

PROVIDENCE WATER SUPPLY BOARD
Docket No. 4406
Responses of the Kent County Water Authority
To Data Requests of the Division of Public Utilities and Carriers
Set I
(September 12, 2013)

DIV: KCWA-1 With regard to his testimony at pages 33-34, please explain Mr. Woodcock's understanding of when Providence Water would be required to file a rate case to fund its IFR costs if his funding allowance of \$20,000,000 was approved.

Response: As indicated on page 35 of my prefiled testimony (line 7), I suggest that Providence Water monitor its IFR spending and revenue, and if it is still on schedule, then an abbreviated filing be considered in 12 – 18 months. This timing is all predicated on the IFR spending keeping up with the fairly aggressive schedule presented by Providence Water in its response to Div 1-31.

My schedule CW-S9C presented the revised cash flow in the restricted IFR account through FY 2015 based on the data provided in Providence Water's filing. The Kent County Water Authority does not have the annual projections beyond FY 2015; however, based on (1) the cost data in Div 1-31 spread in equal annual amounts over the 2016-2020 period, (2) KCWA's proposed IFR funding level, and (3) \$30 million of new bonds at \$6 million per year over the 2016-2020 period, it appears that the restricted IFR fund may have a minor negative balance by June 30, 2016 ***IF*** spending goes as planned. To avoid this minor deficit, Providence Water could file an abbreviated case in mid to late 2015. If spending for the IFR program begins to lag, it is possible that the filing of a new rate case could be deferred longer.

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DIV: KCWA-2 With regard to Mr. Woodcock’s testimony on page 34, lines 15-18, that the \$20,000,000 funding allowance will provide \$21,500,000 of funding for FY 2016, does Mr. Woodcock believe this will meet the FY 2016 IFR funding requirements? Explain the basis for Mr. Woodcock’s position and identify all assumptions regarding Providence Water’s available sources and uses of IFR funds in FY 2016.

Response: The response to Div 1-31 (Providence Water’s IFR Plan), does not provide detailed year-by-year funding estimates for 2016-2020, rather it only provides gross, five year estimates. The filing by Providence Water does not provide any such detail either.

I have used the response to Div 1-31 to estimate the 2016-2020 annual costs by simply dividing the estimated IFR costs by the 5 year period to derive an annual use of funds equal to \$28,039,400. Further, the response to Div 1-31 only shows \$30 million of bond issues for the 2016-2020 period; it is unclear when these would be issued, but over five years it equals \$6 million per year. The additional bond proceeds needed to be added to the \$21.5 million I discussed in my testimony. The following presents the cash flow from my schedule CW-S9C with two additional years added.

| Source of Funds | <u>FY 2013</u> | <u>FY 2014</u> | <u>FY 2015</u> | <u>FY 2016</u> | <u>FY 2017</u> |
|---------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|---------------------------|
| D4061 (effective 4/27/10) | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 | 16,000,000 |
| Add'l funding effective 1/1/14 | - | 2,000,000 | 4,000,000 | 4,000,000 | 4,000,000 |
| New Bonds Estim. | 10,000,000 | 10,000,000 | 10,000,000 | 6,000,000 | 6,000,000 |
| Carryover funds from prior year | <u>3,818,000</u> | <u>2,154,436</u> | <u>1,114,457</u> | <u>1,561,603</u> | <u>(477,797)</u> |
| Total Sources | 29,818,000 | 30,154,436 | 31,114,457 | 27,561,603 | 25,522,203 |
| Total Uses | 27,663,564 | 29,039,979 | 29,552,854 | 28,039,400 | 28,039,400 |
| End of Year Balance | <u>2,154,436</u> | <u>1,114,457</u> | <u>1,561,603</u> | <u>(477,797)</u> | <u>(2,517,197)</u> |

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DIV: KCWA-3 Please state whether Mr. Woodcock believes that it is appropriate to fund IFR costs using line of credit borrowing other than for short periods of time for cash flow purposes. If yes, please explain the basis of his position.

Response: I do NOT believe it is appropriate to fund IFR costs using a line of credit other than for short periods of time for cash flow purposes. My testimony on the \$55 million line of Credit from Century Bank (page 35, lines 16-21), was in regard to the level of available fund balances going into 2016. The purpose of the testimony was to show that in the event that there is a temporary cash flow shortfall in 2016 that the Water Board had approved a \$55,000,000 line of credit that it restricted to use for the IFR fund and that could be used in an emergency if there was a temporary cash flow shortfall in 2016. My expectation would certainly be that Providence Water would monitor its IFR spending and submit an abbreviated filing with a step increase in sufficient time to avoid the use of the \$55,000,000 IFR line of credit. The point of the testimony is that there is the \$55,000,000 line of credit available and accordingly, there is no need to establish and maintain a \$7,500,000 year-end balance as proposed by Providence Water and the Division.

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DIV: KCWA-4 Reference Page 9, lines 14-15, of Mr. Woodcock's testimony. Does Mr. Woodcock agree that when rates are set for an investor-owned utility ("IOU"), past investments are used to set future rates?

Response: I agree that when rates are set for an investor-owned utility ("IOU"), past investments are used to set future rates. However; I do not agree that this has any relevance to this docket.

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DIV: KCWA-5 Does Mr. Woodcock agree that when rate base is determined for purposes of calculating a return on rate base for an investor-owned utility, land investment is typically included in rate base? If no, explain why land investment would be excluded.

Response: KCWA does not believe that the determination of rate base for an investor owned utility for the purposes of calculating a rate of return is relevant to this Docket. Providence Water has not included a return on rate base as an element of its revenue requirements for more than two decades (see Docket 2048). On the other hand, investor owned water utilities in Rhode Island (e.g., United Water Co.) do not include an explicit revenue requirement for Infrastructure Replacement, a Capital Fund, a Western Cranston Fund, an AMR/Meter Replacement Fund, an Equipment Replacement Fund, or any similar revenue and/or debt financed fund as a part of their revenue requirements.

Notwithstanding the lack of relevance, I agree that land is typically included in rate base for an investor-owned utility, and is included in the rate base of United Water Company of Rhode Island.

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DIV: KCWA-6 With respect to Mr. Woodcock's proposed capital cost allocations:

- a) Is Mr. Woodcock aware that in November 1996, a section of PWSB's 102" aqueduct transmission line experienced a catastrophic break?

- b) Is Mr. Woodcock aware of the capital costs associated with repairing that failure? If so, please identify those costs.

Response: a) Yes

b) I could not find the full cost of repairing the failure, but I am aware of an allowance of \$1,000,000 (\$500,000 over two years) for replacement of valves on the 102" line.

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DIV: KCWA-7 Reference page 12, line 8, of Mr. Woodcock’s testimony:

- a) Please provide all evidence relied upon by Mr Woodcock to determine that the service pipe distance between the curb stop and a customer’s premises is 25 feet.

- b) Please explain whether there are any PWSB services serving multiple accounts. Explain how such services were factored into Mr. Woodcock’s LUFW analysis.

Response: a) As shown on Schedule CW-S23A, the 25 foot estimate is for the entire length of the service pipe, not just the “distance between the curb stop and a customer’s premise”. As stated in footnote #8 on page 12 of my direct testimony: “Providence Water could not provide an estimate of the total length, but did estimate 225 miles of service pipe between the main and the curb stop (typically the property line). I have estimated an *additional 55% more pipe (125 miles)* between the curb stop and the customer’s structure. “(emphasis added) My estimate of a total of 25 feet of service pipe between the main and the property owner’s meter assumes the following:

- 1) The water main will, on average, be in the middle of the roadway right-of-way. (If the main is on one side or the other of the right-of-way, buildings on the side closer to the pipe will have shorter connections while buildings on the side farther from the pipe will have longer connections, but on average it would be the same as a pipe in the middle of the right –of-way.)

- 2) The roadway right-of-way averages about 30 feet (15 feet from the center to the property line), thereby accounting for some 210 miles of service pipe (as compared to the 225 miles estimated by Providence Water in KCWA 4-2).

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- 3) From the property line/curb stop, I assumed an additional 10 foot setback to the customer's structure containing the meter.
- b) I do not have any information about services serving multiple accounts, so this was not taken into consideration.

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