

GENERAL RATE FILING

REBUTTAL TESTIMONY & EXHIBITS

OF TIMOTHY J. MICHAELSON

November 7, 2011

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

RIPUC Docket No. 4255

Submitted by:

United Water Rhode Island Inc.

UNITED WATER RHODE ISLAND INC.
TIMOTHY J. MICHAELSON

1 Q. **Please state your name and business address**

2 A. Timothy J. Michaelson, 200 Old Hook Road, Harrington Park, N.J. 07640.

3

4 Q. **Are you the same Timothy J. Michaelson that filed direct testimony in this**
5 **proceeding?**

6 A. Yes I am.

7

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

9 A. The purpose of my rebuttal testimony is to address Mr. Thomas S. Catlin's
10 testimony regarding recommended adjustments to Rate Base and CIS
11 Amortization expense filed on behalf of the Division of Public Utilities and
12 Carriers. I will also summarize the Company's Rebuttal revenue requirement.

13

14 Q. **Are there any of Mr. Catlin's adjustments to Rate Base that the Company is**
15 **in agreement with?**

16 A. Yes, there are several adjustments that the Company agrees with as listed
17 below:

18 1. Indian Lake Shore Development - As Mr. Catlin explains, the Company
19 had included in its original filing the Contribution associated with the
20 transmission main that services the Indian Lake Shore Development, but
21 omitted the addition to its Plant in Service schedule. The Company agrees
22 that this oversight should be corrected by including the \$198,000 in Rate
23 Base and appreciates the fair treatment afforded by the Division.

UNITED WATER RHODE ISLAND INC.
TIMOTHY J. MICHAELSON

- 1 2. Materials and Supplies – The Company agrees with Mr. Catlin's
2 adjustment to utilize the most recent 13 month average balance available
3 instead of the 13 month average balance for the period ending December 31,
4 2010 used in the original filing and the resulting adjustment to lower Rate
5 Base by \$15,575.
- 6 3. Cash Working Capital – The Company is in agreement with a portion of
7 Mr. Catlin's adjustments as they relate to Cash Working Capital. Exhibit 3
8 (Michaelson), Schedule 11 – Rebuttal provides the calculations supporting
9 the adjustment to lower Cash Working Capital by \$6,397:
- 10 a. Tank Painting Amortization - The Company agrees with the adjustment
11 to excluding Tank Painting amortization expense of \$38,574.
- 12 b. Incentive Compensation – As indicated in Mr. Lippai's rebuttal
13 testimony and shown on Exhibit 4 (Lippai), Schedule 24 – Rebuttal, the
14 Company agrees with the portion of Mr. Catlin's adjustment that relates
15 to Local Company employees' historic incentive payment and results in
16 a reduction in O&M expense of \$3,526.
- 17 c. Medical Benefits Expense – The Company agrees with the adjustment
18 shown on TSC-12 to lower Medical Benefits Expense by \$10,051.
- 19 d. Benefits Transferred Out - I have adjusted the Benefits transferred out
20 by \$1,080, which is an increase in O&M expense. The Company
21 agrees that the OPEB Transition Obligation amount of \$5,113 should
22 be a part of the Benefits Transferred Out calculation and agrees with
23 the (\$1,078) adjustment proposed on TSC-11. I have also adjusted

UNITED WATER RHODE ISLAND INC.
TIMOTHY J. MICHAELSON

1 Benefits Transferred Out expense as a result of lowering Medical
2 Expense and the Payroll Taxes associated with lower Incentive
3 Compensation.

4 e. Regulatory Commission Expense – I have lowered this expense to
5 reflect the lower Rebuttal revenue requirement compared to the
6 original filing.

7 4. Deferred Tank Painting expense – The Company agrees with Mr. Catlin's
8 adjustment to reduce Rate Base by \$57,461 as a result of starting
9 amortization of the costs for painting the Howland Aerator and Sherman tanks
10 in 2008, when they were painted, instead of waiting until new rates are
11 established in this case. The Company will begin amortization of future tank
12 paintings in the month after painting is complete as well.

13 5. Deferred Rate Case Expenses – The Company agrees with the Division's
14 adjustment to remove unamortized Rate Case Expenses from Rate Base in
15 the amount of \$272,756.

16 6. Accumulated Deferred Income Taxes – The Company agrees with the
17 Division's adjustment on TSC-8 to reduce Rate Base by \$44,972 (by
18 increasing Accumulated Deferred Income Taxes) as a result of not
19 considering federal bonus depreciation in 2011 and 2012 in its original filing.

20
21 **Q. Are there any adjustments proposed by Mr. Catlin that the Company does**
22 **not agree with?**

UNITED WATER RHODE ISLAND INC.
TIMOTHY J. MICHAELSON

1 A. Yes. In addition to the portion of Cash Working Capital previously discussed, the
2 Company is not in agreement with the adjustment to the CIS amortization period
3 from seven to ten years and the resulting impact to Rate Base that is shown on
4 Schedule TSC-15.

5

6 **Q. Why doesn't the Company agree with Mr. Catlin's proposed adjustment to**
7 **the CIS amortization period?**

8 A. In its preparation for filing this rate case, the company consulted internal
9 information technology experts as well as its Depreciation expert to determine a
10 fair amortization period for the new Customer Information System. United's
11 internal experts recommended a seven year period and its Depreciation expert
12 recommended approximately eight years. United has requested a seven year
13 amortization period in each of its recent rate filings as well and was granted its
14 request in the United Water Pennsylvania case (Docket R-2011-2232985). The
15 Company maintains its position that a seven year amortization period is
16 reasonable for this asset.

17

18 **Q. Have you prepared a summary schedule showing the adjusted Rate Base?**

19 A. Yes. Exhibit 3 (Michaelson), Schedule 1 – Rebuttal calculates the updated
20 summary Rate Base of \$10,874,770 as a result of the adjustments discussed
21 above.

22

UNITED WATER RHODE ISLAND INC.
TIMOTHY J. MICHAELSON

1 **Q. Have you calculated a new Revenue Requirement after applying**
2 **adjustments to O&M Expense, Rate Base and Rate of Return?**

3 R. Yes. Exhibit 3 (Michaelson), Schedule 10 – Rebuttal incorporates the changes
4 made to O&M expense, Rate Base and Rate of Return described in this, Mr.
5 Lippai’s and Ms. Ahern’s testimony.

6

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

8 A. Yes it does.

Line #	(a) Amount per Company Original Filing	(b) Division Adjustments	(c) Adjusted Amount per Division (a) + (b)	(d) Company Rebuttal Adjustments	(e) Company Rebuttal Rate Base (a) + (d)	
1						
2	Utility Plant In Service	22,270,513	198,000	22,468,513	198,000	22,468,513
3						
4	Accumulated Depreciation	(6,213,068)	14,358	(6,198,710)		(6,213,068)
5	CIAC	(3,596,531)		(3,596,531)		(3,596,531)
6	Def'd Income Tax	(1,534,287)	(49,997)	(1,584,284)	(44,972)	(1,579,259)
7	Unamortized ITC	(98,414)		(98,414)		(98,414)
8	Materials and Supplies	103,664	(15,575)	88,089	(15,575)	88,089
9	Cash Working Capital	235,028	(15,419)	219,609	(6,397)	228,631
10	Def'd Tank Painting (net of Def'd Tax)	147,639	(57,461)	90,178	(57,461)	90,178
11	Def'd Rate Case	272,756	(272,756)	0	(272,756)	0
12	Unfunded FAS 106 (net of Def'd Tax)	(513,369)		(513,369)		(513,369)
13	Total Rate Base	11,073,931	(198,850)	10,875,081	(199,161)	10,874,770

United Water Rhode Island
Cash Working Capital - Rebuttal Schedule
Rate Year Ended December 31, 2012

Exhibit 3 (Michaelson)
Schedule 11 - Rebuttal
Page 1 of 1

Line #	Description	(a) Amount per Company Original Filing	(b) Division Adjustments	(c) Adjusted Amount per Division (a) + (b)	(d) Company Adjustments	(e) Adjusted Amount per Company (a) + (d)
1	O&M Expense (Included in CWC calculation)	1,880,222	(123,352)	1,756,870	(51,175)	1,829,047
2	Cash Working Capital (1/8 O&M)	235,028	(15,419)	219,609	(6,397)	228,631
3						
4	<u>O&M Adjustments</u>					
5	Exclude Tank Painting Amortization		(38,574)		(38,574)	TSC-6
6	Incentive Compensation - Company Employees		(10,332)		(3,526)	Exhibit 4 (Lippai), Schedule 24 - Rebuttal
7	Incentive Compensation - UWM&S Fees		(18,301)		-	
8	Benefits Transferred Out		(1,078)		1,080	(a)
9	Corrected Medical Benefits		(7,931)		(10,051)	TSC-12
10	Rate Case Amortization		(42,733)		-	
11	Other Outside Services		(4,403)		-	
12	Regulatory Commission Expense		-		(104)	(b)
13	Total		(123,352)		(51,175)	

(a) **Fringe Benefit Transferred Out**

Add OPEB Transition obligation (TSC-11)	5,113	
Fringe %	21.09%	
Increase Fringe Transferred Out		(1,078)
Decrease medical expense (TSC-12)	(10,051)	
Fringe %	21.09%	
Decrease Fringe Transferred Out		2,120
Decrease P/R Tax (Exhibit 4 (Lippai), Schedule 24 - Rebuttal)	(184)	
Fringe %	21.09%	
Decrease Fringe Transferred Out		39
Difference		1,080

(b) **Regulatory Commission Expense adjustment**

Revenue Requirement - Rebuttal	4,036,808	Exhibit 3 (Michaelson), Schedule 10 - Rebuttal
Revenue Requirement - Original Filing	4,077,004	Exhibit 3 (Michaelson), Schedule 10
Revenue Decrease	(40,196)	
PSC Assessment Rate	0.25759%	
Regulatory Commission Expense adjustment	(104)	

United Water Rhode Island, Inc.
Docket #4255
Operating Income as Adjusted at Present and Proposed Rates
Rate Year Ended December 31, 2012

Line No.	Description	(a) Original Filing Rate Year at Proposed Rates	(b) Division Adjustments	(c) Amount per Division at Proposed Rates (a) + (b)	(d) Company Rebuttal Adjustments	(e) Rate Year at Proposed Rate after Rebuttal Adjustments (a) + (d)
1	Operating Revenues	\$ 4,077,004	\$ (322,506)	\$ 3,754,498	\$ (40,196)	\$ 4,036,808
2						
3	Operating Expenses					
4	Operating & maintenance expenses	\$ 1,880,222	\$ (85,609)	\$ 1,794,613	\$ (12,600)	\$ 1,867,622
5	Depreciation and Amortization	510,632	(20,243)	490,389		510,632
6	Property taxes	271,022		271,022		271,022
7	Payroll taxes & other	107,408	(4,821)	102,587	(686)	106,722
8	Federal income tax (a)	339,858	(68,302)	271,556	(6,241)	333,617
9	Total Operating Expenses	\$ 3,109,142	\$ (178,975)	\$ 2,930,167	\$ (19,527)	\$ 3,089,615
10						
11	Operating Income	\$ 967,862	\$ (143,531)	\$ 824,331	\$ (20,669)	\$ 947,193
12						
13	Rate Base	\$ 11,073,931	\$ (198,850)	\$ 10,875,081	\$ (199,161)	\$ 10,874,770
14						
15	Rate of Return	<u>8.74%</u>		<u>7.58%</u>		<u>8.71%</u>
16						
17	(a) calculated to synchronize for ratemaking					