense	314,281	(a)	314,281	(a)
Excess of Tax Depreciation Over Book	238,531		238,531	
Federal Taxable Income	$ (432,740)		$ 727,999	
Federal Income Tax Rate	35.00%		35.00%	
Federal Income Tax Current	$ (151,459)		$ 254,800	
Deferred Federal Income Tax:				
Excess of Tax Depreciation Over Book	$ 238,531		$ 238,531	
Deferral Base Federal Income Tax	238,531		238,531	
Federal Income tax Rate	35.00%		35.00%	
Deferred Federal Income Tax	$ 83,486		$ 83,486	
Amortization of Flow-Through Tax	$ -		$ -	
Amortization of ITC	$ (4,668)		$ (4,668)	
Total Federal Income tax	$ (72,641)		$ 333,617	

Reference:
(a) Interest Expense

Rate Base	$ 10,874,783	$ 10,874,783
Weighted Cost of Debt	2.8900%	2.8900%
Interest Expense	$ 314,281	$ 314,281