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PUBLIC UTILITIES COMMISSION

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

Petition of the PROVIDENCE WATER SUPPLY BOARD

Docket No.: 4406

**INTERVENOR CITY OF WARWICK'S POSITION STATEMENT**

Now comes the City of Warwick ("Warwick"), by and through its City Solicitor, and hereby provides this Position Statement in opposition to the Providence Water Supply Board's ("Providence") petition to revise its present rate structure ("Petition")(Assigned Docket No.: 4406). As set forth in the Petition, Providence seeks to obtain revenue increases of some \$14 Million Dollars from a variety of sources. Of particular concern to Warwick is Providence's request to substantially and immediately increase the wholesale water sales rate from \$1,697.21 per million gallons to \$2,253.99 per million gallons<sup>1</sup> – this proposed tariff change represents a nearly 33 percent increase from the present wholesale water sales rate (the "Rate Increase")<sup>2</sup>. As proposed, the Rate Increase will result in Warwick's annual wholesale water purchase expense to increase by more than \$1.8 Million Dollars.<sup>3</sup> The Rate Increase will provide Providence with more than an additional \$5.4 Million Dollars in annual wholesale water sales revenue – nearly 40 percent of the \$14 Million Dollar revenue increase sought in the Petition.<sup>4</sup> This substantial increase in the wholesale water sales rate is occurring all at once. Warwick budgeted just over \$5.5 Million Dollars for bulk water purchases from Providence in Fiscal Year 2014. However, the Rate Increase is proposed to take effect on January 1, 2014 – the middle of the Warwick's fiscal year. This places Warwick in an untenable budget position; internalize the more than \$1.8

<sup>1</sup> See Testimony and Date in Support of the Providence Water Supply Board's Request for General Rate Relief to the Public Utilities Commission, March 29, 2010 (Docket No.: 4406), Schedule C – Proposed Tariffs – Bulk Sales to Public Authorities for Resale.

<sup>2</sup> See HJS-19, page 3 of 3.

<sup>3</sup> See HJS-20.

<sup>4</sup> Id.

Million Dollars in unexpected and unbudgeted expenditures associated with the Rate Increase or adopt a mid-year rate increase to pass through this unexpected additional expense to Warwick's approximately 27,000 water customers. The later action would place consumers in an equally untenable position to absorb an unanticipated expense increase.

The first ground for Warwick's objection is that the Rate Increase includes costs, expenses and budget planning actions, such as operation, capital and regulatory compliance requirements that are not justified or reasonable under the circumstances.<sup>5</sup> For instance, Providence seeks funding of a revised infrastructure replacement program ("IFR") "incorporating a much more aggressive timetable for rehabilitating *unlined cast iron mains*."<sup>6</sup> This request is specifically included due to the entry of a Consent Agreement between Providence and the Department of Health ("DOH") concerning lead abatement and infrastructure replacement.<sup>7</sup> This same Consent Agreement required Providence to submit "a much more aggressive plan and timetable for implementing and conducting a system wide Unidirectional Flushing ("UDF") Program."<sup>8</sup> These two requirements to revise the IFR and UDF Programs account for \$8.5 Million Dollars of the \$14 Million Dollars – roughly more than 60 percent of the sought after new revenue under this Petition. Additional costs contained in the Petition are also derived from compliance with Consent Order requirements – requirements which Providence voluntarily accepted.<sup>9</sup> In fact, Providence admits it had initially planned only to budget about \$2 Million Dollars for IFR but increased that amount to \$8 Million Dollars in response to the Consent Agreement.<sup>10</sup> Providence did not seek input from Warwick or other

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<sup>5</sup> Id. at testimony of Boyce Spinelli, p. 4, lines 9 – 25.

<sup>6</sup> Id. (emphasis added).

<sup>7</sup> Id.

<sup>8</sup> Id.

<sup>9</sup> Id. at testimony of Paul Gadoury, p.3, lines 10 – 14. See also Exhibit PG-1.

<sup>10</sup> Id. at Boyce Spinelli, p. 5, lines 7 – 12.

public authorities involved in bulk water purchases prior to entering the Consent Agreement. Providence also did not inform nor apprise Warwick or other public authorities involved in bulk water purchases of the dramatic and substantial economic consequences of their decision to voluntarily execute the Consent Agreement. However, now Providence seeks Warwick and the other public authorities involved in bulk water purchases to fund their Consent Agreement requirements and other internal expenses largely unrelated to wholesale water purchases.

Providence has failed to show a nexus between their planned budgetary expenditures to comply with the terms of the DOH Consent Agreement and the sale of bulk water to Warwick or public authorities. Facially, the Rate Increase appears to have been devised as a decision of convenience and opportunity as a means to externalize their internal expenses through bulk water sales to Warwick and other public authorities. Based on the revenue allocations set forth in the Petition, wholesale water will account for 30 percent of total revenue generated under the Petition.<sup>11</sup> Without contesting the legitimacy of the planned budgetary expenses set forth in the Petition, Warwick asserts that it is not fair, equitable nor prudent for the PUC to approve Providence's externalization of its internal costs without Providence properly demonstrating a nexus between their increased internal costs and the need for the Rate Increase to wholesale purchasers like Warwick. Warwick asserts that lacking such a nexus, the PUC should deny the Rate Increase.

Warwick also asserts that funding the IFR and UDF Programs on a cash basis makes no economic sense and unfairly and imprudently requires the immediate raising of cash through rate increases to fund long term capital improvements. Use of installment financing for IFR and UDF Programs can help to "smooth" that expense and better match the expenditure to the life-expectancy of the capital improvement. This represents a more economically sensible approach

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<sup>11</sup> See HJS-17.

to funding a multi-year capital investment requirement. Municipalities customarily use long-term capital investment financing to soften the immediate cost to taxpayers and yet provide improved public facilities. While financing costs are associated with this approach, the long term benefits and lessened expenditure impact on rate payers are considerable inducements to justify this approach.

The final point of contention is the proposed date to implement the Rate Increase. The Rate Increase should not be implemented mid-fiscal year from a municipal budgetary standpoint. This proposed action will cause significant economic hardship on Warwick. Warwick will need to decide whether the Rate Increase will be internalized and absorbed somehow in the present fiscal year's budget or externalized on to Warwick's water consumers. This creates an untenable dilemma that is patently unfair to Warwick and other public authorities involved in bulk water purchases from Providence. The proposed implementation date of January 1<sup>st</sup> for the Rate Increase is against prudent public budgeting practices and unfairly forces Warwick to make public policy budget decisions – whether to internalize or externalize the Rate Increase – outside the municipality's customary budget planning cycle. It essentially presents Warwick a problem offering two possibilities, neither of which is practically acceptable.

For these reasons Warwick hereby requests the PUC to deny the requested relief sought by Providence in their Petition, and in particular, the Rate Increase.

SIGNATURE PAGE TO FOLLOW

Respectfully submitted,

CITY OF WARWICK,  
By and Through Its Attorney,

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Dated: August 23, 2013

**CERTIFICATION**

I, the undersigned, do hereby certify that I did forward a copy of the within Warwick's Position Statement via e-mail to all on the following service list on the 23<sup>rd</sup> day of August, 2013.

**Docket No. 4406 - Providence Water Supply Board – General Rate Filing  
Service List updated 6/25/13**

**\*Requested to receive hard copy of all data responses.**

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