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Via FedEx

Ms. Luly Massaro, Clerk  
Rhode Island Public Utilities Commission  
89 Jefferson Boulevard  
Warwick, RI 02888

January 8, 2014

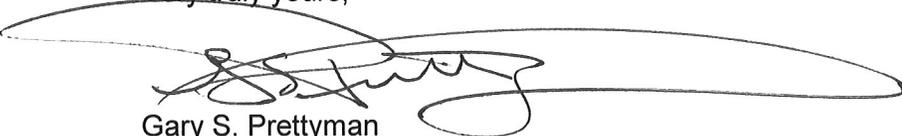
**SUBJECT: United Water Rhode Island Inc.  
Docket No. 4434**

Dear Ms. Massaro:

Enclosed please find an original and nine (9) copies of United Water Rhode Island Inc.'s responses to the Towns of South Kingstown and Narragansett and the Union Fire District to United Water Rhode Island.

Specifically Towns 1-1 through Towns 1-17.

Very truly yours,

  
Gary S. Prettyman  
*Senior Director - Regulatory Business*

**CERTIFICATION**

I hereby certify that on January 8, 2014, I sent a copy of the within to all parties set forth on the attached Service List by electronic mail and copies to Luly Massaro, Commission Clerk, by electronic mail and FedEx.

<b>Parties/Address</b>	<b>E-mail Distribution</b>	<b>Phone</b>
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Towns 1-1: Per page 8 of Mr. Ugboaja's testimony he indicates a complete Class Cost of Service Study was conducted approximately two years ago (Docket 4255) and that its customer base has not materially change as the reason for proposing an across-the-board increase. Referring to page 10 of the Commission Order of Docket 4255, it quotes Mr. Ugboaja as stating that it was United Water RI's intention to gradually phase-in rates over time to reflect the true cost of service. Is United Water RI planning to eliminate or defer the phasing-in of these rates?

RESPONSE: Mr. Ugboaja's direct testimony in Docket 4255 (page 11, lines 3-17, and page 12, lines 1-2) merely referred to the proposed recommendations of Mr. Woodcock in that Docket. This is clearly stated in the Commissions Oder beginning on page 9 (copy attached).

" ... and the proposed changes recommended by Mr. Woodcock based on findings in the Class Cost of Service ("CCOS") study that he prepared."

In Mr. Woodcock's Docket 4255 testimony he stated that he prepared a CCOS for United in 1999 (Docket 2873). (See Page 13, lines 1-11, copy attached). That study indicated that, among other things, public fire protection should "more than triple." Thus, the parties in Docket 4255 agreed to a "phase-in of some increases." For instance, the parties set the public fire hydrant charges at "\$65 per quarter (\$230/year) rather than the cost of service based charges of nearly \$200 per quarter (\$785/year). In addition, service charges for 5/8 inch meters were set at \$17.26/quarter rather than the cost of service based charge of \$25/quarter.

When Mr. Woodcock prepared a revised CCOS in Docket 4255, it once again resulted in significant increases in several categories, including public fire hydrants. Attached is Ex.5 (Woodcock) Sch 9 from Docket 4255 which details the then present rates, CCOS based rates and United's proposed rates. Among Mr. Woodcock's proposals were the following:

1. Public fire – CCOS based rates would increase from \$65/qtr to \$245/qtr (276.9% increase). Thus United proposed an increase to \$130/quarter. (100%)
2. Service charge 5/8" – CCOS based rates would increase from \$17.26/quarter to \$36.26/quarter (110%). Thus, United proposed an increase to \$25.62.(48.4%).
3. Private fire – would increase from \$21/quarter to \$45/quarter. Thus, United proposed an increase to \$22 (4.8%).

However, as can be seen in Woodcock Schedule 9, there was no proposal to phase in increase for the sales for resale class.

Whether to phase-in rates to true cost of service levels depends upon the circumstances of each rate case. As set forth above, the largest increase resulting from true cost of service based rates would be to public fire hydrants.

Prepared by: Prettyman

Mr. Ugboaja asserted that the modest increase in customer growth is tempered by the lower consumption volumes. He described the fire protection services as 187 fire service lines and 658 public fire hydrants that bring in \$252,368 of revenue. He stated that since no new developments are planned to be constructed for the rate year, United Water RI projected the same number of hydrants and service lines as its historic test year. He identified certain adjustments made to miscellaneous revenues, turn on/off fees estimated to be approximately \$6292 during the rate year, a water quality protection charge which is a statutorily mandated surcharge estimated to be \$13,880 for the rate year, tank truck sales normalized using a five year average of \$13,032 and miscellaneous fees totaling \$3,098 for meter test charges, returned checks and fees from the Point Judith Country Club.<sup>14</sup>

Mr. Ugboaja alleged that the current tariff does not provide sufficient revenue for the Company to cover the costs of serving its customers and proposed the changes recommended by Mr. Woodcock based on his findings in the Class Cost of Service (“CCOS”) study that he prepared. He described the increases proposed to the three components of service: a) service charges which are proposed to increase between 35 percent and 108 percent depending on meter size, b) volumetric rates which include inclining block rates that will increase by approximately 29 percent for the first block and approximately 21 percent in its second block for residential customers and will increase by 69 percent for non-residential customers and wholesale rates which are proposed to increase by 26 percent to reflect the full cost of service and c) fire service which is

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<sup>14</sup> *Id.* at 6-8.

proposed to increase by 100 percent for public service and between 4.8 percent and 103 percent for private service depending on the service line.<sup>15</sup>

While the rates do not reflect the full cost of service for each customer class, Mr. Ugboaja, stated that it was United Water RI's intention to gradually phase-in rates over time to reflect the true cost of service. He offered that local economic and political concerns, competitive pressures and the need to avoid rate shock are issues to be examined when determining final rates for utilities in addition to the CCOS. He asserted that the proposed rates are fair and balance the interests of all customers served while at the same time encouraging conservation by sending appropriate price signals to consumers and allowing United Water RI to provide quality and reliable service to its customers.<sup>16</sup>

### **C. Pauline M. Ahern**

Pauline M. Ahern, a Principal with AUS Consultants, provided testimony regarding the rate of return, the cost of equity, the cost long-term debt and the capital structure. She recommended a rate of return of 8.74 percent based on the consolidated capital structure at March 31, 2011 of UWW which consists of 47.53 percent long-term debt and 52.47 percent common equity at a long term debt cost of 6.15 percent and her recommended cost of equity of 11.10 percent. Ms. Ahern used a proxy group to arrive at her recommended cost of equity, because United Water RI is not publicly traded and thus a market-based cost of common equity could not be determined directly from the Company. Noting that no proxy group can be assembled that will have identical characteristics of United Water RI, she asserted that the proxy group results could be

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<sup>15</sup> *Id.* at 9-11.

<sup>16</sup> *Id.* at 11-12.

1 **Q: You discussed a phase-in of the cost of service based rates in the last docket.**

2 **Please discuss this further.**

3 A: In Docket 2873 (in 1999), I prepared a cost of service study for the Company. That  
4 study indicated that the public fire protection charges should more than triple and  
5 that the service charges for smaller meters should be increased significantly more  
6 than the overall increase of some 23% that was requested. The parties agreed to a  
7 phase-in of some increases. The public fire hydrant charges were set at \$65 per  
8 quarter (\$230/year) rather than the cost of service based charges of nearly \$200 per  
9 quarter (\$785/year). As with the public fire service charges, the service charges for  
10 5/8 inch meters were also reduced from the cost based amounts of some \$25 per  
11 quarter to \$17.26 per quarter.

12

13 **Q: Is the company proposing to adopt the cost based rates in this docket?**

14 A: No it is not. Under the cost of service based rates, the public fire charges would in-  
15 crease from the current \$65 per quarter discussed above to some \$245 per quarter.  
16 Given the increases in costs over the past decade, the cost based \$245 per hydrant  
17 is in line with the \$200 per quarter derived in Docket 2873. However, this would  
18 nearly quadruple the rate for public fire service. I have suggested an increase that  
19 is just over two times the overall increase in revenues -- a doubling of the public fire  
20 service charges. This is about half the cost based increase and will move the fire  
21 charges towards the cost based rates. To accomplish this, I have recommended  
22 shifting \$400,000 from the fire protection charges and moving it to the retail base

COMPARISON OF CURRENT AND COST BASED RATES

		Current	Cost of Service Based Rates	% Change From Current	Proposed Rates	% Change From Current
<u>Metered Rates (\$/hundred cubic feet)</u>						
<i>Residential</i>						
	1st 24 ccf/qurt	\$1.945	\$1.623	-16.6%	\$2.508	28.9%
	Over 24 ccf/qurt	\$2.592	\$2.246	-13.3%	\$3.131	20.8%
<i>Non-Residential</i>						
	all use	\$1.415	\$1.512	6.9%	\$2.397	69.4%
<i>Sales for Resale</i>						
	per 100 cu ft	\$0.711	\$0.895	25.9%	\$0.895	25.9%
	per 1000 gal	\$0.950	\$1.197	26.0%	\$1.197	26.0%
<u>Service Charges</u>						
<i>Quarterly</i>						
	5/8	\$17.26	\$ 36.26	110.1%	\$ 25.62	48.4%
	3/4	\$20.36	\$ 38.13	87.3%	\$ 27.49	35.0%
	1	\$26.63	\$ 51.22	92.3%	\$ 40.58	52.4%
	1 1/2	\$40.34	\$ 79.27	96.5%	\$ 68.63	70.1%
	2	\$53.58	\$103.58	93.3%	\$ 92.94	73.5%
	3	\$75.62	\$135.38	79.0%	\$124.73	64.9%
	4	\$112.53	\$197.09	75.1%	\$186.45	65.7%
	6	\$198.16	\$333.61	68.4%	\$322.97	63.0%
	8 & up	\$269.73	\$571.13	111.7%	\$560.48	107.8%
<i>Monthly</i>						
	5/8	\$12.58	\$ 23.79	89.1%	\$ 13.15	4.5%
	3/4	\$13.08	\$ 24.41	86.6%	\$ 13.77	5.3%
	1	\$15.17	\$ 28.78	89.7%	\$ 18.14	19.6%
	1 1/2	\$19.74	\$ 38.13	93.2%	\$ 27.49	39.3%
	2	\$24.15	\$ 46.23	91.4%	\$ 35.59	47.4%
	3	\$31.50	\$ 56.83	80.4%	\$ 46.19	46.6%
	4	\$43.80	\$ 77.40	76.7%	\$ 66.76	52.4%
	6	\$72.35	\$122.91	69.9%	\$112.27	55.2%
	8 & up	\$89.91	\$202.08	124.8%	\$191.44	112.9%
<u>Fire Service</u>						
<i>Public</i>						
	/hydrant/qurt	\$65.00	\$ 245.00	276.9%	\$ 130.00	100.0%
	/hydrant/semi-ann.	\$130.00	\$ 490.00	276.9%	\$ 260.00	100.0%
<i>Private (per quarter)</i>						
	2.5	\$21.00	\$ 45.00	114.3%	\$ 22.00	4.8%
	3	\$27.00	\$ 61.00	125.9%	\$ 32.00	18.5%
	4	\$43.00	\$110.00	155.8%	\$ 60.00	39.5%
	6	\$100.00	\$287.00	187.0%	\$161.00	61.0%
	8	\$200.00	\$592.00	196.0%	\$335.00	67.5%
	10	\$350.00	\$1,051.00	200.3%	\$597.00	70.6%
	12	\$550.00	\$1,688.00	206.9%	\$960.00	74.5%
	16	\$1,005.00	\$3,577.00	255.9%	\$2,039.00	102.9%

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Towns 1-2: If United Water RI intends to eliminate phasing-in these rates, does United Water RI have any supporting documentation supporting this elimination?

RESPONSE: Please see response to Town-1

Prepared by: Prettyman

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Towns 1-3: What remains to be phased-in with regards to with this phase-in of rates for each customer class?

RESPONSE: Since an updated cost of service study was not performed in this case, it cannot be accurately determined how much of any phase-in would be needed. However as stated in response to Towns-1, the only phase-in that occurred was with fire service and small customer charges.

Prepared by: Prettyman

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Towns 1-4: With regards to the Class Cost of Service Study from Docket 4255, given that the study allocates between general water (base, max day, max hour), fire service and customer service nor is there an special allocation of general water excluding wholesale items, how has that study properly segregated assets which provide no or only a marginal benefit to the wholesale customers?

RESPONSE: The cost of service study performed in the last rate case Docket 4255 did not perform a detailed analysis of which facilities serve which customer. However, the study did allocate the expenses and rate base to base, max day and max, hour. In doing so and no max hour was allocated to resale, it indirectly considers that no peaking facilities are needed for the resale customers.

Prepared by: Prettyman

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Towns 1-5: Please provide a description of how the two wholesale customers receive their water from the United Water RI? Please provide a narrative of that water feed from source to the wholesale connection. Please provide a summary map of the service area detailing retail and wholesale service areas and the connection points between the two.

RESPONSE: The Narragansett Point Judith System starts at the source of supply with the main amount of flow following Tuckertown Rd to Post Rd to Main Street to Kenyon Avenue and through the new main replacement which was recently done on Christopher Street, Normandy Rd, Salt Pond Rd to Woodruff Avenue then to Point Judith Road to the interconnection.

The Narragansett North End connection would start at the source of supply through Tuckertown Rd, Post Road, thru Main Street to Strathmore St to Wanda Street to Boston Neck Rd up Boston Neck Rd to the interconnection.

The South Kingstown South Shore System starts at source of supply down Tuckertown Rd to Post Rd to Route #1 to the interconnection.

The Middlebridge system starts at source of supply down Tuckertown Rd, Post Rd to South Rd down Curtis Corner Rd Saugatucket Rd to Torrey Rd to interconnection.

Since the company had a Vulnerability Analysis done it has been following the studies recommendation that system maps should not be out where the public would have access to. If the Division, Commission or interveners wish to see the system map it would be available at our general office site at 17 Arnold St in Wakefield, RI.

Prepared by: Knox

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Towns 1-6: Please provide a detail listing of Major Pumps and their structures which are summarized in accounts 321 and 325 of Exhibit 4 of Mr. Michaelson's Schedule 2. For each pump, please provide the basis for the percentages assigned to retail and to wholesale or the basis for why each pump should be allocated to both retail and wholesale?

RESPONSE: Below is a listing of pumps and booster stations as requested.  
Since the cost of service study prepared in Docket 4255 was not prepared on an asset by asset basis, the requested percentage cannot be provided.

Prepared by: Michaelson/McEvoy

Account 321. Dollars are based on 12/31/2012 plant account balance:

Saugatuck Underground PS Total \$526,301.32  
Precast Underground Booster Station: \$526,301.32

Strathmore Booster Station/Boston Neck Total \$ 16,025.00

Tuckertown Well Field Booster Station \$84,941.60  
Station: \$63,865.59  
Piping for station \$17,675.42  
Electrical work \$2,772.59  
External facilities \$628.00

Howland Well Field Booster Station \$52,044.67  
Station: \$39,579.26  
Piping for station \$8,990.15  
Electrical work \$2,212.26  
External facilities \$1,263.00

Total Plant account 321 as of 12/31/12: \$679,312.59

Account 325. Dollars are based on 12/31/2012 plant account balance:  
Strathmore Booster Station/Boston Neck \$ 63,186.97

Pumps/Motor	\$ 48,846.62
Electrical/Control Panel:	\$ 14,340.35

Saugatuck Booster Station Total \$ 39,424.40  
Pumps/Motor: \$ 39,424.40

Tuckertown Well Field \$ 845,054.66

Pumps/Motor:	\$ 194,167.42
Electrical/Control Panel:	\$ 533,080.97
VFD:	\$12,847.35
Generator:	\$104,958.92

Howland Well Field \$498,069.79

Pumps/Motor:	\$ 177,062.24
Electrical/Control Panel:	\$ 155,076.33
VFD:	\$59,505.22
Generator:	\$106,426.00

Total Plant account 325 as of 12/31/12: 1,445,735.82

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Towns 1-7: Please provide a detail listing of Major Distribution Standpipes and Reservoirs which is summarized in account 342 of Exhibit 4 of Mr. Michaelson's Schedule 2. For each Standpipes and Reservoirs, please provide the basis for the percentages assigned to retail and to wholesale or the basis for why each should be allocated to both retail and wholesale?

RESPONSE: Below is a listing of standpipes and reservoirs as requested.  
Since the cost of service study prepared in Docket 4255 was not prepared on an asset by asset basis, the requested percentage cannot be provided.

Account 342. Dollars are based on 12/31/2013 plant account balance.

Tower Hill Tank:	\$3,367,067.36
Boston Neck Road:	\$161,172.25
Sherman Tank:	\$153,746.00
Howland Clearwell:	\$483,519.61
Tuckertown Clearwell:	\$133,539.00

Total:	\$4,299,044.22
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Total projected in Exhibit 4: \$4,319,855.00

Prepared by: Michaelson/McEvoy

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Towns 1-8: Please provide a summary of the length of mains and services by diameter size as of December 2013. Please list the total feet per size as well as the inch-miles.

**RESPONSE:**

The below table shows the total feet per size and inch-miles for the water mains for United Water RI. Please note that the Company has not computerized the service records yet and only maintains service information manually. Therefore providing an accurate listing of service length by size isn't possible at this time

Transmission and Distribution Mains		
United Water Rhode Island		
Size	length in use at the end 2013 (ft)	Inch Miles
2"	12,813	4.85
3"	804	0.46
4"	29,810	22.58
6"	210,284	238.96
8"	182,429	276.41
10"	6,842	12.96
12"	134,592	305.89
16"	16,446	49.84
<b>Grand Total</b>	<b>594,019</b>	

Prepared by: McEvoy

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Towns 1-9: Please provide any changes to the summary of the length of mains and services by diameter size in the previous request for 2014 additions listed in account 343 of Exhibit 4 of Mr. Michaelson's Schedule 2.

**RESPONSE:**

In 2014, the Company plans to complete one water main replacement project and potentially one new development. The initial plan was to replace the water lines in Pond Street. However an engineering evaluation determined that the water main on Robinson/Rockland/Rodman was a higher priority with regard to replacement. The revised project will install 2,762' of 8" water main to replace 2" and 4" water main. In addition 52 services are planned to be replaced. The work associated with the water main will become plant account 343 and the service replacement will become plant account 345. The costs for this project are consistent with the water main replacement on Pond Street and the revised account balances are expected to be consistent with the projected 12/31/14 account balances.

Prepared by: McEvoy

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Towns 1-10: Does United Water RI still generally consider mains 12" and greater to be transmission pipes as it asserted in the response to Division 1-4 of Docket 4255?

**RESPONSE:**

United Water RI does generally consider water mains 12" and greater to be transmission mains as previously asserted. The Company may treat a water main that is 12" or larger as a distribution main if based on results from the hydraulic model, the line can carry both domestic and fire flow and deliver the necessary volumes to and meet the required system pressures and flows. By allowing water lines that may be considered transmission only to be used for distribution, the Company is reducing the overall costs to our customers because the water lines serve a dual purpose and one water line can be installed and maintained instead of two lines.

Prepared by: McEvoy

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Towns 1-11: Regarding the amortization of rate case expense, please provided the basis for using a two year period when the parties agreed to a four year period in Docket 4255? If United Water RI is planning to file again within two year what is causing the need for that filing? Is it only for the Sherman Hill Project or are there other factors?

RESPONSE: The request for a two year amortization in this rate case is directly related to the estimated time between this rate case and the next rate case. The primary driver in the next rate case is the Sherman Hill tank.

Prepared by: Prettyman

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Towns 1- 12 What is the projected cost of the Sherman Hill Tank project anticipated to be completed in 2015?

**RESPONSE:**

The preliminary engineering estimate for the Sherman Hill Tank is \$3.25M. The design hasn't been completed for the tank so all cost estimates are preliminary based only on engineering estimates.

Prepared by: McEvoy

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Towns 1-13: Referring to page 4 of Ms. McEvoy testimony, how much of weight was given for the consideration of converting the Boston Neck Road distribution main (under 12") to a 12" transmission main for improving fire flow vs. transmission?

**RESPONSE:**

The Boston Neck water main design was completed with the assistance of the hydraulic model. Based on the model results, it was determined that the existing 4" and 8" water lines should be replaced with a 12" water line. The new 12" water line would provide the required transmission for the system and would replace the older lines that were providing service to the area.

Prepared by: McEvoy

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Towns 1-14: Please explain the benefit the wholesale customers receive from the Boston Neck Road distribution main project?

RESPONSE: Previous to the Boston Neck Rd replacement project, the majority of the water to feed the Narragansett North End connection came from our Tower Hill Tank and went down Torrey Rd. This created a situation where especially during seasonal months it was difficult to keep an adequate amount of water in our Tower Hill Tank to maintain good operating pressures and have adequate water available for a major fire. When the Boston Neck Replacement was done part of the project was to install a flow control valve on Middlebridge Rd to reduce the flow that would be coming from our Tower Hill Tank and the flow of water was revised to come through the Narragansett Pier area up Boston Neck Rd to meet the Narragansett North end wholesale connection demand as well benefitting UWRI customers in that area, this provided an increase in flows and more reliable service to that area.(Please see S. Knox #5 response)

Prepared by: Knox

**United Water Rhode Island, Inc. Application to Change Rates**  
**Docket 4434**  
**First Data Request of the Towns of South Kingstown and Narragansett**  
**and the Union Fire District to United Water RI**

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Towns 1-15: Please explain the benefit the wholesale customers receive from the Kenyan Ave water main project?

RESPONSE: The Kenyon Avenue Replacement allows for a more direct flow of water to the Pt Judith Wholesale connection as well as to UWRI South End customers along Ocean Rd. This replacement reduced a couple of dead end mains and increased the size of others and has greatly improved wholesale service, domestic service as well as fire flows.(See S. Knox #5 response)

Prepared by: Knox

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Towns 1-16: Please explain the benefit the retail and wholesale customers receive from the Pond Ave water main project since Ms. McEvoy testimony on page 5 explains the reason for this project as to improve fire flow in the area?

RESPONSE: Currently due to the size of main and the fact that it was installed in the early 1900's it has become tuberculated and flows are not what the UWRI would like to see. Currently whenever a hydrant is used for either seasonal flushing or due to a fire those customers downstream of the hydrant have little or no water. Replacing this main will result in improved fire flows as well as improvement in customer service.

Prepared by: Knox

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Towns 1-17: Please provide the cost of the pipe being replaced on the Pond Ave water main project.

**RESPONSE:**

The Company initially planned to replace the water lines in Pond Street. However an engineering evaluation determined that the water main on Robinson/Rockland/Rodman was a higher priority with regard to replacement. For this project, the engineer's estimate to the work is \$610,000. Please note that this cost is based on an engineer's estimate and actual bid prices have not been received at this time.

Prepared by: McEvoy