BEFORE THE

PUBLIC UTILITIES COMMISSION

OF RHODE ISLAND

SUEZ WATER RHODE ISLAND, INC.)	**DOCKET NO. 4800**

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

JUNE 8, 2018

EXETER
ASSOCIATES, INC.

BEFORE THE RHODE ISLAND

PUBLIC UTILITIES COMMISSION

SUEZ WATER RHODE ISLAND, INC.) DOCKET NO. 4800

DIRECT TESTIMONY OF JEROME D. MIERZWA

I. Introduction

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. 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 Masters 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 utility cost of service and rate design analysis, expense and revenue requirement forecasting and activities related to federal regulation. I was also responsible for preparing NFG Supply's Federal Energy

Regulatory Commission ("FERC") Purchase Gas Adjustment ("PGA") filings and developing interstate pipeline and spot market supply gas price projections. These forecasts were utilized for internal planning purposes as well as in NFG Distribution's purchased gas cost proceedings.

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

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

A. Yes. I have provided testimony on more than 300 occasions in proceedings before the FERC, utility regulatory commissions in Arkansas, Delaware, Georgia, Illinois, Indiana, Louisiana, Maine, Massachusetts, Montana, Nevada, New Jersey, Ohio, Pennsylvania, Texas, Utah, and Virginia, as well as before the Rhode Island Public Utilities Commission ("Commission").

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On January 30, 2018, Suez Water Rhode Island, Inc. ("Suez" or "the Company") filed an application with the Commission to increase its rates by $1.025 million, or 21.3 percent. Exeter Associates, Inc. ("Exeter") was retained by the Division of Public Utilities and Carriers ("Division") to review the cost of service study and rate design proposals included in Suez's application.

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

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

- Providence Water Supply Board Docket Nos. 2048, 3163, 3832, 4406, and 4618;
- Kent County Water Authority Docket Nos. 2555, 3311, and 4611;
- City of Newport-Water Division Docket Nos. 2985, 4355, and 4295; and;
- Pawtucket Water Supply Board Docket Nos. 2674 and 3945.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. Following this introductory section, my testimony is divided into two additional sections. The first section provides an overview of the cost of service methodologies. In the next section, I address Suez's cost of service study and rate design proposals.

II. Overview of Cost of Service Methodologies

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

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

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

A. The two most commonly used and widely recognized methods of allocating costs to customer classes for water utilities are the base-extra capacity method and the commodity-demand method. Both of these methods are set forth in the American Water

Works Association's ("AWWA") *Principles of Water Rates, Fees and Charges* ("AWWA M1 Manual").

Q. PLEASE SUMMARIZE EACH OF THESE METHODS.

A. Under the base-extra capacity method, investment and costs are first classified into four primary functional cost categories: base or average capacity, extra capacity, customer, and direct fire protection. Customer costs are commonly further divided between meter and service related and account or billing related costs. Extra capacity costs may also be divided between maximum day and maximum hour costs. Once investment and costs are classified to these functional categories, they are then allocated to customer classes. Base costs are allocated according to average water use, and extra capacity costs are allocated on the basis of the excess of peak demands over average demands. Meter and service related customer costs are allocated on the basis of relative meter and service investment or a proxy thereof. Account related customer costs are allocated in proportion to the number of customers or the number of bills.

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

III. Evaluation of Suez's Cost of Service Study and Rate Design Proposals

Q. WHAT COST OF SERVICE METHODOLOGY HAS BEEN UTILIZED BY SUEZ IN ITS STUDY?

A. The cost of service study presented by Suez utilizes the base extra-capacity methodology.

Q. PLEASE IDENTIFY THE CUSTOMER CLASSES INCLUDED IN SUEZ'S STUDY.

A. The customer classes included in Suez's study are the residential and non-residential retail classes, sales for resale class, tank truck sales, and the public and private fire protection classes.

Q. IS THE COMPANY PROPOSING ANY MODIFICATIONS TO THE RATES INITIALLY INDICATED BY ITS COST OF SERVICE STUDY?

A. Yes, it is. After initially performing its cost of service study, the Company found that the study produced, in the Company's view, several undesirable rate impacts. Under the Company's initial cost of service study, public fire hydrant charges would increase from $57.50 per month to $144.38 per month, or 151 percent. To mitigate this significant increase in rates, the Company is proposing to limit the increase in the public fire hydrant charge to approximately 30 percent, or $74.69 per month. This was accomplished in the Company's cost of service study by shifting $552,000 from public fire protection charges to the retail classes. The Company is also proposing an increase to private fire protection which is less than the indicated cost of service. The indicated cost of service increase in private fire protection is 163 percent, and Suez is proposing an increase of 31 percent. This was accomplished by shifting $250,000 from private fire service to the retail classes in the Company's cost of service study.

Q. IS THE COMPANY'S COST OF SERVICE STUDY REASONABLE AND APPROPRIATE FOR DETERMINING CLASS COST RESPONSIBILITY AND ESTABLISHING RATES IN THIS PROCEEDING?

A. With one exception, I generally find the Company's cost of service study to be reasonable.

Q. WHAT IS THAT EXCEPTION?

A. Suez has assigned uncollectible accounts expense entirely to the customer service functionalization costs category. This is unreasonable. Uncollectable accounts expense relates to the failure to recover all of Suez's functional costs, including base, maximum day, and maximum hour functional costs, not just customer service costs. As such, uncollectible accounts expense should be assigned to all retail functional costs, and this would be consistent with the assignment of uncollectible accounts expense reflected in the AWWA M1 Manual that Suez is using as a guide for its CCOS Study (page 66, 7th Edition). Uncollectible accounts expense should not be assigned to wholesale customers because they experience their own bad debt expense from their retail customers.

Q. HAVE YOU REVISED THE COMPANY'S COST OF SERVICE STUDY TO REFLECT YOUR RECOMMENDED FUNCTIONAL ASSIGNMENT OF UNCOLLECTIBLE ACCOUNTS EXPENSE?

A. Yes. I have revised the Company's study to reflect my recommended assignment of uncollectible accounts expense. Schedule JDM-1 presents a summary of the rates generated by the Division's revised study.

Q. ARE YOU PROPOSING ANY CHANGES TO THE PUBLIC OR PRIVATE FIRE PROTECTION COST SHIFTS TO RETAIL SERVICE PROPOSED BY SUEZ?

A. No, I am not.

Q. WHAT IS YOUR RECOMMENDATION IF THE COMMISSION AUTHORIZES A RATE INCREASE FOR SUEZ WHICH IS LESS THAN THE REQUESTED INCREASE?

A. If the Commission authorizes an increase that is less than that requested by Suez, I recommend that for public and private fire protection services, the rates reflected on Schedule JDM-1 be maintained and not reduced to reflect the lower authorized revenue

requirement. I am proposing to maintain these rates because public and private fire protection rates are currently recovering significantly less than the indicated cost of service. For designing the Company's retail, sales for resale, and tank truck rates, I recommend that the Division's revised study be adjusted to reflect the Commission's authorized increase after accounting for the revenues that would be collected from public and private fire services.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes, it does.

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SUEZ WATER RHODE ISLAND, INC.) DOCKET NO. 4800

SCHEDULE ACCOMPANYING THE

DIRECT TESTIMONY

OF

JEROME D. MIERZWA

ON BEHALF OF THE

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JUNE 8, 2018

EXETER
ASSOCIATES, INC.

COMPARISON OF CURRENT AND PROPOSED RATES

		Current	Proposed Rates	% Change From Current
Metered Rates ($/hundred cubic feet)				
Residential				
1st 8 ccf/month		$3.018	$3.547	17.5%
Over 8 ccf/month		$3.784	$5.109	35.0%
Non-Residential				
all use		$2.882	$3.446	19.6%
Sales for Resale				
per 100 cu ft		$1.115	$1.325	18.9%
per 1000 gal		$1.490	$1.771	18.9%
Tank Truck Sales				
all use		$1.683	$2.683	59.4%
Service Charges				
Quarterly (Divided by 3)	5/8	$10.61	$ 12.09	13.9%
	3/4	$11.37	$ 14.62	28.6%
	1	$16.68	$ 19.69	18.0%
	1 1/2	$28.05	$ 32.36	15.4%
	2	$37.91	$ 47.57	25.5%
	3	$50.80	$ 83.05	63.5%
	4	$75.82	$ 133.74	76.4%
	6	$131.17	$ 260.45	98.6%
	8 & up	$227.47	$ 412.52	81.4%
Monthly	5/8	$16.67	$ 12.09	-27.5%
	3/4	$17.43	$ 14.62	-16.1%
	1	$22.73	$ 19.69	-13.4%
	1 1/2	$34.11	$ 32.36	-5.1%
	2	$43.96	$ 47.57	8.2%
	3	$56.86	$ 83.05	46.1%
	4	$81.88	$ 133.74	63.3%
	6	$137.24	$ 260.45	89.8%
	8 & up	$233.52	$ 412.52	76.7%
Fire Service				
Public	/hydrant/month	$57.50	$ 75.05	30.5%
	/hydrant/quart	$172.50	$ 225.15	30.5%
	/hydrant/semi-ann.	$345.00	$ 450.30	30.5%
	/hydrant/year	$690.00	$ 900.60	30.5%
Private (per quarter)				
	2.5	$29.00	n/a	n/a
	3	$42.00	n/a	n/a
	4	$80.00	n/a	n/a
	6	$215.00	n/a	n/a
	8	$447.00	n/a	n/a
	10	$797.00	n/a	n/a
	12	$1,281.00	n/a	n/a
	16	$2,719.00	n/a	n/a
Private (per month)				
	2.5	$9.67	$ 12.66	31.0%
	3	$14.00	$ 18.34	31.0%
	4	$26.67	$ 34.93	31.0%
	6	$71.67	$ 93.88	31.0%
	8	$149.00	$ 195.19	31.0%
	10	$265.67	$ 348.02	31.0%
	12	$427.00	$ 559.37	31.0%
	16	$906.33	$ 1,187.30	31.0%