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April 6, 2017

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

Re: *Providence Water Supply Board*
Docket 4618

Dear Ms. Massaro:

Enclosed please find an original and nine copies of The Bristol County Water Authority's Motion For Relief From Order in the above captioned Docket. Please note that an electronic copy of this document has been provided to the service list.

Thank you for your attention to this matter.

Sincerely,



Joseph A. Keough, Jr.

JAK/kf
Enclosure
cc: Service List (*via electronic mail*)

**STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION**

IN RE: PROVIDENCE WATER SUPPLY BOARD

:

DOCKET No. 4618

THE BRISTOL COUNTY WATER AUTHORITY’S MOTION FOR RELIEF FROM ORDER

I. INTRODUCTION

Now comes the Bristol County Water Authority and files this Motion For Relief From Order pursuant to Rule 1.28 of the Rhode Island Public Utilities Commission’s Rules of Practice and Procedure. The BCWA seeks relief from the Commission’s Order at its February 10, 2017 Open Meeting related to the allocation of Central Operations Facility costs to wholesale customers.

II. PROCEDURAL HISTORY

On May 16, 2016, the Providence Water Supply Board (“Providence”) filed an application to increase rates with the Rhode Island Public Utilities Commission (“Commission”) – Docket 4618. The Bristol County Water Authority (“BCWA”) intervened and opposed many facets of Providence’s increase. Among the issues raised by the BCWA was the allocation of three categories of costs assigned to wholesale customers: (1) costs associated with the Central Operations Facility (“COF”); (2) costs associated with the acquisition of the East Smithfield Water District; and, (3) costs associated with Providence’s unidirectional flushing program. The BCWA argued that Providence should not allocate any of these costs to the wholesale customers, and the Kent County Water Authority (“KCWA”) joined in this position.

At its February 10, 2017 Open Meeting, the Commission found that the record lacked sufficient evidence to adopt the BCWA’s position regarding the allocation of the COF, East

Smithfield and Unidirectional Flushing costs. Rather, the Commission ordered that Providence submit a cost allocation study in its next general rate filing, which Providence indicated would be filed in three to five years. (Transcript, Vol. III, Pages 14:23 to 15: 10) The Commission stated it would address the BCWA's allocation objections when examining Providence's cost allocation study.

Pursuant to Rule 1.28(b)(6), the BCWA requests that the Commission grant relief from its Order with respect to the allocation of COF costs for three reasons:

1. No evidence exists in the Docket 4618 record to justify the allocation of COF costs to the wholesale customers.
2. Unlike the East Smithfield and Unidirectional Flushing Costs, the Docket 4618 record contains specific evidence of the COF costs allocated to the wholesale customers.
3. The BCWA, and other wholesale customers, will pay these unsupported COF costs for three to five years before Providence files another general rate filing.

III. ARGUMENT

In Docket 4571, Providence requested additional revenue to service a \$30 million loan for the purchase and renovation of a Central Operations Facility at 125 Dupont Drive, Providence, Rhode Island. Since the total cost of this loan was allocated to the retail customers, the parties never litigated, nor did the Commission examine, any allocation issues related to this expense in Docket 4571. Rather, the parties agreed Providence would allocate this expense in the future based on the various functions performed in the new COF. As the Docket 4571

Order noted:

"Agreeing that the rate request in this docket would not affect wholesale rates, Mr. Woodcock expressed concern about the rate impact in future rate cases. The witnesses agreed that an allocation of the central operations facility to various rate classes would be based on function." (Docket 4571 Order, p. 21)

The methodology the parties agreed to in Docket 4571 was described by KCWA's witness Christopher Woodcock:

"In its next general rate filing, Providence Water will add the value of the new COF assets to the total assets used for the allocation of debt service. The new COF net asset value will be assigned to various functions including: administration, customer service (including meter reading, billing, collection, customer service representatives, and customer accounting), meters and metering, hydrants/fire protection, storage, transportation equipment, other tools and equipment, distribution mains, transmission mains, and other functions, as applicable based on the use of the asset considering factors such as numbers of employees by function, square footage of garage or work space by function, etc. Once assigned to functions, the costs assigned to each function will be allocated to cost of service categories based on the allocation methodology for like functions or categories as presented on Schedule JDM-24 Settlement from the settlement agreement in Docket No. 4406. It is recognized that some space in the new facility cannot be directly functionalized and allocated (e.g., central heating and air conditioning, employee parking, etc.) and this space will not be included in the calculation of allocation percentages used for the overall COF investment. (This space will be allocated in proportion to the directly assignable space.)" (Woodcock Docket 4618 Direct, pp. 7-8)

In Docket 4618, Providence's cost allocation expert, Harold Smith, once again agreed that this methodology was reasonable, "but only to the extent that the data are available to make such determinations." (H. Smith Docket 4618 Rebuttal, p. 5) Mr. Smith claimed that since such data was not available in Docket 4618, Providence would use the "current default position for allocating the COF...until [the] COF is in use and the necessary data are available to perform the allocations envisioned by the parties in Docket 4571." (*Id.*) This position was unsupported by the evidence in the Docket 4618 record and should be rejected.

First, the "default position" from Docket 4571 was that *none* of the COF costs were assigned to the wholesale customers. Thus, Providence did not use the "default position" from Docket 4571. Second, shortly after Providence submitted its initial filing in Docket 4618, the BCWA asked whether Providence sought to change its Docket 4571 position and allocate some

of the COF costs to the wholesale customers. (See Exhibit 1, Providence Water's Response to BCWA DR 1-26) Providence responded that the only COF costs allocated to the wholesale customers were the debt service and proposed PILOT. Providence indicated these allocations were made using the K-2 allocator, which is based on net plant investment, not functional use. As the BCWA would discover, Providence's response to this data request was inaccurate at best.

During the hearing, the BCWA tried to determine whether Providence allocated any other COF costs in addition to the debt service and PILOT, and if so, the basis for the allocation.

Under cross-examination, Harold Smith testified as follows:

Q. But I guess what I'm trying to get at is if I go through your cost allocation manual and your schedules, how would I determine how much of the expenses for the central operations facility are allocated to the wholesale customers?

A. You would have to know exactly – and that's where I'm getting at with the characterization as to whether they're specifically associated with the central operations facility or associated with an office building or an administrative and operating facility in general. So I know that the costs for the debt service that --on the bonds that were used to purchase that facility are included in the debt service and that's really the one number where we can get a definitive answer to your question. And a certain percentage of this debt service is allocated to the wholesale customers. (Transcript, Vol. I, Pages 117:15 to 118:11)

Q. In this docket Providence is seeking to allocate a portion of the costs associated with the central operations facility to the wholesale customers.

A. That is correct.

Q. And those costs that they seek to allocate to the wholesale customers are not just restricted to debt service, correct?

A. That's correct.

Q. A portion of these \$1.2 million in costs Providence seeks to allocate to the wholesale customers.

A. Correct.

Q. But there's nowhere I can readily look in the docket to determine how much has been allocated to the wholesale customer.

A. It would be very difficult to do because you'd have to go through and backtrack through each one of these allocation factors for each one of these line items to do that. It can probably be done. (Transcript, Vol. I, Pages 120:8 to 121:4)

And in fact, Providence did provide a list of all the COF expenses allocated to the wholesale customers, but only in a post-hearing response to a record request. (See Exhibit 2) This response showed that Providence allocated more than just the COF debt service and PILOT to the wholesale customers. In fact, Providence allocated nine categories of COF expenses using four different allocation factors (Y, Z, K1 and K2). The application of these disparate factors resulted in an overall allocation of 21.63% or \$649,579 (excluding the PILOT) to the wholesale customers. Thus, the record contains sufficient evidence of the exact COF costs allocated to the wholesale customers, but no evidence supporting the allocation methodology. In fact, Providence made these allocations without *any* attempt to employ the functional use allocation methodology from Docket 4571 that Harold Smith agreed was reasonable.

At the hearing, Providence offered a specious explanation for failing to use this methodology:

Q. All right. And if we go to Page 5, the question was asked, "Mr. Smith" -- this is at Line 6. I apologize. "Mr. Smith, is this methodology reasonable?" And you responded, "I believe it is, but only to the extent that the data are available to make such determinations," correct?

A. Correct.

Q. And in the answer to the next question you indicated that it's your understanding that such data is not available at this time, correct?

A. Correct.

Q. Now, Providence is, according to Mr. Caruolo's testimony, about nine months away from moving into this building, correct?

A. That's what he says, yes.

Q. And so it would seem reasonable, wouldn't it, that Providence has done a lot of work on how this facility is going to be designed, correct?

A. That would be reasonable.

Q. They've hired an architect, correct?

A. Correct.

Q. In fact, they already hired -- you heard they hired Dimeo Construction to start the renovations, correct?

A. Correct.

Q. So are you saying that there's no information available to set forth what the functions are going to be in different portions of this facility?

A. At the time this rate filing was prepared in May and filed originally there was not data. I'm sure there's more information available now about how the building is going to be used, but it's my opinion that we should wait until the building is actually being used until we try to start allocating the costs for the way in which it's going to be used.

Q. But you've already started allocating costs without knowing how it's going to be used, correct?

A. Correct.

Q. And when did you file your direct testimony in this case? Was it May?

A. May is the date on it. I don't remember the exact date.

Q. And you filed your rebuttal testimony in December, correct?

A. Was that in December? Yeah, it was. I didn't realize it was that far apart.
(Transcript, Vol. I, Pages 121:19 to 123:23)

Simply put, Providence failed to provide any evidentiary rational for changing the COF cost allocation from 0 to 21.63%. Furthermore, this allocation will remain in place for three to five years. (Transcript, Vol. III, Pages 14:23 to 15: 10) Thus, the wholesale customers could end up paying \$3,247,895 for COF costs without any basis for allocating these costs, and without using the agreed upon functional use methodology.

It is well established that a party seeking rate relief before the Commission has the burden of establishing its entitlement to such relief. (See RIGL § 39-3-12, and Providence Gas Co. v. Burke, 419 A.2d 263 (1980)). In fact, RIGL § 39-3-12 mandates that “the burden of proof

to show that the increase is necessary in order to obtain a reasonable compensation for the service rendered shall be upon the public utility.” In this case, Providence did not sustain its burden to obtain annual compensation of \$649,579 for COF costs from the wholesale customers. Providence was required to provide competent legal evidence upon which the Commission could fairly and substantially rely upon in finding that the allocation of these annual expenses to the wholesale customers is justified. Providence was required to meet this burden in *this Docket before* it begins allocating these costs to the wholesale customers. The Commission should not allow Providence to allocate these costs and then retroactively justify them in a future cost allocation study that may not be filed for five years.

Since Providence failed to meet its burden, then the Commission’s decision to allow this expense is not supported by competent legal evidence. Thus, the Commission should grant the BCWA’s requested relief from its February 10, 2017 Order.

IV. CONCLUSION

WHEREFORE, for the reasons set forth hereinabove the Bristol County Water Authority prays that the Rhode Island Public Utilities Commission grant the relief sought herein.

The Bristol County Water Authority
By its attorney,



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Dated: April 6, 2017

EXHIBIT 1

Providence Water Docket 4618

Data Requests of the Bristol County Water Authority Set 1

BCWA 1-26: Does Providence Water propose to allocate any portion of the Central Operation Facility to the wholesale customers in this Docket? If so, please explain how the allocation was determined.

Response: Yes. However, the only costs in this Docket directly attributable to the Central Operation Facility (COF) are the debt service on the debt used to fund the purchase and renovation of the COF and the PILOT for the COF. As shown on Schedule HJS-4, the proposed funding for the Capital Fund (where debt service on the COF is funded) is allocated using allocator K-2 which is based on net plant investment. The PILOT is also allocated using factor K-2. The K-2 allocator used to allocate these costs allocates 21.4% (as revised) of the Capital Fund and PILOT amounts to the wholesale customers.

EXHIBIT 2

Providence Water Docket 4618

Commission Record Request January 24-25 2017

RR-3. (Providence Water) Please provide the percentage of costs allocated to the Central Operating Facility (COF) based on response to KCWA-2-1 and debt service for the COF.

Response: The table below shows the amounts of the expense line items provided in response to KCWA 2-1 that are allocated to the wholesale class as a result of applying the allocation factors used in the cost allocation model.

Expense Type	Acct #	Expense	Allocator	With PILOT		Without PILOT	
				% to Wholesale	\$ to Wholesale	% to Wholesale	\$ to Wholesale
National Grid - Electric	61580	\$ 273,376	Z	18.58%	\$ 50,804	18.58%	\$ 50,804
National Grid - Gas	61580	\$ 95,244	Z	18.58%	\$ 17,700	18.58%	\$ 17,700
Materials & Supplies	62080	\$ 43,200	Z	18.58%	\$ 8,028	18.58%	\$ 8,028
Maintenance-Contractual Services	63580	\$ 175,000	Y	17.15%	\$ 30,011	17.15%	\$ 30,011
Insurance Fund	65980	\$ 30,000	Y	17.15%	\$ 5,145	17.15%	\$ 5,145
Telephone/Internet	67580	\$ 270,600	Z	18.58%	\$ 50,289	18.58%	\$ 50,289
Narragansett Bay Commission	67580	\$ 7,304	Z	18.58%	\$ 1,357	18.58%	\$ 1,357
Debt Service	NA	\$ 2,127,000	K1	22.86%	\$ 486,244	22.86%	\$ 486,244
Other Expenditures (PILOT)	NA	\$ 326,000	K2	22.86%	\$ 74,525	22.86%	\$ -
Total		\$ 3,347,724		21.63%	\$ 724,104	21.50%	\$ 649,579

It should be noted that the allocation factors used in the COS model were developed for the purpose of allocating the **total** amount of each expense type, not the individual components that comprise each expense type. Applying allocation factors developed to allocate total costs to individual components of total cost can yield misleading results.

CERTIFICATION

I hereby certify that on April 6 , 2017, 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 regular mail.

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