

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

<b>CITY OF NEWPORT</b>	)	
<b>UTILITIES DEPARTMENT,</b>	)	<b>DOCKET NO. 4595</b>
<b>WATER DIVISION</b>	)	

**SURREBUTTAL TESTIMONY  
OF  
STACY L. SHERWOOD**

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

**JUNE 30, 2016**

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OF RHODE ISLAND

CITY OF NEWPORT	)	
UTILITIES DEPARTMENT,	)	DOCKET NO. 4595
WATER DIVISION	)	

Surrebuttal Testimony of Stacy L. Sherwood

**I. INTRODUCTION**

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

A.           My name is Stacy L. Sherwood. I am an Economist with Exeter Associates, Inc. Our offices are located at 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q.           HAVE YOU PREVIOUSLY SUBMITTED TESTIMONY IN THIS PROCEEDING?

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

Q.           WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A.           The purpose of my surrebuttal testimony is to respond to the rebuttal testimonies of City of Newport Utilities Department, Water Division (“Newport Water” or the “Water Division”) witnesses Harold J. Smith, Julia A. Forgue, and Laura Sitrin. In particular, I will address adjustments to Newport Water’s proposed revenue increase that: (1) I proposed in my direct testimony and Newport Water has accepted, (2) an adjustment that I had proposed but now withdraw, (3) new adjustments that Newport Water has proposed in its rebuttal testimony that I accept as reasonable, and (4) an

1 adjustment to City Services expense proposed by Newport Water in its rebuttal  
2 testimony that is not reasonable and which the Public Utilities Commission of Rhode  
3 Island (“Commission”) should reject.

4 Q. HAVE YOU PREPARED SCHEDULES TO ACCOMPANY YOUR  
5 TESTIMONY?

6 A. Yes. I have prepared Schedule SLS Surrebuttal-1 to reflect the adjustments between  
7 the proposed revenue increase in my direct testimony and surrebuttal testimony.

8 Q. BASED UPON THE ADJUSTMENTS, WHAT IS YOUR  
9 RECOMMENDED REVENUE INCREASE?

10 A. As shown on Schedule SLS Surrebuttal-1, it is my recommendation that Newport  
11 Water receive a revenue increase of \$902,188 in this proceeding. That amount is  
12 \$65,828 less than the increase of \$968,016 requested by Newport Water as detailed in  
13 the rebuttal testimony of witness Smith. The difference between the two proposed  
14 revenue increases is Newport Water’s newly proposed adjustment for City Services  
15 expense that is unreasonable and should be rejected by the Commission.

16  
17 **II. ACCEPTED ADJUSTMENTS**

18 Q. PLEASE SUMMARIZE NEWPORT WATER’S ADJUSTMENTS  
19 PRESENTED IN ITS REBUTTAL TESTIMONY THAT YOU HAVE  
20 ACCEPTED.

21 A. First, Newport Water accepted the following adjustments proposed in my direct  
22 testimony:

- 23 1. Reduce Telephone and Communications Expense by \$415.
- 24 2. Revise Self Insurance Expense by \$5,000.
- 25 3. Revise Consultant Fees to \$205,000.

1 Second, I withdraw my proposed reduction in Newport Water's Accrued Benefits  
2 Buyout expense. Finally, I accept the following adjustments proposed by Newport  
3 Water in its rebuttal testimony:

- 4 1. Set Base Charge Revenue under Existing Rates of \$936,424.
- 5 2. Adjustments to revenues as the result of changes to residential billing  
6 consumption.
- 7 3. Reduce Salaries and Wages expense by \$114,485.
- 8 4. Increase the restricted Capital Account by \$200,000.

9 Q. PLEASE IDENTIFY WHICH ADJUSTMENTS PROPOSED IN YOUR  
10 DIRECT TESTIMONY WERE ACCEPTED BY NEWPORT WATER.

11 A. Newport Water accepted my proposed adjustments to Telephone and  
12 Communication, Consultant Fees, and Self Insurance expenses, less a slight variance  
13 of \$493 (\$492 reduction to Consultant Fees and \$1 reduction to Telephone and  
14 Communication) with which I agree.

15 Q. IN THE REBUTTAL TESTIMONY OF WITNESS SMITH, DID THE  
16 COMPANY AGREE WITH YOUR PROPOSED METHODOLOGY TO  
17 CALCULATE THE BASE CHARGE AT EXISTING RATES?

18 A. Yes. Witness Smith agreed that the methodology to calculate the base charge at  
19 existing rates was appropriate; however, he made a slight change to my  
20 recommendation to account for the updated meter counts. I agree with that change  
21 which increases the base charge at existing rates by \$2,169 above what I proposed to  
22 \$936,424.

23 Q. DID NEWPORT WATER AGREE WITH YOUR ADJUSTMENT TO  
24 SALARIES AND WAGES EXPENSE?

1 A. No. Witness Forgue agreed that the Salaries and Wages expense should be adjusted  
2 for two positions to reflect the average employee vacancies as I had proposed, but she  
3 disagreed with the salary levels I used to calculate my adjustment. I calculated my  
4 adjustment using salary levels for the actual two vacancies that existed at the time of  
5 Newport Water's original filing. Witness Forge recommends that the adjustment  
6 should be calculated using salary levels for a Water Plant Operator 1 and a  
7 Distribution/Collection Operator because they are representative of the most common  
8 vacancies.

9 Q. DO YOU ACCEPT NEWPORT WATERS'S RECOMMENDED REVISION  
10 TO YOUR PROPOSED ADJUSTMENT TO SALARIES AND WAGES  
11 EXPENSE?

12 A. Yes. Witness Forgue's recommended revision to my proposed adjustment to Salaries  
13 and Wages expense is not unreasonable. Therefore, I revised my adjustment to  
14 Salaries and Wages expense to \$114,485.

15 **III. WITHDRAWN ADJUSTMENTS**  
16

17 Q. IN YOUR DIRECT TESTIMONY, YOU RECOMMENDED A  
18 REDUCTION OF THE ACCRUED BENEFITS BUYOUT EXPENSE OF  
19 \$37,918. DID NEWPORT WATER ACCEPT THIS ADJUSTMENT?

20 A. No. Witness Forgue took issue with the level of funding this account would have as a  
21 result of my proposed adjustment, and suggested that the account may be  
22 underfunded at that level. She also explained that Newport Water had requested to  
23 reduce the account by \$115,998 in its original filing. She stated that if Newport  
24 Water accepted my proposed adjustment, the account may have been underfunded  
25 with an annual contribution of \$21,084 as I had proposed.

1 Q. DO YOU AND NEWPORT WATER AGREE ON THE CALCULATION  
2 OF THE ACCRUED BENEFITS BUYOUT EXPENSE?

3 A. No. As I explained in my direct testimony, I disagree with Newport Water's  
4 methodology for calculating the average accrued sick leave expense. The Accrued  
5 Benefits Buyout expense consists of two components, average accrued paid leave and  
6 average accrued sick leave expenses. Newport Water calculated the average accrued  
7 paid leave by dividing the total accrued paid leave by the total number of employees,  
8 and calculated the average accrued sick leave by dividing the total accrued sick leave  
9 by the number of employees with accrued sick leave. I continue to believe that both  
10 components of accrued benefits buyout expense should be calculated consistently by  
11 dividing the average accrued expense level by the total number of employees.

12 Q. WHAT IS YOUR RECOMMENDATION REGARDING YOUR INITIAL  
13 PROPOSED ADJUSTMENT OF \$37,918 TO THE ACCRUED BENEFITS  
14 BUYOUT EXPENSE?

15 A. For the purposes of this case, I withdraw my recommendation to reduce the Accrued  
16 Benefits Buyout expense by \$37,918. Although I continue to believe that Newport  
17 Water's methodology used to calculate the average accrued sick leave is incorrect and  
18 inconsistent, I find it reasonable that the account may require a higher level of  
19 funding at this time. Therefore, I now support Newport Water's initial request that  
20 Accrued Benefits Buyout expense be set at \$59,002.

21 **IV. NEW ADJUSTMENTS PROPOSED BY NEWPORT**  
22

23 Q. DID NEWPORT WATER REVISE ITS VOLUMETRIC REVENUE?

24 A. Yes. Witness Smith presents Newport Water's new proposal to decrease volumetric  
25 revenue by \$340,508 from Newport Water's original filing based upon a recalculation

1 using Fiscal Year 2015 residential billing data. That revision appears reasonable.  
2 The separate components of that proposed adjustment to revenues included a  
3 \$347,254 reduction in Retail Consumption revenue, a \$61,876 reduction in Fire  
4 Protection revenue, and a \$68,621, increase in Miscellaneous revenue.

5 Q. HAS NEWPORT WATER PROPOSED TO DECREASE THE  
6 RESTRICTED CAPITAL ACCOUNTS' FUNDING LEVEL?

7 A. Yes. In its original request, Newport Water requested a \$3.18 million Restricted  
8 Capital Accounts funding level. However, in witness Forgue's rebuttal testimony,  
9 Newport Water has requested to lower the funding level to \$2.7 million, or a  
10 reduction of \$480,502. Witness Forgue explained that Newport Water is proposing a  
11 lower funding level because it was able to offset the costs of a water main  
12 improvement project with American Recovery and Reinvestment Act ("ARRA")  
13 funds.

14 Q. DO YOU ACCEPT NEWPORT WATER'S REVISED PROPOSED  
15 FUNDING LEVEL?

16 A. Yes.

17

18 **IV. CITY SERVICES ALLOCATION ADJUSTMENT**

19 Q. HAS NEWPORT WATER CHANGED ITS PROPOSED LEVEL OF CITY  
20 SERVICES EXPENSE?

21 A. Yes. In the rebuttal testimony of witness Sitrin, Newport Water requested to increase  
22 its originally request City Services expense by \$63,910 to \$541,753 associated with a  
23 newly proposed change in the methodology of how the City Services expenses are  
24 allocated.

1 Q. WHY HAS NEWPORT WATER REVISED ITS ALLOCATION METHOD  
2 FOR CITY SERVICES EXPENSE?

3 A. Newport Water's newly proposed change in the methodology to calculate City  
4 Services expense was made in response to the direct testimony of Christopher  
5 Woodcock on behalf of the Portsmouth Water and Fire Department. Witness  
6 Woodcock stated that the City Services expense should be calculated based upon the  
7 allocations set in Docket No. 4025 and revised in the settlement of Docket No. 4243.  
8 However, in its original filing Newport Water revised the allocations as set in the  
9 aforementioned dockets, but updated the allocation to reflect the reduction in the  
10 number of enterprise funds and removal of the Library from the City's audited  
11 financial statements. Both of these items were removed from the City's allocation  
12 after Docket No. 4025.

13 Q. DO YOU AGREE WITH WITNESS WOODCOCK'S METHODOLOGY?

14 A. No. If Newport Water is no longer required to pay for expenses related to the one  
15 enterprise fund and the Library, then those two allocations should be removed from  
16 the City Services expense. Continuing to fund those allocations would result in  
17 ratepayers overfunding the City Services account since Newport Water is not required  
18 to fund those two efforts.

19 Q. WHAT IS YOUR RECOMMENDATION REGARDING THE  
20 CALCULATION OF CITY SERVICES EXPENSE?

21 A. The Commission should reject witness Sitrin's proposed adjustment to the City  
22 Services expense. The original allocation method proposed through in Newport  
23 Water's original filing is fair and reasonable. That methodology followed the  
24 allocation method set in Docket Nos. 4025 and 4243, while also removing irrelevant  
25 accounts in an effort to proactively prevent over-collections from ratepayers.

1 Q. IN YOUR EXHIBIT, HAVE YOU REFLECTED EACH OF THE  
2 ADJUSTMENTS DISCUSSED ABOVE?

3 A. Yes. Each adjustment is reflected in Schedule SLS Surrebuttal-1. In addition, I have  
4 adjusted the Operating Reserve by \$2,365. This adjustment was made to follow the  
5 Company's methodology to calculate equate the Operating Reserve to three percent  
6 of the total expenses.

7 Q. DOES THIS COMPLETE YOUR SURREBUTTAL TESTIMONY?

8 A. Yes, it does.

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<b>WATER DIVISION</b>	)	

**SCHEDULE ACCOMPANYING THE  
SURREBUTTAL TESTIMONY  
OF  
STACY L. SHERWOOD**

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

**JUNE 30, 2016**

Summary of Revenues and Expenses  
By Parties in Docket 4595  
Rate Year Ending June 30, 2017

Description	Rate Year Amount Per Division's Direct	Division Adjustments	Rate Year Amount Per Division's Surrebuttal
Revenue			
Base Charge	\$ 934,255	\$ 2,169	\$ 936,424
Retail Consumption	12,102,538	(347,254)	11,755,284
Wholesale/Bulk Sales	3,839,806	-	3,839,806
Fire Protection	1,400,643	(61,876)	1,338,767
Miscellaneous	735,029	68,621	803,650
Total Revenue	<u>\$ 19,012,271</u>	<u>\$ (338,340)</u>	<u>\$ 18,673,931</u>
Expenses			
Administration	\$ 2,349,020	\$ 38,411	\$ 2,387,431
Customer Service	731,100	-	731,100
Source of Supply-Island	759,549	-	759,549
Source of Supply-Mainland	223,955	-	223,955
Treatment & Pumping-Station One	1,937,458	(59,103)	1,878,355
Treatment & Pumping-Lawton Valley	2,292,814	-	2,292,814
Water Laboratory	188,287	77,451	265,738
Transmission & Distribution Maintenance	1,187,149	22,069	1,209,218
Fire Protection	23,800	-	23,800
Subtotal	<u>\$ 9,693,133</u>	<u>\$ 78,827</u>	<u>\$ 9,771,960</u>
Debt Service	\$ 6,811,000	\$ -	\$ 6,811,000
Capital Outlays	3,180,502	(480,502)	2,700,000
Total Capital Costs	<u>\$ 9,991,502</u>	<u>\$ (480,502)</u>	<u>\$ 9,511,000</u>
Operating Reserve	290,794	2,365	293,159
Total Cost of Service	<u>\$ 19,975,429</u>	<u>\$ (399,310)</u>	<u>\$ 19,576,119</u>
Revenue Surplus/(Deficiency)	<u>\$ (963,158)</u>	<u>\$ 60,970</u>	<u>\$ (902,188)</u>