

**RHODE ISLAND PUBLIC UTILITIES COMMISSION**

**DOCKET NO. 4618  
PROVIDENCE WATER**

**PREFILED SURREBUTTAL TESTIMONY OF  
CHRISTOPHER P.N. WOODCOCK  
ON BEHALF OF  
KENT COUNTY WATER AUTHORITY**

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**PREFILED SURREBUTTAL TESTIMONY OF  
CHRISTOPHER P.N. WOODCOCK**

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4 **Q: Are you the same Christopher Woodcock that submitted prefiled direct testimony on be-**  
5 **half of the Kent County Water Authority?**

6 A: Yes I am.

7

8 **Summary**

9 **Q: What matters did you raise in your direct testimony?**

10 A: The matters I had discussed are summarized below.

- 11 1. The request for a payment in lieu of taxes to be made by Providence Water to the City  
12 of Providence,
- 13 2. The allocation of the costs associated with Providence Water’s new central office facility  
14 (COF) on Dupont Drive and the costs associated with the proposed acquisition of the  
15 East Smithfield water utility,
- 16 3. The valuation of Providence Water’s assets,
- 17 4. Providence Water’s proposed adjustment to the purchased water volume from the Kent  
18 County Water Authority,
- 19 5. Claimed rate case expenses,
- 20 6. Proceeds from the sale of the Academy Avenue facility, and
- 21 7. The allocation of unmetered (lost or unaccounted for) water.

22

23 **Q: Have you reviewed the rebuttal testimony of the witnesses from Providence Water and**  
24 **the direct testimony from the Division’s and Bristol County Water Authority’s witnesses?**

25 A: Yes, I have.

26

27 **Q: Please discuss the matters that you will address in your surrebuttal testimony.**

28 A: I will break these down according to matters raised by each party.

1 **Providence Water**

2 **Q: Where do the matters you raised in your direct testimony now stand with Providence**  
3 **Water's witnesses?**

4 A: Each of these is summarized below.

- 5 1. PILOT: Providence Water is still seeking to make a payment to the City.
- 6 2. COF Cost Allocation: Providence Water has not changed its position, although Mr. Har-  
7 old Smith acknowledges the method discussed in Docket 4571 is reasonable.
- 8 3. Asset Valuation: Ms. Parrillo maintains the values prepared by Marcom LLP are correct  
9 while Mr. Harold Smith notes that "the resulting net plant values call into question using  
10 net plant as a basis for allocating capital costs." Mr. Harold Smith agrees with us that an  
11 allocation based on gross asset value is more appropriate than the use of a net value.
- 12 4. KCWA Purchased Water: Providence Water agrees with the adjustment we proposed for  
13 KCWA purchases.
- 14 5. Rate Case Expenses: Providence Water disagrees with my proposed adjustment.
- 15 6. Academy Avenue Sale Proceeds: Providence Water did not address this matter that I  
16 had brought up.
- 17 7. Unmetered Water: This matter was raised primarily by the Bristol County Water Author-  
18 ity. Mr. Giasson's rebuttal testimony was fairly dismissive and not particularly respon-  
19 sive to the issues that were raised. I believe an issue remains with the amount of quan-  
20 tifiable retail use.

21 **Division**

22 **Q: Did the testimony of the Division's two witnesses raise any matters that you would like**  
23 **to address in your surrebuttal testimony?**

24 A: Division witness Ralph Smith raised several matters. KCWA has not analyzed several of  
25 these matters in any detail and has decided to leave the following for resolution with the  
26 other parties.

- 27 • Payroll Expense,
- 28 • Payroll Clearing,

- 1 • Overhead Rate Applied,
- 2 • Employee Benefits Expense,
- 3 • Payroll Tax Expense, and
- 4 • Insurance Expense

5  
6 Division witness Mierzwa also raised several issues.

- 7 • Mr. Mierzwa also questioned the asset values presented by Providence Water and  
8 noted that he would provide recommendations after seeing Providence Water's pro-  
9 posed remedies for the obvious problems.
- 10 • He noted some questions but accepted the bad debt functionalization and allocations  
11 made by Providence Water. We agree with the Division's position. As Mr. Mierzwa  
12 notes, there are a number of the cost allocation factors included in Providence Water's  
13 CCOS Study (e.g., Y4, Com Y, Com Z, DY, HMY) that provide for the reassignment of costs  
14 that would ordinarily be assigned to the meters/services and to the billing/collection  
15 cost functions. These costs were reassigned to the other functional cost categories (e.g.,  
16 base, maximum day, maximum hour). The effect of Providence Water's reassignment is  
17 to shift costs from the retail monthly service charge to the retail volume charges. These  
18 reassignments were introduced in prior dockets to mitigate increases in service charges,  
19 and have been continued in this proceeding. We suggest that Providence Water's next  
20 rate filing should include a COSS without the adjustments. This will provide the Com-  
21 mission with the true and full costs of each service. If the Commission still wishes to  
22 gradually implement these full costs, it will have a known target.
- 23 • Mr. Mierzwa recommended that Providence Water's proposed 15% fire protection in-  
24 crease be maintained. While this matter does not impact KCWA, it is clear that the fire  
25 protection charges are too low.

1 The Division did raise several other matters and made recommendations to the Commis-  
2 sion with which we generally agree.

- 3 • Property tax expenses and refund. We agree with Division witness Ralph Smith that  
4 Providence Water apply \$175,000 per year from the Foster property tax refund to  
5 lower the water rates. The money collected to pay those taxes was derived from rate  
6 payers and with the refund, should be given back to the rate payers in lower rates over  
7 the next nine years as Mr. Ralph Smith has recommended.
- 8 • Proposed PILOT. As noted in my direct testimony and as discussed further herein, we  
9 strongly support the Division’s position that the Commission not allow the proposed  
10 PILOT or any form of tax payment for the Dupont Drive property.
- 11 • Miscellaneous Revenue. The Division has proposed an increase in the proposed miscel-  
12 laneous revenues; we agree with this adjustment.
- 13 • Restricted Funds. The growing level of Commission ordered restricted funds is an issue  
14 that I raised in Docket 4595 (Newport Water) and has come up in Docket 4611 (KCWA).  
15 I agree with the Division’s proposed use of some of the restricted funds rather than let-  
16 ting them grow to higher levels<sup>1</sup>.

17  
18 **Bristol County Water Authority**

19 **Q: Did the testimony of the Bristol Country Water Authority’s Ms. Marchand raise any mat-  
20 ters that you would like to address in your surrebuttal testimony?**

21 **A:** Ms. Marchand raised three issues in her prefiled, direct testimony.

- 22 1. Costs related to Providence Water’s Central Operations Facility (“COF”).
- 23 2. Providence Water’s unaccounted for water (“UFW”) calculation.

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<sup>1</sup> At the time my testimony was being finalized, responses to BCWA 6 were submitted by Providence Water. I believe these responses raise some large fundamental questions regarding the use of reserves and how the over-funded Operating Revenue Reserves should be used. The Commission’s decision in Docket 4595 (Newport Water) should be considered.

1           3. Providence Water’s allocation of unidirectional flushing costs to wholesale custom-  
2           ers.

3  
4           In regards to item #1, the costs of the COF, she has raised an issue regarding the total costs  
5           of the facility as well as an issue related to the proposed PILOT. As we have noted above,  
6           we are in agreement with her testimony that the issue of the PILOT has been fully vetted  
7           over decades and there are compelling reasons as to why the Commission’s long-standing  
8           position to prohibit these types of payments should be strongly affirmed.

9  
10          Regarding the unmetered or unaccounted for water, I agree that there seems to be many  
11          unmetered uses that are strictly retail related and should be assigned to the retail custom-  
12          ers only. I am particularly concerned about the amount of retail meter slippage. While Mr.  
13          Giasson simply dismisses this with his claim that meter slippage “applies both to retail and  
14          wholesale meters”, his response to KCWA 3-1<sup>2</sup> should add more light to this question. I be-  
15          lieve the Commission should order a full evaluation of ALL the unmetered water from Prov-  
16          idence Water so that it can be properly accounted for and properly allocated in the next  
17          rate filing.

18  
19          The allocation of costs associated with the unidirectional flushing program were discussed  
20          extensively in Docket 4406 (Providence Water). While that case was settled, both Bristol  
21          County and KCWA provided testimony that the program benefitted retail customers as it  
22          was essentially related to 12” and smaller retail distribution pipes. I agree with Ms.  
23          Marchand that NO costs associated with the unidirectional flushing program should be al-  
24          located to the wholesale customers.

25  

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<sup>2</sup> Not yet available

1 **Matters Raised by the Division**

2 **Q: You identified six areas where you were deferring to the Division and its witness, Mr.**  
3 **Ralph Smith. Were there additional matters that the Division raised to which you would**  
4 **like to respond?**

5 A: Yes. As I noted, we agree with a number of the Division’s positions including the adjust-  
6 ments for property tax refunds, the disallowance of any PILOT to the City of Providence,  
7 the miscellaneous revenue adjustments, and the proposed use of restricted funds to lower  
8 the rate request. Because of the magnitude of the PILOT issue, I will address this in more  
9 detail later.

10  
11 **Q: Please expand on the question of the Western Cranston restricted revenues that Mr.**  
12 **Ralph Smith raised.**

13 A: Mr. Ralph Smith has recommended that the allowance for this fund be reduced from the  
14 \$62,069 claimed by Providence Water to \$40,000 – a \$22,069 reduction. Ms. Parrillo has  
15 objected to this because it “would leave this fund in a negative position at the end of fiscal  
16 year 2021.” (emphasis added) The rate year in this filing ends December 31, 2017; that co-  
17 verses the last part of fiscal year 2017 and first part of fiscal year 2018. Ms. Parrillo’s rebuttal  
18 exhibit NEB-REB-7 shows that at the end of fiscal year 2018 (six months after the conclu-  
19 sion of the filed rate year), that the balance in the Western Cranston fund will be \$281,670,  
20 and that the fund will still have a positive balance some 2 ½ years after the conclusion of  
21 the rate year. The purpose of this docket is not to fund Providence Water’s restricted ac-  
22 counts into the next decade.

23  
24 **Q: Do you have any comments on Mr. Ralph Smith’s recommendation to use \$175,000 per**  
25 **year of the Foster Tax refund to reduce rates?**

26 A: Yes. I agree with Mr. Smith’s recommendation. The refund is for money that was provided  
27 by the rate payers for property tax payments. A portion of those payments has been re-  
28 funded to Providence Water and Providence Water should refund them to the rate payers.



1 know or understand the magnitude of the prior “adjustments” nor do we know the impact  
2 on rates and charges.

3  
4 It is appropriate for Providence Water to redo its COSS study without these artificial adjust-  
5 ments or enhancements. The Commission (and all the parties) should know what the true  
6 cost to provide various services are and what the true resultant rates should be. I recom-  
7 mend that the Commission order Providence Water to file a full cost of service study with-  
8 out the “Commission adjusted factors” including factors YY, COM Y, COM Z, DY, and HMY in  
9 its next<sup>4</sup> rate filing.

10  
11 **Q: You raised a question regarding Mr. Mierzwa’s proposed 15% maximum public fire pro-**  
12 **tection adjustment. Please address this.**

13 **A:** As Providence Water showed in its filing, the costs to provide public fire protection show  
14 that an increase in these charges of about 84% is indicated. As a fixed revenue, we believe  
15 the public fire protection charges are an important element to Providence Water’s revenue  
16 stability. In Docket 4611 (KCWA) the parties agreed to and the Commission accepted a  
17 30% increase to fire protection charges in a case where the indicated fire increases were of  
18 the same magnitude<sup>5</sup> as in this docket. The Division and Mr. Mierzwa were a party to that  
19 settlement. We believe that Providence Water’s fire protection charges should be capped  
20 at the same 30% that was recently agreed to in Docket 4611.

21  

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<sup>4</sup> This should be the next filing without any exception for an abbreviated filing.

<sup>5</sup> In Docket 4611 the cost based increase in fire charges was some 76%, actually less than the increase indicated in the current docket.

1 **Matters Raised by the Bristol County Water Authority**

2 **Q: You mentioned three areas in Ms. Marchand’s prefiled direct testimony with which you**  
3 **agreed. Please discuss these.**

4 A: The first matter concerns the cost associated with the Central Office Facility. Providence  
5 Water made numerous representation about the costs of the new facility in Docket 4571.  
6 While I had raised several concerns about the total price, Mr. Caruolo said<sup>6</sup> the cost would  
7 be funded by the \$30 million bond issue. I believe that Ms. Marchand has raised several  
8 legitimate concerns about the apparent growing cost of this contentious new facility that  
9 Providence Water has not addressed.

10  
11 **Q: Please discuss the second item, unmetered, lost, or non-revenue water.**

12 A: I first raised the issue of the proper allocation of non-revenue water nearly a decade ago in  
13 Providence Water Docket 3832. In 2008, the Commission accepted a new allocation for  
14 non-revenue (lost and unaccounted for) water in Docket 3945 (Pawtucket Water). Since  
15 that time, the method approved in Docket 3945 has been the standard in RI. That method,  
16 based on data and formulae in AWWA’s Manual of Practice #M36, essentially divides the  
17 non-revenue water between wholesale and retail use based on relative water losses in  
18 transmission (allocable to all users), distribution (retail only) mains and service lines (retail  
19 only<sup>7</sup>). In effect, non-revenue water is allocated based only on leaks or line losses.

20  
21 The AWWA’s M36 Manual acknowledges losses from a number of sources aside from leak-  
22 ing pipes. Losses also can be attributed to under-registering meters, water used in fire-  
23 fighting and fire training, flushing programs, street cleaning, unmetered public use, and wa-  
24 ter used in construction. Aside from meter errors, all these other uses are related to retail

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<sup>6</sup> See Report & Order in Docket 4571 as well as transcripts, data responses and pre-filed testimony.

<sup>7</sup> Note that only a portion of the service lines is included, as noted in the response to BCWA 2-5, the pipe between the curb stop and meter, that is subject to leakage, is not included.

1 sales and should be assigned only to retail customers. As an example, in Docket 4550<sup>8</sup>  
2 Pawtucket Water identified water used in flushing and for firefighting as retail only uses  
3 before allocating the remainder based on miles of pipe.

4  
5 Ms. Marchand has proposed, and we agree, that Providence Water should identify the  
6 non-revenue water sources and those that are retail only should be assigned to the retail  
7 customers before allocating the balance of non-revenue water to retail and wholesale cus-  
8 tomers.

9  
10 **Q: Ms. Marchand also raised meter slippage as an area of concern. Can you address this?**

11 **A:** While Mr. Giasson acknowledges that meter slippage or under-registration is a source of  
12 non-revenue water, he simply dismissed this suggesting “the error applies to both retail  
13 and wholesale meters.”

14  
15 While any meter is subject to under-registration, larger, wholesale meters are (or should  
16 be) tested far more frequently than the 70,000 retail meters that are 1” and smaller. We  
17 have asked Providence for data on meter testing and accuracy in KCWA 3-1<sup>9</sup> that should  
18 help answer this question. Based on that response, it may be appropriate to allocate a por-  
19 tion of non-revenue water from meter slippage (based on historic testing results) to retail  
20 and wholesale sales along with the other non-revenue uses identified above BEFORE allo-  
21 cating the remainder based on feet of pipe.

22  

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<sup>8</sup> See Joint Settlement Schedule 2.2

<sup>9</sup> That response was not available at the time I prepared this testimony.

1 **Payment in Lieu of Taxes (PILOT)**

2 **Q: Is there one matter that is more important than all the others?**

3 A: Yes. The proposal from Providence Water to ask rate payers to fund property tax payments  
4 to the City of Providence or a Payments-in-lieu-of-taxes (PILOT) is by far the most urgent  
5 matter. I want to be clear that the importance of this issue eclipses all others for KCWA.  
6 This matter has been put forth by the City of Providence on numerous occasions over the  
7 past few decades.

8

9 **Q: Did Providence Water chose the site in Providence with potential property tax payments**  
10 **to the City in mind?**

11 A: I think there is little doubt. Despite revisionist history claims, in Docket 4406, then Chief  
12 Engineer Boyce Spinelli testified that the City of Providence directed Providence Water to  
13 confine its search for a COF within the city limits of Providence. (See Docket 4406, Novem-  
14 ber 13, 2013 Hearing, pp. 151-155) In Docket 4571 Providence Water provided a presenta-  
15 tion<sup>10</sup> for the Providence City Council when it sought approval for the COF borrowing. The  
16 presentation included a list of “New Building Advantages” and “Current Building Issues.”  
17 Among the advantages, Providence Water listed “Potential of paying taxes to the City.”  
18 Among the current building issues, Providence Water listed “Not paying taxes to the City.”

19

20 The expectations and implications of paying new taxes to the City of Providence are abun-  
21 dantly clear, despite the recent protestations otherwise.

22

23 **Q: Has the Commission addressed this issue in prior dockets?**

24 A: As noted in my direct testimony, this matter has been addressed extensively by the Com-  
25 mission over the past three decades and the Commission has consistently disallowed the

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<sup>10</sup> Exhibit 5 to my direct testimony in that docket

1 requests of every municipal water department for tax payments or for payments in lieu of  
2 taxes (PILOT) to the owning city.

3  
4 The Commission previously addressed this issue in Providence Water Docket 2048, when  
5 Providence requested an allowance for a payment in lieu of taxes (“PILOT”): “This docket  
6 does not represent the Commission's first exposure to a proposal by a municipal water util-  
7 ity for a PILOT expense in its cost of service. This very same issue came up in a Pawtucket  
8 Water Supply Board rate case in 1991 (Docket No. 1989) and in a Newport Water Depart-  
9 ment rate case earlier this year (Docket No. 2029).” The Commission rejected a PILOT ex-  
10 pense in both of these cases. In the Newport case, we held that we could “not philosophi-  
11 cally or regulatorily accept the notion of the City of Newport taxing its own water depart-  
12 ment” and that a “payment in lieu of taxes...is an element of expense which this Commis-  
13 sion has not previously allowed in rates.” (Order No. 13947). We see no justification to de-  
14 viate from this prior holding in this docket.” (See PUC Order No. 14096)

15  
16 Providence Water’s reliance on the property tax payments by KCWA are misplaced. KCWA  
17 is not a municipality like Providence; it has no taxing authority, and it has NEVER suggested  
18 taxing itself. The PILOT payments by the Kent County Water Authority are unique and dis-  
19 tinct from the requests by others in that (a) they are specifically called for in the legislation  
20 that established the Kent County Water Authority, (b) KCWA is not an “owning” city or  
21 agency that is looking to tax itself, and (c) the payments are fixed<sup>11</sup> at the amounts that  
22 were historically being paid at the time the Authority acquired real property.

23  

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<sup>11</sup> KCWA’s total PILOT payments are only \$23,123 as compared to the nearly \$7,000,000 of payments made by Providence Water and their proposed PILOT of \$326,000 – an amount that is more than 1400% of all the payments by KCWA.

1 Providence Water has provided no new reason why the Commission should change its dec-  
2 ades long practice; its reasons consist of the same old rationales it has offered up for dec-  
3 ades. If the Commission were to modify its position in this docket, it would open the flood  
4 gates to similar requests from Woonsocket, Pawtucket, and Newport.  
5

## 6 **Allocation of COF Costs**

7 **Q: The next issue you raised in your summary had to do with the allocation of the COF**  
8 **costs? Please discuss this issue.**

9 A: As I noted in my direct testimony, the proper or fair allocation of the costs associated with  
10 the COF were not part of Docket 4571. We noted that wholesale customers received little,  
11 if any, benefit from the central operations facility; and that the testimony from Providence  
12 Water witnesses supported our claim that the facility was nearly all for the benefit and use  
13 of the retail customers, and there was certainly no benefit to the wholesale customers as a  
14 result of the relocation of the facility.  
15

16 In Docket 4571, Providence Water proposed that the entire cost be borne by the retail rate  
17 payers. Page 21 of the Commission's Report and Order in Docket 4571 said, "Agreeing  
18 that the rate request in this docket would not affect wholesale rates, Mr. Woodcock ex-  
19 pressed concern about the rate impact in future rate cases. The witnesses agreed that an  
20 allocation of the central operations facility to various rate classes would be based on func-  
21 tion."  
22

23 **Q: Why does this issue concern KCWA?**

24 A: There are considerable new or additional costs associated with this facility. The wholesale  
25 customers were concerned about these added costs and how they would impact the  
26 wholesale rates. It seems this concern was well warranted. Now that Providence Water  
27 has its approval for the new COF, it has proposed in excess of 1/3 of million in new taxes,

1 \$30,000 in new insurance costs are being claimed (NEP-6), new utility costs are proposed,  
2 in excess of \$33,000 of regulatory costs are being requested, the allowance for new debt in  
3 Docket 4571 was \$2,077,000, an investment in solar panels is proposed, and an additional  
4 amount for an operating reserve allowance comes on top of all this. In response to KCWA  
5 2-1 Providence has listed in excess of \$1.2 million of expenses associated with this new fa-  
6 cility. That is 15% of the total increase that Providence Water is seeking in this docket. The  
7 summary of expenses excluded the \$2.1 million of new debt which would bring the total  
8 for the COF to some \$3.3 million. The expenses being charged off to the wholesale cus-  
9 tomers are quite significant.

10  
11 **Q: What was Providence Water’s response to your direct testimony that no COF costs**  
12 **should be allocated to the wholesale customers?**

13 A: While Mr. Harold Smith agreed<sup>12</sup> that the methodology for allocating the costs that I had  
14 outlined were reasonable, he claims “only to the extent that the data are available.” He  
15 goes on to say that the data is not available at this time. Providence Water had detailed  
16 plans and layouts when they presented the facility in Docket 4571. They now have more  
17 detailed plans and layouts. They could certainly use these for the basis of allocating the  
18 new costs.

19  
20 **Q: Doesn’t Mr. Harold Smith argue that “the current default position for allocating the COF**  
21 **should be maintained until the COF is in use and necessary data are available”?**

22 A: Yes, he does. The current default that was adopted in Docket 4571, at Providence Water’s  
23 suggestion, was to assign all the costs to the retail customers. I agree with Mr. Smith that  
24 this current default be continued until Providence Water can demonstrate otherwise.

25  

---

<sup>12</sup> page 5 of his rebuttal testimony

1 It is patently unfair for Providence Water to suggest a major change in the allocation of  
2 these costs from 0% to 22.8% for the wholesale customers (K2 factor). That is hardly “the  
3 default position.”

4  
5 At this point, there is no evidence that the COF provides any benefit to the wholesale cus-  
6 tomers. The only tangible benefit identified is Mr. Caruolo’s suggestion on page 11 of his  
7 rebuttal testimony that the facility is so large that it “can accommodate” a water quality  
8 laboratory. There is no laboratory now, and if one is constructed it would be redundant to  
9 the existing laboratory. Its benefit would only be that retail water samples could be more  
10 easily transported. This phantom new laboratory that is not even planned, but could be  
11 used to fill space, is hardly of benefit to the wholesale customers, particularly not as of this  
12 time or in this rate year.

13  
14 While Providence Water may be able to show there are limited functions that could supply  
15 some benefit to the wholesale customers (1) they have not done that<sup>13</sup>, (2) I have raised  
16 the question of what the benefits there are to wholesale customers of the relocation<sup>14</sup>, and  
17 (3) any possible wholesale or “all customer” benefit appears to be quite minimal and cer-  
18 tainly 22.8% of it is not for the wholesale customers.

19  
20 **Q: How do you propose the costs of the new COF be allocated in this docket?**

21 A: The intervenors first raised this issue in Docket No. 4406. Based on the evidence in that  
22 docket and the additional evidence that came forth in Docket No. 4571, it was quite clear  
23 that the COF is overwhelmingly, if not totally, for the benefit of the retail customers only.  
24 It is proposed to be situated in Providence so it is nearby the retail distribution system  
25 where Providence Water carries out improvements to its retail only distribution system,

---

<sup>13</sup> It is their burden to show why the allocation should be changed from retail only.

<sup>14</sup> Certainly, Providence Water has argued for the benefit to the retail customers of all the functions, but they have never offered any reason why moving will benefit the wholesalers.

1 fire hydrants, meters and customer service functions. None of these functions have any  
2 benefit to the wholesale customers – they are not used by or useful to the wholesale cus-  
3 tomers. There was no evidence ever presented that service to wholesale customers was  
4 hindered because of the Academy Avenue location.  
5

## 6 **Allocation of East Smithfield Costs**

7 **Q: In his rebuttal testimony, Mr. Harold Smith asserts that the service to East Smithfield will**  
8 **not be materially different. Do you agree?**

9 A: No. East Smithfield will be moving from a wholesale customer where there are no retail  
10 cost responsibilities (billing, collection, metering, service repairs, hydrant maintenance, dis-  
11 tribution line maintenance, repair and replacement) to a retail customer where there are  
12 considerable new responsibilities and costs. Mr. Caruolo's rebuttal testimony includes tes-  
13 timony (page 4) that he is asking for "funding for 3 full time employees who currently work  
14 at" East Smithfield.  
15

16 If there were no change in service responsibilities or costs, there would be no need to  
17 switch them from a wholesale rate to a retail rate. I agree with Mr. Harold Smith that the  
18 COS methodology provides a (mostly) reasonable allocation of costs between wholesale  
19 and retail, but it also clearly shows the difference in costs. The proposed retail rate is over  
20 \$3.30/ccf; the proposed wholesale rate is only 40% of that. Clearly there is a difference.  
21

22 Providence has shown there are new costs that are associated with services to be provided  
23 to a new retail customer. They have nothing to do with service to the wholesale customers  
24 and the costs of providing those services should be assigned to retail customers only.  
25

1 Mr. Harold Smith's Sch. HJS-7 shows the restricted costs allocated only to East Smithfield;  
2 HJS-9 shows the calculation of an East Smithfield Surcharge; and HJS-11 presents the pro-  
3 posed East Smithfield surcharge. Providence has testified about the additional operating  
4 (salary) costs that will be incurred to serve East Smithfield; they can easily identify and allo-  
5 cate these additional costs to their proposed East Smithfield surcharge and not burden the  
6 other rate payers with this acquisition.

7  
8 **Asset Values**

9 **Q: Please describe the issue you have with Providence Water's restated asset values.**

10 A: In my direct testimony, I discussed the problems with the restated asset values. Mr. Harold  
11 Smith's schedule HJS-4 shows that most of the claimed capital expenses are allocated in  
12 the cost of service study based on the value of Providence Water's assets (the K1 and K2  
13 allocators). In excess of \$30 million or some 40% of ALL of the claimed expenses are allo-  
14 cated based on the value of the assets that are shown on HJS Schedule 16. It is imperative  
15 that the asset values are correct to properly allocate these costs. Despite Ms. Parrillo's  
16 claims to the contrary, they are NOT correct; Providence Water has NOT done what they  
17 were ordered to do correctly.

18  
19 In my direct testimony, I detailed the issues and problems we had leading up to and after  
20 the filing. There were several asset groups that were listed with a negative value, a situa-  
21 tion that is nearly impossible to have and quite unlikely in this case. After one failed at-  
22 tempt, a second update to the asset listing was submitted on September 27. This latest  
23 submission still raised questions regarding the net asset values.

1 In light of all the remaining issues I had suggested the use of the gross asset values, feeling  
2 this was perhaps the more accurate of all the asset values Providence was providing. It ap-  
3 pears that Providence Water has accepted this as well as a correction to the allocations  
4 noted on page 7 of Mr. Harold Smith’s rebuttal testimony.

5  
6 **Q: Are you satisfied with the gross asset listing that Providence Water has used in its rebut-**  
7 **tal testimony?**

8 A: This is a significant matter that the Commission is seeing elsewhere as well. I don’t believe  
9 we will ever get the correct values – certainly as it pertains to the net values. I am afraid  
10 that more study and analysis will not bring us any closer, and reluctantly agree that this is  
11 probably the best we can hope for at this time.

12  
13 **Water Purchases**

14 **Q: Are you satisfied with the adjustments to sales to the Kent County Water Authority that**  
15 **you presented and Mr. Harold Smith accepted?**

16 A: Yes. I don’t believe there are any remaining issues with that matter.

17  
18 **Rate Case Expenses**

19 **Q: In your direct testimony, you raised an issue with \$97,696 in rate case expenses related**  
20 **to a former docket (4571). Is this matter resolved now?**

21 A: No. Ms. Parrillo has objected to this reduction, suggesting they should be allowed. She  
22 acknowledges they are for expenses related to past docket that were excluded by Provi-  
23 dence for recovery. She asserts that this after-the-fact-claim for recovery is “not contrary  
24 to Commission practice.” I believe that this is classic retroactive rate making and is con-  
25 trary to Commission practice.

1 Docket 4571 was initially filed in November 2014 as a request to reopen Docket 4406. Sub-  
2 sequently, Providence asked for permission and was allowed to amend its filing and open  
3 the docket as an abbreviated filing under the Commission's rules. The Commission's rules  
4 (section 2.10 (b)) provide specific items that may be included in an abbreviated rate filing.  
5 Rate case expenses are not one of the costs that are listed, although other items may be  
6 included when the amounts are at least 10% greater than the test year<sup>15</sup>. There is nothing  
7 in the Commission's rules that would support Ms. Parrillo's claim.

8  
9 These claimed rate case expenses are not rate year costs. They were clearly incurred long  
10 before the rate year. Providence Water is simply looking to recover these costs retroac-  
11 tively, which should not be allowed.

12  
13 I would also note that the Commission allowed Providence Water a 2% operating revenue  
14 allowance in Docket 4571. The approved increase of \$2,077,000 included an additional op-  
15 erating revenue allowance of \$41,540. By September 2017, Providence Water will have ba-  
16 sically recovered all its rate case expenses through this additional operating revenue allow-  
17 ance. Providence Water should not be granted this retroactive rate case recovery.

### 19 **Proceeds from Sale of Academy Avenue**

20 **Q: In your direct testimony, you suggested that the Commission should be providing direc-**  
21 **tion or guidance on how the proceeds should be used when the central office operations**  
22 **are moved to Dupont Avenue. Why did you recommend this?**

23 **A:** If the Commission does not provide appropriate guidance in this docket, before the prop-  
24 erty is sold, I expect that the City of Providence will take the proceeds from this sale upon

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<sup>15</sup> As noted in the response to KCWA 2-3, Commission Rule 210 (d) (7) calls for a summary of rate case expenses, but does not call for the recovery of those expenses.

1 the disposal of the property. It will be quite difficult to restore the funds if the City takes  
2 the proceeds.

3  
4 **Q: Has any party to these proceedings disagreed that it would be appropriate for the Com-**  
5 **mission to provide guidance in this docket?**

6 A: No. Despite the claims by Providence, the ownership of the property and the assets at  
7 Academy Avenue is in question. The record before the Commission on the ownership issue  
8 goes back to 1992 and is well documented in this and prior dockets.

9  
10 Independent of the question of the minimal initial purchase price, there is no question that  
11 Providence Water has made substantial payments towards improvements on the property  
12 that were all funded by rate payers. Page 59 of the Commission's Order in Docket 2048  
13 (discussing Division Exhibit 14) showed that all of Providence Water's "land and buildings in  
14 Providence, as well as its motor vehicles, are all considered PWSB assets which are rec-  
15 orded on the PWSB's books." The insurance is in the name of Providence Water (not the  
16 City of Providence) and any claims would be paid to Providence Water.

17  
18 **Q: Ms. Parrillo has referred the Commission to the Master Trust Indenture regarding the In-**  
19 **surance Fund. Does that Trust indenture discuss the sale or disposal of property?**

20 A: Yes, it does. The full Trust Indenture was an exhibit in Docket 4571. Section 604(2) states  
21 that, "any proceeds of such sale<sup>16</sup>, exchange or other disposition not used to replace the  
22 property so sold, exchanged or disposed of shall be deposited in the Revenue Fund." Ac-  
23 cording to Providence's agreement with the bondholders, all proceeds must be deposited  
24 into Providence Water's Revenue Fund; proceeds cannot go to the City.

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<sup>16</sup> This refers to the sale of parts of the System. "System" is defined to "mean the system of water supply, treatment and distribution facilities of the City, together with any Capital Improvements or other additions to the System and substitutions for any part thereof heretofore or hereafter acquired or made by or on behalf of the City, and all other water supply facilities (as such terms are defined in the Act) of the City used in, or necessary or desirable for, the operation of such system, including but not limited to, artesian wells, reservoirs, dams, pipelines, treatment plants and related equipment."

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8

**Q: What suggestions do you have for guidance from the Commission?**

A: In consideration of the above, Providence Water rate payers should be reimbursed for all the improvements to the property since it was purchased in 1927. The Commission should order that the proceeds from the future sale should go to a restricted fund such as the Capital Fund. The costs of the Academy Avenue facility have been included in the rates paid by all rate payers; the proceeds should likewise benefit all rate payers.

9 **Allocation of Unmetered Water**

10 **Q: The Bristol County Water Authority has raised several questions regarding unmetered or unaccounted for water. Do you have a recommendation on this matter?**

11  
12 A: Yes. As I discussed in the section on Bristol County Water Authority’s direct testimony, I  
13 believe that Providence Water’s next rate filing should include a listing of all non-revenue  
14 water sales, and that the full volume of non-revenue water should be allocated to retail  
15 and wholesale customers based on the estimated use of the non-revenue water. In addi-  
16 tion, Providence Water should be ordered to estimate the length of service pipe between  
17 the curb stop and customers’ meters and include this in the calculation of the service pipe  
18 lengths. As noted in the response attached to BCWA 2-5 (attached response to KCWA in  
19 Docket 4406), Providence Water apparently had no problem estimating the 225 miles of  
20 service pipe to the curb stop; estimating the balance should not be as problematic as they  
21 claim.

22

23 **Summary**

24 **Q: Does this conclude your testimony?**

25 A: There are data requests that have yet to be responded to, and these responses (including  
26 BCWA 6) may raise additional matters.