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October 17, 2013

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Mrs. Luly Massaro
Commission Clerk
RI Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

RE: Dk 4406 Division; Set 7

Dear Mrs. Massaro:

Enclosed is an original and seven copies of Providence Water's response to data requests from the Division. Providence Water will file Div 7-2 response at a later date.

If you have any questions you can contact me at extension 7217.

Sincerely,

Mary L. Deignan-White
Senior Manager of Regulatory

cc: service list

Providence Water Docket 4406

**Data Requests of the
The Division of Public Utilities and Carriers
Set 7**

DIV 7-1 Please identify PWSB's position with respect to each of the following:

- a. The allocation of IFR costs to fire protection (KCWA pre-filed testimony, page 26, lines 4-6)
- b. The allocation of IFR costs into distribution and all other cost categories (BCWA Russell direct testimony page 16, lines 2-16); and
- c. The allocation of increased bill processing costs (BCWA Russell direct testimony page 18, lines 11-14).

Response:

- a. Providence Water rejects the proposal to alter allocator K1 to shift costs to the fire protection cost component. Given the impact of increased fire protection related work and service orders, and the resultant impact on allocators HM, HMC and HOC, the public fire protection customer class will already receive a significantly higher percentage increase than the overall rate revenue increase. As it is, the public fire protection charge and the Providence only retail fire protection charge would see an increase of more than double the overall rate revenue increase (i.e. 51% versus 20%) While an equitable distribution of costs is always the goal of any cost of service study, the impacts of such a distribution should not be ignored. In fact, it was this very concern (expressed by the Commission) which led to the creation of these alternate factors in the first place. While Providence Water does not disagree with the need to move closer to cost of service based rates going forward, now is not the time to make additional cost shifts to public fire protection.
- b. Providence Water rejects this proposal for the same reasons outlined in witness Harold Smith's rebuttal testimony (p. 23-25). Specifically, that to allocate specific facilities to wholesale or retail customers is unrealistic and would represent a significant deviation from the Commission approved use of allocation factors. The development of factors K1 and K2 takes into account Providence Water's investment in assets which serve wholesale and retail customers. Furthermore, BCWA's proposal is predicated on the theory that mains which solely serve retail customers

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can be reasonably identified. Providence Water does not agree with this assertion (refer to the rebuttal testimony of Paul Gadoury for further details).

- c. Providence Water does not accept BCWA's proposal to allocate none of the costs associated with increased banking fees to wholesale customers. As indicated in Providence Water's response to BCWA 1-4, the increase associated with 63580 relates to an increase in banking fees, for which all customers (wholesale and retail) share some responsibility. As this is a General Administrative Expense, it is appropriately allocated such that the costs are recovered from all customer classes. The issue raised with regard to the allocation of specific O&M expenses is similar to that raised with regard to specific assets. That is, the methodology approved by the Commission and generally accepted by all parties involves the use of allocation factors which allocate general categories of costs (i.e. O&M line items) or classes of assets. To go through the detail within each O&M line item and allocate spending within that line item would be a deviation from the previously accepted practice, and would violate the intent of the allocation factors: to provide a reasonable allocation of categories of costs consistent with the service levels received by the various customer classes. Therefore, Providence Water does not accept BCWA's proposal to allocate none of the costs associated with increased banking fees to wholesale customers.