

STATE OF RHODE ISLAND
BEFORE THE
PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION) Docket No. 4320
OF WOONSOCKET WATER DIVISION)
FOR AN INCREASE IN RATES FOR)
WATER SERVICE)

SURREBUTTAL TESTIMONY OF
ANDREA C. CRANE
REGARDING REVENUE REQUIREMENTS

ON BEHALF OF
THE DIVISION OF PUBLIC UTILITIES AND CARRIERS

September 14, 2012

1 **I. Introduction**

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

3 A. My name is Andrea C. Crane and my business address is 90 Grove Street, Suite 211,
4 Ridgefield, CT 06877. (Mailing address: PO Box 810, Georgetown, Connecticut 06829)

5
6 **Q. Did you previously file testimony in this proceeding?**

7 A. Yes, on August 13, 2012, I filed Direct Testimony on behalf of The Division of Public
8 Utilities and Carriers (“Division”). In that testimony, I recommended that the State of Rhode
9 Island, Public Utilities Commission (“Commission”) award a rate increase of \$6,544 to the
10 Woonsocket Water Division (“WWD”). My recommendations were based on six
11 adjustments to the WWD’s claim, as shown below:

Light and Power Expense	(\$1,202)
Property and Fire Tax Expense	(\$3,516)
Insurance Expense	(\$81,425)
City Services Expense	(\$175,130)
Infrastructure Replacement Fund	(\$456,000)
Debt Service Reserve	(\$30,000)
Operating Reserve Allowance	(\$59,509)
Total Adjustments	(\$806,782)

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14 **Q. What is the purpose of your Surrebuttal Testimony?**

15 A. The purpose of my Surrebuttal Testimony is to address the Rebuttal Testimonies of WWD
16 witnesses Sheila M. McGauvran and Walter E. Edge, Jr.

1 **B. Discussion of the Issues**

2 **1. Rebuttal to Ms. McGauvran**

3 **Q. Please comment on Ms. McGauvran’s claim on pages 1-2 of her Rebuttal Testimony**
4 **that the WWD will not be able to complete its carbon filter replacement project if the**
5 **recommendations contained in your Direct Testimony are adopted by the Commission.**

6 A. Ms. McGauvran notes that the WWD is required to replace its carbon filter at regular
7 intervals and states that the WWD did not have the funds to undertake this project in the
8 Interim Year. However, in its filing on Schedule WEE-9, WWD demonstrated that it
9 completed a carbon filter replacement in Fiscal Year (“FY”) 2011 and it anticipated the next
10 carbon filter replacement to take place in FY 2013. WWD did not anticipate a carbon filter
11 replacement in FY 2012 nor does it anticipate a carbon filter replacement in FY 2014 or FY
12 2015, according to Schedule WEE-9. It should be noted that I did not recommend any
13 adjustment to the Chemical Reserve funding level requested by WWD in this case.¹
14 Accordingly, Ms. McGauvran’s concern that the WWD will not have sufficient funds to
15 complete a carbon filter replacement if my recommendations are adopted is without merit,
16 since I have adopted the WWD’s request with regard to the chemical reserve funding level
17 and have not recommended any adjustments to the amount of funding for chemicals,
18 including carbon filters replacements.

19
20 **Q. Please comment on Ms. McGauvran’s statement on page 2, lines 10-11 of her Rebuttal**

¹ I did recommend that the chemical reserve funding be transferred to base rates, which would provide the WWD

1 **Testimony that “restricted accounts work only if overages in one account in a given**
2 **year can, to the extent authorized, offset shortfalls in other accounts....”**

3 A. Ms. McGauvran is apparently under the impression that the WWD can move funds among
4 restricted accounts and that therefore the funding of restricted accounts increases
5 “flexibility”. However, she is mistaken that restricted accounts increase the WWD’s
6 flexibility. It is my understanding that once funds are deposited into a restricted account,
7 they are supposed to remain in that account until they are spent for the specific purpose
8 identified. Therefore, restricted accounts decrease, rather than increase, the flexibility of the
9 utility to offset shortfalls in one area with overages in another. The flexibility discussed by
10 Ms. McGauvran is not found with restricted accounts. Rather, this flexibility is provided
11 with unrestricted amounts collected through base rates, since amounts collected through base
12 rates that are not otherwise restricted can be used by the WWD to meet any expenditure. For
13 example, if my recommendation to transfer the Chemical Reserve and Rate Case Expense
14 accounts to base rates is adopted, then funds collected for these purposes could be used to
15 meet other expenditures in the event that chemical costs and rate case costs are less than
16 anticipated. Alternatively, if chemical costs and rate case costs are more than anticipated in
17 any given year, the WWD would have the flexibility to use other funds collected through
18 base rates to meet these expenditures. This flexibility does not exist with regard to restricted
19 accounts.

with greater flexibility,

1 **Q. Please respond to Ms. McGauvran’s statement on page 3, lines 7-14 of her testimony**
2 **that you ignored other costs that are likely to increase.**

3 A. First, it should be pointed out that several of the examples provided by Ms. McGauvran,
4 such as chemicals and electricity, were adjusted by WWD and that I made no adjustment to
5 the claims included in WWD’s filing for these items except to remove a late payment charge
6 claimed by WWD. Moreover, the WWD had the opportunity to adjust every test year
7 operating account. In many cases, it chose not to do so. Of the operating expense accounts
8 that were adjusted by WWD, I made recommendations to reduce the WWD’s claim in only
9 two accounts, as noted by Ms. McGauvran. My recommendations to reduce the insurance
10 and property and fire tax claims were based on the WWD’s failure to demonstrate that its
11 adjustments constituted known and measurable changes to the Test Year, or to otherwise
12 adequately support its adjustments. Moreover, while I did not accept the entire post-test year
13 adjustments proposed by the WWD for its insurance and property and fire tax claims, in both
14 cases I did include amounts that were substantially higher than the WWD’s actual Test Year
15 costs.

16
17 **Q. Did Ms. McGauvran accurately represent your position with regard to City Services**
18 **charges?**

19 A. No, she did not. On page 3 of her Rebuttal Testimony, she acknowledges that the City does
20 not use time sheets to record the time spent on WWD activities, and then goes on to state
21 “this is not a valid reason to disqualify all charges for the use of City Staff that support the

1 Water Division.” I am not sure why Ms. McGauvran believes that I recommended
2 disallowance of “all charges”, but she is incorrect.

3 As shown on Schedule WEE-3, the WWD included \$320,453 of City Services
4 charges in its claim, while my revenue requirement recommendation includes \$236,300 for
5 City Services charges, as shown on Schedule ACC-5. Thus, I have recommended that
6 approximately 75% of the WWD’s claim be approved.

7 Given the lack of supporting documentation regarding the amount of time spent on
8 WWD activities, it would not be unreasonable if the Commission decided to eliminate all
9 City Services charges from the Company’s claim. However, that was not my
10 recommendation. Instead, my recommendation was limited to two issues: payroll costs from
11 the Office of the Mayor of \$10,718 and City Property expenses of \$73,435. Ms. McGauvran
12 defends the charges from the Office of the Mayor, arguing that the Mayor’s office handles
13 customer complaints and that the Mayor “presents and advocates on behalf of the water
14 division.” That may be true, but unfortunately the WWD has no documentation to support
15 its claim. Ms. McGauvran went on to state on page 4, at lines 6-8 of her Rebuttal Testimony
16 that “[t]he City should not subsidize the WWD and the City has every reason to expect
17 expenses for city offices to be shared and budgeted based on an approximation of the
18 services actually performed.” I agree that the City should not subsidize the WWD but
19 neither should the ratepayers of WWD be charged for costs that are unsubstantiated.

20 In spite of the fact that the City does not track costs spent on the WWD, I did include
21 over \$200,000 of City personnel costs in my revenue requirement recommendation,

1 including personnel costs for the Finance, Public Works, and Executive Departments. In
2 addition, I included costs for supplies, equipment, software and other operating costs
3 incurred by the City. As noted earlier, I included almost 75% of the WWD's claim in my
4 revenue requirement. Thus, Ms. McGauvran's representation that I have disqualified all
5 City Services charges is plain wrong.

6 In addition, Ms. McGauvran takes issue with my concerns about the payment of all
7 City Services charges by the WWD to the City early in the year. On page 5, lines 17-29 of
8 her Rebuttal Testimony, she discusses the budgeting process and states that "[t]he fact that
9 the City collected the entire amount early in the year" does not mean the City Services
10 charges are simply a revenue transfer mechanism. But the fact that an entire year of
11 budgeted charges were paid up front surely suggests otherwise. The City does not track time
12 spent on WWD activities, nor does it even suggest that the City is paid after work is
13 performed. Instead, the City budgets an amount to be collected from the WWD and clearly
14 obtains that amount from the WWD regardless of the amount of work actually performed on
15 the WWD's behalf. This suggests that the City Services charges are neither cost-based, nor
16 are they intended to truly compensate the City for work actually performed. Instead, the City
17 Services charges appear to be a source of revenue for a city that is in financial distress. In
18 spite of these factors, I still included approximately 75% of the City Services charges in my
19 revenue requirement recommendation, and I believe that the two adjustments I recommended
20 to City Services charges were extremely modest.

1 **Q. Please comment on Ms. McGauvran’s statement that you are “missing one important**
2 **piece” from your analysis of the WWD’s Infrastructure Replacement Fund claim, and**
3 **that is FY 2012 expenditures.**

4 A. Ms. McGauvran is incorrect. My adjustment to reduce the WWD’s annual infrastructure
5 replacement funding took into account the WWD’s FY 2012 expenditures, which were
6 shown in Schedule WEE-10. In fact, that schedule anticipated FY 2012 expenditures of over
7 \$4 million, far more than the \$832,766 referenced by Ms. McGauvran. The point being
8 missed by Ms. McGauvran is that the Infrastructure Replacement Fund had a balance of
9 almost \$5.8 million at the end of the 2011 fiscal year, as shown in Schedule WEE-10.

10
11 **Q. Does your recommendation provide sufficient funds for the WWD to complete all the**
12 **Infrastructure Replacement projects anticipated for the next three fiscal years?**

13 A. Yes, it does. As shown in Schedule WEE-10, WWD’s claim for Infrastructure Replacement
14 funding would result in a surplus of over \$2.5 million by the end of the 2015 fiscal year.
15 My recommendation to reduce funding for this Infrastructure Replacement Fund by
16 \$456,000 annually will simply reduce this surplus from \$2.5 million to approximately \$1.2
17 million. Thus, if my recommendation is adopted, WWD will still have sufficient funding to
18 complete the projects currently projected for the next three fiscal years. In addition, as I
19 noted in my Direct Testimony, it is likely that the WWD will file another base rate case at
20 some point during this time. Therefore, the Commission will have an opportunity at that
21 time to examine the actual annual Infrastructure Replacement spending and to adjust funding

1 for the reserve if such an adjustment is appropriate.

2
3 **2. Rebuttal to Mr. Edge**

4 **Q. Did Mr. Edge make many of the same arguments as Ms. McGauvran?**

5 A. Yes, he did. Many of the arguments made by Mr. Edge in his Rebuttal Testimony were
6 similar to arguments raised by Ms. McGauvran. I have addressed many of these
7 arguments above when I discussed Ms. McGauvran’s testimony. Therefore, I will limit
8 my comments regarding Mr. Edge’s Rebuttal Testimony to issues that I did not address
9 earlier in my Surrebuttal Testimony.

10
11 **Q. Please comment on Mr. Edge’s argument that the Commission cannot amortize the**
12 **hydrant fees due to the WWD from the City over three years because “the City**
13 **recognized the offset in fiscal year 2012.”**

14 A. I have two comments to make in response to Mr. Edge’s statement. First, I am unsure
15 what he means by “...the City recognized the offset in FY 2012....” My
16 recommendation was directed at how the WWD should reflect the offset, not how the
17 City recognizes the offset. The issue is further confused by Ms. McGauvran’s statement
18 on page 6 of her Rebuttal Testimony that “the hydrant charge was booked as a liability in
19 FYE 2012”. The booking of the hydrant charge by the City as a liability would not
20 impact the manner in which collection of this liability was recorded by WWD.

1 If, in spite of their Rebuttal Testimonies, Mr. Edge and Ms. McGauvran are
2 implying that WWD wrote off this receivable in fiscal year 2012, then the question is
3 whether or not the City actually paid WWD for these past due hydrant charges. It is my
4 understanding that no such payment was made, nor did WWD offset the City Services
5 charges paid to the City to reflect collection of these past due hydrant fees. Unless
6 payment was received from the City, or WWD withheld City Services charges from the
7 City, then WWD is still in violation of the Commission's Order in Docket No. 4309,
8 which addressed how these past due hydrant fees should be recovered.

9 Second, even if the receivable related to hydrant fees has been written off by the
10 WWD, the Commission can still order that the receivable be amortized over three years
11 for ratemaking purposes, as I recommended in my Direct Testimony. Ratemaking
12 treatment can and does often differ from the accounting treatment used for financial
13 reporting purposes. Moreover, the Commission has already addressed this issue and
14 stated that WWD should be made whole for this receivable. Thus, the WWD cannot
15 simply write off this receivable without providing some compensation to ratepayers,
16 either by amortizing the receivable over some period of time or by offsetting the
17 receivable against City Services charges owed to the City. Accordingly, I continue to
18 recommend that the Commission reflect a three-year amortization of past due hydrant
19 fees when determining the WWD's revenue requirement, as discussed fully in my Direct
20 Testimony in this case.

1 **Q. Please comment on Mr. Edge's discussion on pages 9-10 of his Rebuttal Testimony**
2 **where he addresses your recommended adjustment to limit the Operating Reserve**
3 **Allowance to 1.5% of operating expenses, including chemical and rate case costs.**

4 A. In his Rebuttal Testimony, Mr. Edge acknowledges that he accepted a similar adjustment
5 relating to the Operating Reserve Allowance in WWD's last base rate case. While he
6 states that he accepted my adjustment in the last case because "WWD was attempting to
7 reach a settlement on the entire case..." the fact is that he accepted my adjustment in that
8 case in his Rebuttal Testimony, not as part of settlement negotiations. Moreover, in
9 accepting my adjustment, he acknowledged that my methodology was the "Commission
10 approved approach."² In this case, Mr. Edge states that a new approach is now warranted
11 because the Commission has adopted two other methodologies for two other Rhode
12 Island utilities. In his Direct Testimony, Mr. Edge provided no discussion of why he was
13 proposing a methodology that differed from the one approved by the Commission for
14 WWD. Nor did he even alert the parties that he was proposing a different methodology
15 in this case. In his Rebuttal Testimony, Mr. Edge again fails to justify why a new
16 methodology is needed for WWD except to state that the methodologies approved for the
17 other two utilities would "result in a higher net operating reserve allowance."
18 Accordingly, WWD has not justified a change in the manner in which its Operating
19 Reserve Allowance is calculated and the Commission should continue to base its
20 Operating Reserve Allowance on 1.5% of operating expenses.

² Response to COMM 1-22, Docket No. 3800.

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Q. Have you reviewed Mr. Edge’s discussion of your Debt Service Reserve adjustment at page 10 of his Rebuttal Testimony?

A. Yes, I have. Mr. Edge acknowledges that my recommended Debt Service Reserve allowance will still result in a surplus by fiscal year 2015, although he states that he feels more “comfortable” with the larger surplus that would result if his recommendation is adopted. As noted in my Direct Testimony, debt service costs are the most predictable component of a utility’s revenue requirement. Therefore, one could argue that no surplus funding was required for this reserve. As noted by Mr. Edge, my recommendation will still result in a surplus of almost 8% by fiscal year 2015, and of even larger surpluses in the preceding years. Given the predictability of debt service costs, and given the tough economic conditions that many ratepayers are currently facing, I recommend that the Commission adopt my recommendation with regard to Debt Service Reserve funding.

C. Conclusion

Q. As a result of WWD’s Rebuttal Testimony, are you recommending any changes to the recommendations made in your Direct Testimony?

A. No, I am not. Based on the analyses discussed in my Direct and Rebuttal Testimonies, I continue to recommend that the Commission approve a rate increase of \$6,544 for WWD. In addition, I recommend that the Commission transfer recovery of chemical costs and rate case costs from restricted accounts to base rates.

1

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

3 A. Yes, it does.