

**BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND**

**CITY OF NEWPORT ) DOCKET NO. 4595**

**SURREBUTTAL TESTIMONY**

**OF**

**JEROME D. MIERZWA**

**ON BEHALF OF THE  
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

**June 30, 2016**

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**EXETER**

**ASSOCIATES, INC.**

10480 Little Patuxent Parkway, Suite 300  
Columbia, Maryland 21044

BEFORE THE  
PUBLIC UTILITIES COMMISSION  
OF RHODE ISLAND

CITY OF NEWPORT ) DOCKET NO. 4595

SURREBUTTAL TESTIMONY OF JEROME D. MIERZWA

**I. INTRODUCTION**

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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Jerome D. Mierzwa. I am a principal and a Vice President of Exeter Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. HAVE YOU PREVIOUSLY PRESENTED TESTIMONY IN THIS PROCEEDING?

A. Yes. My direct testimony was submitted on April 14, 2016.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to certain cost allocation and rate design issues raised in the direct testimony of Brian C. Collins on behalf of the Department of the Navy; the direct testimony of Mr. Christopher P.N. Woodcock on behalf of the Portsmouth Water and Fire Department (“PWFD”); and the rebuttal testimony of Harold J. Smith presented on behalf of the City of Newport-Water Division (“Newport”).

1 **Summary of Division Direct Testimony**

2 Q. PLEASE SUMMARIZE THE RECOMMENDATIONS PRESENTED IN  
3 YOUR DIRECT TESTIMONY.

4 A. With one exception, I generally found Newport's class cost of service study  
5 ("CCOSS") to be reasonable. The exception concerned the allocation of water  
6 treatment plant capital costs. Newport had proposed to allocate water treatment plant  
7 capital costs based on the capacity of the plant reserved on behalf of each of its  
8 wholesale customers. I found this is unreasonable and recommend that Newport's  
9 CCOSS be modified to reflect an allocation of water treatment capital costs utilizing  
10 Newport's historic practice of allocating these costs based on the base-extra capacity  
11 method.

12 In my direct testimony I also recommended that to provide for gradualism,  
13 retail volumetric rates should remain unchanged, and that the increase in revenues  
14 generated above the indicated cost of service of retail customers be proportionately  
15 allocated to reduce the volumetric rates of Newport's wholesale customers.

16 **Department of Navy Testimony**

17 Q. WHAT DID MR. COLLINS RECOMMEND IN HIS DIRECT  
18 TESTIMONY?

19 A. Mr. Collins noted that the maximum day factor used by Newport in its CCOSS for the  
20 Navy was not reflective of normalized usage because it included the impact of a main  
21 break. Mr. Collins recommended no adjustment in this proceeding to the Navy's  
22 maximum day factor to account for the main break, but recommended that Newport  
23 account for the impact of main breaks in future cases. Mr. Collins also noted that  
24 Newport was proposing a 26 percent increase in the Navy's rates. To promote

1 gradualism, Mr. Collins recommended that no customer class receive an increase of  
2 more than 1.5 times the system average rate increase.

3 Q. WHAT WAS NEWPORT'S RESPONSE TO MR. COLLIN'S  
4 TESTIMONY?

5 A. In response to Mr. Collins testimony, Mr. Smith revised the Navy's maximum day  
6 factor to eliminate the impact of the main break. With respect to limiting the Navy's  
7 increase to 1.5 times the system average increase, Mr. Smith opposes placing an  
8 artificial limit on the increase for the various customer classes.

9 Q. DO YOU AGREE WITH NEWPORT'S PROPOSED REVISION TO THE  
10 NAVY'S MAXIMUM DAY FACTOR?

11 A. Yes, I do.

12 Q. DO YOU AGREE WITH MR. SMITH THAT THE NAVY'S INCREASE  
13 SHOULD NOT BE LIMITED TO 1.5 TIMES THE SYSTEM AVERAGE  
14 INCREASE?

15 A. Yes, I do. In its rebuttal testimony, Newport has reduced its requested revenue  
16 increase to \$975,639. With Newport's revision to the Navy's maximum day factor to  
17 eliminate the impact of the main break and the reduction in Newport's requested  
18 revenue increase, the 26 percent increase proposed for the Navy has been reduced to  
19 17 percent. The revenue increase that this Commission authorizes for Newport in this  
20 proceeding is likely to be less than \$975,639, and the Navy's increase will likely be  
21 further reduced. In addition, to provide for gradualism, in my direct testimony I  
22 recommended that retail volumetric rates remain unchanged and that the increase in  
23 revenue generated above the indicated cost of service be proportionately allocated to  
24 reduce the volumetric rates of Newport's wholesale customers. Adopting this

1 recommendation will further reduce the Navy's increase. No further adjustments to  
2 the Navy's increase are warranted.

3 **Response to the Division Issues**

4 Q. WHAT WAS NEWPORT'S RESPONSE TO YOUR RECOMMENDATION  
5 TO ALLOCATE WATER TREATMENT PLANT CAPITAL COSTS  
6 BASED ON THE BASE EXTRA-CAPACITY METHOD?

7 A. Newport has withdrawn its request to allocate water treatment plant capital cost based  
8 on the capacity reserved on behalf of each customer class. However, if wholesale  
9 demands materially decline from this current level in the future, Newport is  
10 requesting that the Commission consider an alternative allocation such as that  
11 proposed by Newport in this proceeding.

12 Q. DOES THE DIVISION FIND NEWPORT'S PROPOSAL WITH RESPECT  
13 TO THE ALLOCATION OF WATER TREATMENT PLANT CAPITAL  
14 COSTS REASONABLE?

15 A. Yes, it does.

16 Q. DOES NEWPORT AGREE WITH YOUR PROPOSAL TO LEAVE THE  
17 CURRENT RETAIL VOLUMETRIC RATES UNCHANGED IN ORDER  
18 TO PROVIDE FOR GRADUALISM?

19 A. Mr. Smith does not agree with my proposal to promote gradualism. In its rebuttal  
20 testimony, Newport has reduced its requested revenue increase to 5 percent. Newport  
21 is proposing an increase of 17 percent for the Navy and 26 percent for PWFD. Of the  
22 total revenue increase now being requested by Newport, nearly 90 percent of the  
23 increase will be recovered from wholesale customers. I believe a more balanced  
24 distribution of Newport's increase is appropriate and that this should be accomplished  
25 by maintaining the volumetric rates of retail customers at current levels.

1 **Newport Rebuttal to Portsmouth Water and Fire District**

2 Q. WHAT ISSUE DID PWFD RAISE IN ITS DIRECT TESTIMONY WITH  
3 RESPECT TO THE DEMAND FACTORS USED IN NEWPORT’S CCOSS  
4 STUDY?

5 A. In its CCOSS study, Newport developed class demand factors for its retail customers  
6 by using the method described in the *American Water Works Association Manual M-*  
7 *1, Principles of Water Rates Fees and Charges* (“AWWA M-1”). This method  
8 estimates demand factors based on monthly billing data. PWFD claims that Newport  
9 should have relied upon the demand factors gathered in 2011 and 2012 that were  
10 developed from a sample of actual residential and non-residential daily meter  
11 readings. Mr. Smith indicated he did not use the 2011 and 2012 demand factors  
12 because they were somewhat dated, and unlike the AWWA M-1 method, were  
13 gathered only from a sample of customers. Mr. Woodcock claims that the use of  
14 actual data is superior to using the AWWA M-1 estimation method.

15 Q. WHAT IS THE DIVISION’S RESPONSE WITH RESPECT TO THE  
16 RETAIL DEMAND FACTORS THAT SHOULD BE USED IN  
17 NEWPORT’S CCOSS?

18 A. Mr. Smith and Mr. Woodcock both raise legitimate points with respect to whether  
19 demand data developed using the AWWA M-1 method should be used or whether  
20 data from the 2011/2012 demand studies should be used in the CCOSS study. The  
21 impact of using these alternative demand factors is presented in HJS Schedule D-8A.  
22 As shown there, using the 2011/2012 demand factors results in a slight reduction to  
23 residential and non-residential volumetric rates, a slight decrease to the Navy’s  
24 volumetric rates, and virtually no change to PWFB’s rates. Use of the 2011/2012  
25 demand factors results in further increases to both public and private fire protection  
26 rates for which significantly increases were already proposed. As explained

1 previously, the Division is recommending that retail volumetric rates remain  
2 unchanged. This would undo a significant portion of the impact of adopting the  
3 2011/2012 demand factors.

4 If the 2011/2012 demand study factors were adopted, mitigation of the  
5 significant increases proposed for public and private fire protection would be  
6 appropriate. This would also offset the impact of adopting the 2011/2012 demand  
7 factors. Since the rate design process would significantly mitigate the impact of  
8 adopting the 2011/2012 demand factors, I recommend that the 2011/2012 demand  
9 factors not be adopted in this proceeding.

10 Q. WHAT METHOD DID NEWPORT USE TO DEVELOP DEMAND  
11 FACTORS FOR WHOLESALE CUSTOMERS?

12 A. Demand factors for the Navy and Portsmouth were determined using actual data for  
13 each wholesale customers.

14 Q. IS THE APPROACH USED TO DETERMINE DEMAND FACTORS FOR  
15 THE NAVY AND PORTSMOUTH MORE ACCURATE THAN THE  
16 AWWA M-1 METHOD?

17 A. Yes, because it uses actual rather than estimated data and current actual data is  
18 available for wholesale customers.

19 Q. PLEASE SUMMARIZE YOUR POSITION WITH RESPECT TO THE  
20 CCOSS PRESENTED BY NEWPORT IN ITS REBUTTAL TESTIMONY.

21 A. I recommend that the CCOSS presented by Newport in its rebuttal testimony serve as  
22 the initial basis for setting rates in this proceeding after the CCOSS is adjusted to  
23 reflect the revenue increase authorized by the Commission. The CCOSS rates  
24 reflecting the authorized increase should be adjusted to provide for gradualism as  
25 proposed by the Division.

1 Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

2 A. Yes, it does.

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