

# Memorandum

**To: L. Massaro  
Commission Clerk**

**From: Alberico Mancini  
Division of Public Utilities & Carriers**

**Date: 12/8/2015**

**Re: Narragansett Bay Commission – Notice of Change to Terms and Conditions:  
Docket 4588**

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On November 13, 2015 the Narragansett Bay Commission (NBC) filed with the Commission *Proposed changes to its Terms and Conditions of Service* pursuant to Rule 1.9(d) of the Rhode Island Public Utilities Commission's Rules of Practice and Procedure.

Included in the filing are copies of the existing terms and conditions, the "marked up" version of the proposed terms and conditions, and the "clean" version of the proposed terms and conditions.

The proposed changes are in response to a request from the Division of Public Utilities and Carriers regarding NBC's abatement calculation. The abatement calculation is only applicable to those customers who have installed an abatement meter that measures the amount of water that does not enter the sewer system. There are approximately 1,700 abatement customers. Over the past several years, the Division received inquiries from NBC customers regarding the abatement adjustment methodology. After additional review, the Division concluded that the current abatement adjustment should be modified. NBC agreed with that assessment and has therefore made the tariff advice filing.

## **Background**

NBC residential customer bills are presently based on a two part rate structure consisting of a flat fee and a consumption rate per hcf (hundred cubic feet) which is applied to 100% of their billed water consumption. Prior to this rate structure, NBC's tariff included a 200 gallon per day allowance per dwelling unit before any consumption was charged.

In 1995, as part of Docket 2216, the Commission eliminated the daily usage allowance and considered establishing a consumption rate that would only be charged on 85% of a customer's total billed water consumption versus 100% of the total water consumption. The rationale behind this is the assumption that 15% of a typical customer's water use is for outside use and never enters the sewer system. Billing 85% of the consumption would have created a revenue shortfall absent a corresponding increase in the billed rate to make up for the lower billable units. For example, let's assume that NBC's revenue requirement was \$1,000 and there were 1,000 billable units at \$1.00/unit. If 100% of the units are billed, then the revenue requirement is met but if you bill only 85% of the units, the rate per unit

would have to be increased to \$1.1765 (\$1.00/.85) in order to meet the revenue requirement. The Commission decided that rather than bill for fewer units at a higher rate, that consumption should be billed at 100% of total billed water usage at the lower rate. The assumption that 15% of billed water consumption does not enter the sewer system still exists and is included in the abatement calculation.

NBC's abatement program was designed to allow those customers who discharge a significantly lesser amount of their water consumption into the sewer system to qualify for a bill reduction. These customers must first have an abatement meter installed (at their own expense) in order to register water use that does not enter the sewer system and must have the installation inspected and approved by NBC. The abatement meter registers all outside water use that does not enter the sewer system.

NBC's current abatement methodology calculates an abatement percentage by dividing the amount of water not entering the sewer system (abatement meter) by the total water consumption. This abatement percentage is then reduced by the assumed 15% not entering the sewer system that was originally included in the rate. The final abatement percentage is subtracted from 100% of the total consumption to determine the billable consumption amount. For example, assume total consumption is 100 hcf (hundred cubic feet) and the abatement consumption of 50 hcf. The percentage of water not returning to the sewer is 50%. The abatement percentage would then be 35% ( $50\% - 15\% = 35\%$ ). The customer would then be billed for 65% ( $100\% - 35\% = 65\%$ ) or 65 hcf.

NBC's current abatement calculation is flawed in that calculating the exact amount of consumption not entering the sewer system, reducing that by an additional 15% and then billing the difference does not reflect the appropriate amount of billable consumption nor the resulting actual costs per unit. There are two ways to correct the abatement calculation. The first would be to remove the assumed 15% from the rate and increase the rate to reflect 85% of the consumption or to increase the actual consumption returning to the sewer system to compensate for the reduced rate created by the assumed 15% not entering the sewer system. The Division believes that increasing the abatement consumption is a better approach to modifying the abatement calculation. The new calculation would simply subtract the abatement water consumption from the total consumption and divide by 85% to arrive at the billable consumption. This is what NBC has done in its proposed change to the abatement calculation in its revised terms and conditions.

Although the abatement methodology can be a somewhat confusing concept for many customers to understand, the Division believes that this modification is a more accurate reflection of what abatement customers should be paying and is in the best interest for all abatement customers.

After review, the Division recommends that the Commission approve NBC's Terms and Conditions as filed on November 13, 2015.

Cc: Thomas Ahern,  
Administrator, Division of Public Utilities and Carriers