

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

KENT COUNTY WATER AUTHORITY) DOCKET NO. 4611

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

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

September 1, 2016

EXETER

ASSOCIATES, INC.

10480 Little Patuxent Parkway, Suite 300
Columbia, Maryland 21044

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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 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. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND EXPERIENCE.

A. I graduated from Canisius College in Buffalo, New York, in 1981 with a Bachelor of Science Degree in Marketing. In 1985, I received a Master’s Degree in Business Administration with a concentration in finance, also from Canisius College. In July 1986, I joined National Fuel Gas Distribution Corporation (“NFG Distribution”) as a Management Trainee in the Research and Statistical Services Department (“RSS”). I was promoted to Supervisor RSS in January 1987. While employed with NFG Distribution, I conducted various financial and statistical analyses related to the Company’s market research activity and state regulatory affairs. In April 1987, as part of a corporate reorganization, I was transferred to National Fuel Gas Supply Corporation’s (“NFG Supply”) rate department where my responsibilities included

1 utility cost of service and rate design analysis, expense and revenue requirement
2 forecasting and activities related to federal regulation. I was also responsible for
3 preparing NFG Supply's Federal Energy Regulatory Commission ("FERC") Purchase
4 Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market
5 supply gas price projections. These forecasts were utilized for internal planning
6 purposes as well as in NFG Distribution's purchased gas cost proceedings.

7 In April 1990, I accepted a position as a Utility Analyst with Exeter
8 Associates, Inc. ("Exeter"). In December 1992, I was promoted to Senior Regulatory
9 Analyst. Effective April 1, 1996, I became a principal of Exeter. Since joining
10 Exeter, my assignments have included water and gas utility class cost of service and
11 rate design analysis, evaluating the gas purchasing practices and policies of natural
12 gas utilities, sales and rate forecasting, performance-based incentive regulation,
13 revenue requirement analysis, the unbundling of utility services, and the evaluation of
14 customer choice natural gas transportation programs.

15 Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY
16 PROCEEDINGS ON UTILITY RATES?

17 A. Yes. I have provided testimony on more than 200 occasions in proceedings before
18 the FERC, utility regulatory commissions in Delaware, Georgia, Illinois, Indiana,
19 Louisiana, Maine, Massachusetts, Montana, Nevada, New Jersey, Ohio,
20 Pennsylvania, Texas, Utah, and Virginia, as well as before the Public Utilities
21 Commission of Rhode Island ("Commission").

22 Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES
23 BEFORE THIS COMMISSION?

24 A. Yes. I previously testified before this Commission in the following proceedings:

- 25 • Kent County ("Kent County") Water Authority Docket Nos. 2555 and 3311;

- 1 • Providence Water Supply Board Docket Nos. 2048, 3163, and 3832;
- 2 • City of Newport-Water Division Docket Nos. 2985, 4355, and 4295; and
- 3 • Pawtucket Water Supply Board Docket Nos. 2674 and 3945.

4 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

5 A. My testimony addresses the Class Cost of Service (“CCOS”) Study and rate design
6 proposals presented by Kent County.

7 Q. PLEASE SUMMARIZE YOUR RECOMMENDATIONS CONCERNING
8 KENT COUNTY’S CCOS STUDY AND RATE DESIGN PROPOSALS IN
9 THIS PROCEEDING.

10 A. My recommendations concerning Kent County’s CCOS Study and rate design
11 proposals in this proceeding are as follows:

- 12 • I generally find Kent County’s CCOS Study to be reasonable and appropriate
13 for determining cost responsibility and establishing rates in this proceeding;
- 14 • Kent County’s proposed demand surcharge should be rejected;
- 15 • Kent County’s proposed seasonal rate alternatives should not be adopted at
16 this time;
- 17 • Kent County’s proposal to recover the costs associated with public fire
18 protection service directly from individual retail customers should not be
19 approved;
- 20 • Kent County should investigate whether compound meters are supporting
21 private fire protection service and report the findings of its investigation in its
22 Rebuttal Testimony; and
- 23 • While the Division does not oppose Kent County’s current practice of
24 charging for lost water caused by the actions of others, the Division
25 recommends that this practice not be codified as a tariff provision.

26 Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

1 A. Following this introductory section, my testimony is divided into four additional
2 sections. The first section provides an overview of water utility cost of service
3 methodologies. Next, I address Kent County’s CCOS Study. Third, I present my
4 recommendations concerning rate design. Finally, I address Kent County’s proposal
5 to include in its tariff a provision providing for the recovery of the costs associated
6 with lost water caused by the actions of others.
7

8 **II. OVERVIEW OF COST OF SERVICE METHODOLOGIES**

9 Q. WHAT IS THE OBJECTIVE OF A COST OF SERVICE STUDY?

10 A. A cost of service study is conducted to assist a utility or commission in determining
11 the level of costs properly recoverable from each of the various classes to which the
12 utility provides service. Allocation of recoverable costs to each class of service is
13 generally based on usage and cost causation principles.

14 Q. WHAT ARE THE PRIMARY COST OF SERVICE STUDY
15 METHODOLOGIES UTILIZED FOR WATER UTILITIES?

16 A. The two most commonly used and widely recognized methods of allocating costs
17 to customer classes for water utilities are the base-extra capacity method and the
18 commodity-demand method. Both of these methods are set forth in the American
19 Water Works Association’s (“AWWA”) *Principles of Water Rates, Fees and*
20 *Charges* (“AWWA M1 Manual”).

21 Q. PLEASE SUMMARIZE EACH OF THESE METHODS.

22 A. Under the base-extra capacity method, investment and costs are first classified into
23 four primary functional cost categories: base or average capacity, extra capacity,
24 customer, and direct fire protection. Customer costs are commonly further divided
25 between meter and service related and account or bill related costs. Extra capacity

1 costs may also be divided between maximum day and maximum hour costs. Once
2 investment and costs are classified to these functional categories, they are then
3 allocated to customer classes. Base costs are allocated according to average water
4 use, and extra capacity costs are allocated on the basis of the excess of peak demands
5 over average demands. Meter and service related customer costs are allocated on the
6 basis of relative meter and service investment or a proxy thereof. Account-related
7 customer costs are allocated in proportion to the number of customers or the number
8 of bills. The CCOS Study presented by Kent County in this proceeding utilizes the
9 base extra-capacity methodology.

10 The commodity-demand method follows the same general procedures.
11 However, usage related costs are classified as commodity and demand related rather
12 than as base and extra capacity related. Commodity related costs are allocated to
13 customer classes on the basis of total water use (which is equivalent to average
14 demand), and demand related costs are allocated on the basis of each class'
15 contribution to peak demand rather than on the basis of class demands in excess
16 of average use.

17

18 **III. EVALUATION OF KENT COUNTY'S CLASS COST OF SERVICE STUDY**

19 Q. PLEASE IDENTIFY THE CUSTOMER CLASSES INCLUDED IN KENT
20 COUNTY'S CCOS STUDY.

21 A. Kent County provides retail service to three customer classes that are defined by
22 meter size:

- 23 • Small (5/8" – 2" meters)
- 24 • Medium (3" & 4" meters)
- 25 • Large (6" and up meters)

1 Kent County also provides Public and Private Fire Protection service. Each of these
2 customer classes is included in Kent County's CCOS Study.

3 Q. IS THE CCOS STUDY PRESENTED BY KENT COUNTY IN THIS
4 PROCEEDING CONSISTENT WITH THOSE PRESENTED IN PRIOR
5 DOCKETS?

6 A. Generally yes, with two minor changes. First, Kent County has updated the asset
7 values used to allocate capital cost based on an audit for the year ending June 30,
8 2015. Second, in this proceeding, Kent County is seeking funding for a meter
9 replacement program. Typically, such capital costs are allocated to metering.
10 Because Kent County does not own its customers' existing water meters, there are
11 virtually no water meter assets, and allocating meter replacement costs solely to
12 metering would significantly increase monthly customer service charges. In his
13 testimony, witness Christopher P.N. woodcock indicated that Kent County is
14 proposing to phase in recovery of the meter replacement program by including
15 approximately 10 percent per year in service charges, with the balance recovered
16 through volumetric usage rates. However, my review of Kent County's CCOS Study
17 reveals that Kent County is proposing to include 100 percent of the costs associated
18 with the meter replacement program in the volumetric usage charges of the Small
19 customer class. This is confirmed by the response to DIV 1-11.

20 Q. WHAT WOULD BE THE IMPACT IF METER REPLACEMENT COSTS
21 WERE INCLUDED 100 PERCENT IN SERVICE CHARGES?

22 A. More than 80 percent of Kent County's customers take service from a 5/8- or 3/4-inch
23 meter under the Small customer rate schedule. The current quarterly customer charge
24 for these customers is \$10.26. In this proceeding, Kent County is proposing a
25 quarterly customer charge of \$15.29, an increase of 50 percent. If 100 percent of the

1 costs associated with the meter replacement program were to be recovered through
2 service charges, the quarterly service charge for Small rate schedule customers would
3 increase to \$29.10.

4 Q. DO YOU FIND KENT COUNTY'S CCOS STUDY TO BE CONSISTENT
5 WITH THOSE PRESENTED IN PRIOR PROCEEDINGS AND TO BE
6 REASONABLE?

7 A. With one exception, my review finds Kent County's CCOS Study to be reasonable
8 and appropriate for use in determining cost responsibility and establishing rates in this
9 proceeding. That one exception relates to the allocation of bad debt expense
10 (uncollectibles). In Kent County's CCOS Study, bad debt expense has been assigned
11 100 percent to the billing functional cost category. Bad debt expense relates to the
12 failure to recover all of Kent County's functional cost of service (base, maximum
13 day, maximum hour, meters and services), not just billing costs. Consistent with the
14 approach reflected in the AWWA M-1 Manual, bad debt expense should be allocated
15 more broadly to all functional cost categories. However, because cost allocation is
16 more of an art than a science, and the impact of modifying the allocation of bad debt
17 expense in Kent County's CCOS Study would be *de minimus*, I am not challenging
18 the allocation of bad debt in this proceeding.

19

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IV. RATE DESIGN

21 Q. WHAT ARE SOME OF THE PRINCIPLES OF A SOUND REVENUE
22 ALLOCATION?

23 A. A sound revenue allocation should:

- 24
- Utilize class cost-of-service study results as a guide;
 - Provide stability and predictability of the rates themselves, with a minimum of unexpected changes seriously adverse to ratepayers or the utility (gradualism);
- 25
26

- 1 • Yield the total revenue requirement;
- 2 • Provide for simplicity, certainty, convenience of payment, understandability,
3 public acceptability, and feasibility of application; and
- 4 • Reflect fairness in the apportionment of the total cost of service among the
5 various classes.

6 Q. IS KENT COUNTY PROPOSING ANY RATE DESIGN CHANGES IN
7 THIS PROCEEDING?

8 A. Yes. Kent County is proposing to increase its recovery of revenues through fixed
9 charges. To do this, Kent County is requesting to establish a demand surcharge
10 through which the additional costs will be recovered. More specifically, Kent County
11 is requesting Commission approval to recover an additional \$500,000 through fixed
12 charges.

13 Q. WHY IS KENT COUNTY PROPOSING A DEMAND SURCHARGE?

14 A. Kent County is concerned that the volatility in water sales has caused its revenues to
15 fluctuate unexpectedly from year to year. Increasing the recovery of costs through
16 fixed charges should provide for additional revenue stability.

17 Q. SHOULD THE COMMISSION APPROVE KENT COUNTY'S PROPOSED
18 DEMAND SURCHARGE?

19 A. No, for several reasons. First, as explained previously, the quarterly service charge
20 for most customers is \$10.26 and Kent County is proposing to increase the service
21 charge to \$15.29, or 50 percent, exclusive of the demand surcharge. The overall
22 percentage increase requested by Kent County in this proceeding is 17 percent. The
23 demand surcharge would increase the quarterly fixed charge to most customers by an
24 additional \$3.06, increasing the quarterly fixed charge to \$18.35, or by nearly
25 80 percent. An increase of this magnitude is inconsistent with the principle of
26 gradualism and a sound rate design.

1 Second, Kent County currently collects approximately 14 percent of its
2 revenues through fixed charges. Exclusive of the demand surcharge, under proposed
3 rates, Kent County will recover approximately 20 percent of revenues through fixed
4 charges. Therefore, the percentage of revenues collected through fixed charges will
5 increase without adoption of a demand surcharge. With the adoption of a demand
6 surcharge, fixed charge recovery would increase to 22 percent.

7 Third, Mr. Woodcock and witness Timothy J. Brown each have indicated that
8 it appears that Kent County's water sales have stabilized. Therefore, revenue stability
9 should be less of a concern in the future.

10 Finally, as a result of the demand surcharge, the volumetric usage rates of the
11 Medium customer rate schedule will decline. The volumetric usage rates of the Large
12 customer rate schedule may also be reduced if Kent County is not granted the full
13 amount of the revenue increase it has requested. I do not believe it is appropriate to
14 reduce customer rates at a time when overall costs are increasing.

15 Q. HAS KENT COUNTY DEVELOPED ALTERNATIVE SEASONAL
16 RATES AND CHARGES FOR COMMISSION CONSIDERATION?

17 A. Yes. Kent County is presenting two seasonal rate alternatives that would assess a
18 surcharge during the summer. Mr. Woodcock has indicated that Kent County
19 developed the seasonal rate alternatives in response to prior Commission requests.

20 Under the first alternative, a separate surcharge has been developed for each
21 rate class. Under the second alternative, the same surcharge is applicable to each rate
22 class.

23 Q. IS KENT COUNTY RECOMMENDING COMMISSION APPROVAL OF
24 EITHER SEASONAL RATE PROPOSAL?

1 A. No. Kent County is not recommending approval of either seasonal rate alternative at
2 this time because Kent County bills most of its customers on a quarterly basis and,
3 therefore, there is no specific summer billing period.

4 Q. DO YOU AGREE THAT SEASONAL RATES FOR KENT COUNTY
5 SHOULD NOT BE ADOPTED AT THIS TIME?

6 A. Yes. I do not believe that it is appropriate to adopt seasonal rates when customers are
7 billed quarterly because the period for which consumption is measured will not be
8 consistent for all customers.

9 Q. IS KENT COUNTY PROPOSING ANOTHER RATE ALTERNATIVE
10 THAT IT WOULD LIKE THE COMMISSION TO CONSIDER?

11 A. Yes. Kent County provides service to a number of fire districts. Kent County has
12 experienced difficulties in collecting payment from two of the public fire districts it
13 serves (Coventry Fire District and Central Coventry Fire District). As a result, Kent
14 County is requesting that the Commission consider the elimination of public fire
15 protection charges to municipalities and fire districts, and instead allow a direct
16 charge for public fire protection to individual retail customers. These charges would
17 be based on meter size.

18 Q. SHOULD KENT COUNTY'S' PROPOSED CHANGE TO THE
19 RECOVERY OF PUBLIC FIRE PROTECTION CHARGES BE
20 APPROVED BY THE COMMISSION?

21 A. No, for several reasons. First, Kent County has received judgments in its favor in
22 litigation with the Coventry and Central Coventry Fire Districts that provide the basis
23 for Kent County to collect the charges it imposes on these fire districts. Second, it is
24 Kent County's responsibility to demonstrate that its proposed change to the status quo
25 with regard to fire protection charges is equitable, which it has failed to do. At

1 present, residents are likely already indirectly paying for Kent County's fire
2 protection charges through fees assessed by their fire district. Central Coventry Fire
3 District, for example, collects the funds required to support its operations through the
4 assessment of a tax that is based on property values. Kent County's proposal would
5 double-charge residents and businesses that receive fire protection service from
6 Central Coventry Fire District because those residents and businesses would pay once
7 through fire district assessed fees and a second time through Kent County's proposed
8 per-meter charge. Clearly, that would be inequitable. Rather than upset the status
9 quo, the Commission should direct Kent County to diligently pursue payment from
10 the fire districts.

11 Q. DO YOU HAVE OTHER RECOMMENDATIONS WITH RESPECT TO
12 THE DESIGN OF KENT COUNTY'S RATES?

13 A. Yes. Kent County has 257 customers with compound meters (DIV 4-2(a) Revised).
14 A compound meter is necessary when, at times, a customer has a high water flow
15 rate, and at other times, a low water flow rate that needs to be accurately measured.
16 A compound meter has two measuring registers and a check valve to regulate flow
17 between the two registers. At high flow rates, water is diverted to the high flow
18 register. At reduced flow rates, the high flow register cannot accurately measure
19 usage, and the check valve diverts water to the low flow register so that it can be
20 accurately measured.

21 A number of Kent County's customers with compound meters recorded no or
22 very little high register usage during the last year (DIV 5-1). This raises the potential
23 that the compound meters may be supporting private fire protection service. The
24 charges for private fire protection service are much higher than the charges for
25 service from a compound meter.

1 In DIV 5-1(g), Kent County was asked whether any of the 257 customers have
2 a compound meter to support fire flows. Kent County indicated that the requested
3 information was not available, and a site visit would be required for each location
4 with a compound meter to make this determination. Kent County indicated that site
5 visits for all compound meters would take approximately 20 days. I recommend that
6 Kent County conduct site visits for each compound meter location that had no or little
7 high flow register usage during the last year (i.e., less than 10 percent of total usage
8 was high flow register usage), to determine whether the compound meter is
9 supporting private fire protection service. Kent County should report its findings in
10 its Rebuttal Testimony. In those instances it is found that the compound meter is
11 supporting private fire protection service, Kent County should identify the cost
12 consequences to the customer that would result if the customer were to be assessed
13 charges for private fire protection service, and any other relevant cost consideration.

14 Q. WHAT IS KENT COUNTY’S CURRENT PRACTICE WITH RESPECT TO
15 THE RECOVERY OF DAMAGES ASSOCIATED WITH LOST WATER
16 CAUSED BY THE ACTIONS OF OTHER THIRD PARTIES (E.G., MAIN
17 BREAKS CAUSED BY CONTRACTOR CONSTRUCTION ACTIVITY)?

18 A. It is Kent County’s current practice is to seek damages from third parties whose
19 actions cause lost water for the costs associated with the lost water. During the period
20 FY 2014 – FY 2016, Kent County sought damages from third parties totaling \$509
21 for lost water (DIV 4-3).

22 Q. WHAT IS KENT COUNTY’S PROPOSAL IN THIS PROCEEDING WITH
23 RESPECT TO DAMAMGES FOR LOST WATER?

24 A. Kent County is proposing to codify its current practice by including a provision in its
25 tariff for the billing of lost water caused by the actions of others.

1 Q. DOES THE DIVISION OPPOSE KENT COUNTY'S PRACTICE OF
2 SEEKING DAMAGES FOR LOST WATER CAUSED BY THE ACTIONS
3 OF OTHERS?

4 A. No. However, the Division recommends that Kent County's practice not be codified
5 in its tariff. It is the Division's concern that by adding this language to Kent County's
6 tariff, the Commission would be taking jurisdiction over an issue that does not
7 involve a current or potential customer.

8 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

9 A. Yes, it does.

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