

**Rebuttal Testimony
of
Sheila M. McGauvran**

**Woonsocket Water Division
Docket # 4320**

AUGUST 2012

1 **Q. Good morning Ms. McGauvran. Are you the same Sheila McGauvran that filed direct**
2 **testimony in this docket?**

3 A. Yes.
4

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

6 A. My rebuttal testimony will address some of the issues raised by Ms. Crane in her direct
7 testimony, filed on behalf of the Division of Public Utilities and Carriers (DPUC). Further I will
8 provide my support to the rebuttal testimony of Mr. Edge.
9

10 **Q. How would you like to proceed with your rebuttal testimony?**

11 A. I would like to start by stating to the PUC that I support the positions taken by Mr. Edge in
12 his rebuttal testimony. Next, I also agree with Mr. Mierzwa's testimony and recommendations
13 as applied to our next rate case. I have some specific concerns and objections to Ms. Crane's
14 testimony, which I will discuss next.
15

16 **Response to the Testimony of Ms. Crane**
17

18 **Q. Do you have any overview comments relating to Ms. Crane's testimony that was filed**
19 **on behalf of the DPUC?**

20 A. Yes I do. To begin, I totally disagree with Ms. Crane's conclusion that the Water Division
21 only needs revenues to be increased by \$6,544 to meet rate year expenses. This is almost the
22 same as saying that the Water Division can continue to properly function on rates set several
23 years ago, which is simply not the case.
24

25 **Q. Do you have any specific examples of how a slight increase in rates would adversely**
26 **impact the water utility?**

27 A. Yes, let me provide just one example. We are required to do a carbon filter change at regular
28 intervals, and these are fairly expensive items. In the interim year we were scheduled to do a
29 carbon change (approximately \$300,000) but we didn't have enough revenue, given our existing
30 revenues and sales. Even the interim year level of revenues was inadequate for even this one

1 expense, and the rate year level of revenue will also be inadequate if we do not obtain adequate
2 rate relief from the PUC, which is far in excess of \$6,544. Mr. Edge's pre-filed direct
3 testimony, Schedule WEE-9, shows that even though he has included the carbon change in the
4 rate year, the chemical restricted account will still have a \$136,401 deficit. This is just one
5 example showing that the recommendations of Ms. Crane to disregard almost all of our rate
6 request will seriously harm the utility.

7
8 **Q. Do you have any overall comments on Ms. Crane's reductions in the restricted**
9 **accounts?**

10 A. It is my understanding that the restricted accounts work only if overages in one account in a
11 given year can, to the extent authorized, offset shortfalls in other accounts, and that over time the
12 cash flow works while maintaining the integrity of the funding required for the PUC established
13 restricted accounts. Ms. Crane's reductions in the IFR fund and the Debt Service fund remove
14 this flexibility. Ms. Crane has been too restrictive on an overall basis with her recommendations
15 for decreasing the level of the funding of the restricted accounts. I refer the PUC to Mr. Edge's
16 rebuttal testimony for more detailed support to my opinion.

17
18 **Q. Do you agree that WWD has done a relatively good job of holding down operating**
19 **costs?**

20 A. Yes. WWD has done a very good job holding down costs, but part of the savings has been
21 at the expense of capital projects, like the carbon change I just described. The need to do a
22 carbon change at this time is very important, and without funding in IFR and R&R the money
23 used to do the carbon change will result in the WWD not doing other budgeted tasks, such as
24 road restoration or R&R projects. I strongly believe that delaying projects such as these results
25 in reduced service to the ratepayers.

26
27 **Inflation Items**

28
29 **Q. Do you agree with Ms. Crane that WWD has included rate year adjustments that are**
30 **speculative and do not reflect known and measurable changes to the test year?**

1 A. No. The only two increases over the test year proposed by WWD that were reduced by Ms.
2 Crane were the increases for insurance expense and property and fire tax expense. Her
3 adjustments propose to eliminate the increases related to the difference between the interim year
4 and the rate year. Mr. Edge showed that her adjustments were not justified and I agree with the
5 analysis provided by Mr. Edge.

6
7 **Q. Are there other expense accounts that you would have liked to adjust?**

8 A. Yes. Ms. Crane ignores the many line items that will experience increases that are predicted
9 and uncontrollable. For example, WWD regularly see increases in the cost of chemicals,
10 electricity, heating oil, fuel, asphalt, health care, and many other operating expenses. Good
11 budgeting practice calls for using an evaluation of trends to predict, based on our experience,
12 what these increases will likely be. I believe that failure to address the increases requested by
13 WWD will cause WWD to run out of money and only make it more difficult to operate the utility
14 in fiscally prudent manner.

15
16 **City Service Charges**

17
18 **Q. Ms. McGauvran, do you have any comments relating to City Service charges?**

19 A. Yes. City Service charges have been documented and provided to the Division in response
20 to data requests. It is true that the City does not use time sheets to record the level of effort each
21 employee dedicates to the various divisions. However this is not a valid reason to disqualify all
22 charges for the use of City Staff that support the Water Division.

23
24 **Q. What about the charges associated with the Mayor's office that Ms Crane proposes to
25 eliminate from your rate request?**

26 A. As I understand her testimony, Ms. Crane further argues that the personnel costs associated
27 with the Office of the Mayor and the City Property Expense accounts are fixed costs that would
28 need to be paid regardless of water division business. This opinion completely ignores the facts.
29 The Mayor's office is the highest level to which customers threatened with shut-off for non-
30 payment can go, and they routinely do. Also, the Mayor presents and advocates on behalf of the

1 water division before the Council and at other public meetings. Finally, the City clearly expends
2 staff time, and property expenses to support the activities of the water division, a division of City
3 government (and also a regulated public utility). While the percentage of time dedicated to this
4 effort is estimated, Ms. Crane argues: “Without such documentation, it is impossible to verify
5 that the City Services Charge Expenses do not result in any subsidization of other City services
6 by water utility customers.” The same is true in reverse. The City should not subsidize the
7 WWD and the City has every reason to expect expenses for City offices to be shared and
8 budgeted based on an approximation of the services actually performed. The percentages
9 supplied by the City Finance are not make believe numbers, but are based on historical and
10 reasonable estimates from day-to-day experience. She further argues that regardless of the
11 amount of time and effort spent by the Mayor on WWD activities, the City is required to pay its
12 Mayor and to operate City Hall. Thus, Ms. Crane argues that these costs would be incurred by
13 the City regardless of whether or not it offered municipal water service. Ms. Crane recommends
14 that these two areas of cost be eliminated from WWD’s revenue requirement. Again, misses the
15 point. There can be no dispute that the Mayor, and staff, do provide work on behalf of the
16 WWD, at least part of their time as I outlined above. The question then is what is a fair and just
17 apportionment, for purposes of the WWD budget? Mr. Edge’s approach, explained in his
18 rebuttal testimony, is fair both to the City and to the ratepayers. I agree with his
19 recommendations.

20

21 **Q. Do you have any further response to Ms. Crane’s recommendations for City Property**
22 **Expenses?**

23 A. As for City Property Expenses, the same argument I raise above, that the City should not
24 subsidize the WWD applies. There are 6 employees of WWD who work in City Hall. They
25 occupy a significant space in the building; they use water, sewer, electricity, paper towels, etc.
26 In addition, 15 other employees in City Hall perform services for WWD in finance, personnel,
27 IT, Building Maintenance and Public Works administration, all of which occupy space in City
28 Hall. In my opinion the amount of time spent on WWD activities performing these services
29 should be prorated to the cost of their occupying the building. In fact, I believe that the property
30 expense share charged to WWD should be considerably greater than requested by WWD.

1 Nonetheless, Ms. Crane’s proposal to eliminate this shared expense completely is illogical, since
2 she fully must appreciate that the City Hall Staff perform valuable work for the Water Division
3 as a division of the City Government.

4
5 Also, the argument that these costs would be incurred by the City regardless of whether or not it
6 offered municipal water service is also a fallacy. In fact, the City is continuously looking for
7 ways to save money by consolidating offices. If the WWD employees were not in the building,
8 the City could move other divisions into those spaces saving money on the back end. Also, the
9 City might not need 6 people to collect payments if there were no water bills, they might get by
10 with 4 or 5, so that would free up more room for other division to move into City Hall.

11
12 Additionally, if the City did not provide these services for WWD, the WWD would need to hire
13 numerous additional employees to perform these tasks, and provide workspace to house these
14 individuals 100% of the time. WWD is actually saving money through the current arrangement
15 with City staff.

16
17 **Q. Do you agree with Ms. Crane’s position that “the fact that the WWD had prepaid the**
18 **City Services charges casts further doubt on the argument that these charges are cost-**
19 **based reimbursements for services rendered, and instead suggests that the City Services**
20 **Charges are viewed by both parties as simply a revenue-transfer mechanism to force**
21 **WWD ratepayers to contribute to the City’s General Fund.”**

22 A. No. Her argument is again illogical. In the beginning of the year, and using the annual
23 budget process, the City budgets the City Services charge from WWD as revenue, just as WWD
24 budgets the City Services charge to the City as an expense. This is a proper function of
25 establishing a municipal budget, based on years of experience and careful judgment by City
26 finance, with my input as to the Public Works Department, which includes budgeting for the
27 City’s wastewater and water divisions. The fact that the City collected the entire amount early in
28 the Fiscal Year therefore a reasonable justification for the charge, and is in no way a simple
29 “revenue-transfer mechanism” to hurt ratepayers, as Ms. Crane incorrectly claims.

1 **Q. Do you agree with Ms. Crane's other reduction to the City Service charge allowance?**

2 A. No. Ms. Crane has also made an adjustment to collect the underpayment of hydrant fees
3 over the next three years, by reducing City Service charges. In calculating her offset, she has
4 assumed a three-year amortization period for the amounts owed. Thus, she reduced the City
5 Services Charge Expense by an additional \$90,977 per year. The City Service charge was billed
6 to WWD by the City. It should not be adjusted to reflect underpayment of hydrant fees.
7 Further, as Mr. Edge pointed out, the hydrant charge was booked as a liability in FYE 2012.
8 Therefore it can't be charged again over three years (2013, 2014, and 2015). Yet, that is exactly
9 what Ms. Crane incorrectly proposes.

10
11 **Infrastructure Replacement Fund**

12
13 **Q. Do you agree with Ms. Crane's adjustment to the IFR restricted fund?**

14 A. No. Ms. Crane is missing one important piece from her analysis, and that is FYE June 30,
15 2012. This past year we did a project on Manville Road, replacing a water main, for
16 \$832,766.41. Further, the City has submitted to RICWF requests for financing under the
17 CWSRF program for four projects: \$4.4m in 2013, \$1.175m in 2014, \$9.825m in 2015, \$10.4m
18 in 2020. The amount we end up borrowing for these projects will be less for the first 2 projects,
19 if we have the IFR and R&R funds in place that we have proposed. In addition, we can't forget
20 that the RICWF will require that we have the rates in place to support the borrowing for these
21 new projects, plus 25% debt service reserve.

22
23 These projects are all in addition to the construction of the new water treatment plant. These
24 projects are identified in the WWD's Water Supply System Management Plan and in our
25 application to Rhode Island Clean Water Finance Agency and the Water Resources Board.
26 These Projects are required to be completed.

27
28 **Q. Do you agree with Ms. Crane's position that there is little evidence that WWD will be**
29 **spending additional funds on its Infrastructure Replacement Plan?**

1 A. Absolutely not. I point to my pre-filed direct testimony as evidence that WWD has
2 significant IFR projects in the works and that to reduce the IFR funding is short sighted.
3 As a public water supplier, we must work very closely with the Department of Health, through
4 our approved Water Supply Management Plan, and its implementation of strategies to improve
5 the infrastructure that is used to provide safe and high quality drinking water to our customers.
6 Our original IFR plan was approved by the Department of Health in 1999. Working from that
7 plan the City rehabilitated its source dams, high service area booster pump stations, many of its
8 storage tanks and the major transmission mains in the system. Following our last rate case the
9 City has continued to explore options to address the replacement of the existing treatment plant,
10 and the potential for replacement of the plant with a new facility at a different site. However, the
11 remaining IFR components involve the transmission and distribution system, which required a
12 more thorough evaluation of existing infrastructure with continued funding as we recommend.
13 These transmission and distribution projects must be undertaken regardless of the work required
14 for the new treatment plant, in order to continue to supply the required high level of quality water
15 supplies to our customers.

16
17 As for the Cumberland Interconnection Project (almost ready to bid), while there were some
18 design and approval delays, this project still must be appropriately funded. This is an estimated
19 \$4 million dollar project. Although we recently received a \$2 million grant from RIWRB, we
20 still must finance the other \$2 million. This will be impossible if Ms. Crane's recommendation
21 is implemented.

22
23 **Q. Please summarize your more recent review of the City's transmission and distribution**
24 **system, and an updated IFR Plan since Docket 3800?**

25 A. Woonsocket Water's IFR plan was updated and approved by the Department of Health, as
26 required under state law. This updated plan is described in more detail in CDM's November
27 2007 "Water Distribution System Evaluation" that we have provided to the Division in response
28 to Data Requests. CDM prepared this report in order to assess the condition of the existing
29 water distribution system and its hydraulic capabilities, and to provide further suggestions as our

1 update to the 1999 infrastructure plan and to suggest improvements to improve the City's ability
2 to provide safe and quality water to its customers.

3
4 **Q. Please summarize the improvements to your infrastructure that CDM recommended in
5 this 2007 Report.**

6 A. CDM pointed out that the City's water supply is basically self-contained, meaning that there
7 are no nearby communities with sufficient transmission or supply connections for redundancy or
8 back-up. The City has been working on this problem, to provide interconnections with other
9 nearby communities. For example, as I describe above, we are reviewing plans to bid out the
10 construction of a new interconnection with the Town of Cumberland. And, at CDM's
11 recommendation, the City is also pursuing a possible future connection with the Town of North
12 Smithfield and Lincoln.

13
14 Although one major project (recommended by CDM) was recently completed, (cleaning and
15 lining or replacing approximately 4400 linear feet of existing transmission and distribution
16 piping on Manville Road) it is important that these other transmission and distribution projects
17 continue with the required funding that we have recommended, notwithstanding efforts to
18 construct a new treatment plant. It is extremely imperative that the utility have sufficient funding
19 in place to complete these important public health and safety projects.

20
21 At the funding levels proposed by Ms. Crane, the Water Division will be severely distressed in
22 its ability to continue the required IFR and R&R that this Commission has supported.

23
24 **Q. Does this conclude your testimony?**

25 A. Yes.