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June 8, 2018

Via Electronic and Priority U.S. Mail

Luly Massaro, Commission Clerk
State of Rhode Island
Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

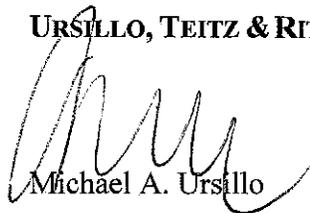
**Re: SUEZ Water Rhode Island 2018 Rate Filing – Docket No. 4800
Intervener's Written Testimony**

Dear Ms. Massaro:

Third-Party Interveners, the Towns of South Kingstown and Narragansett and the Union Fire District, jointly submit herewith Direct Written Testimony. In accordance with your administrative rules, an original and nine (9) copies are provided to the Commission, and copies are being sent electronically to the parties on the Service List.

Yours sincerely,

URSILLO, TEITZ & RITCH, LTD.


Michael A. Ursillo

MAU/gb
Enclosure

cc: Robert C. Zarnetske, South Kingstown Town Manager
Jon R. Schock, South Kingstown Director of Public Services
Jeff Ceasrine, PE, Narragansett Town Engineer
John P. Blessing, Administrator, Union Fire District
Service List

**RHODE ISLAND PUBLIC UTILITIES COMMISSION
DOCKET 4800**

**Prefiled Direct Testimony
of
David G. Bebyn CPA
Regarding Rate Relief Request
From SUEZ Water Rhode Island, Inc.**

**On Behalf of
The Towns of South Kingstown and Narragansett
And the Union Fire District**

June 2018

1 **Q. Please state your name and business address for the record.**

2 A. My name is David G. Bebyn CPA and my business address is 21 Dryden Lane,
3 Providence, Rhode Island 02904.

4
5 **Q. By whom are you employed and in what capacity?**

6 A. I am the President of B&E Consulting LLC. (B&E). B&E is a CPA firm that
7 specializes in utility regulation, expert rate and accounting testimony, school budget
8 reviews and accounting services.

9
10 **Q. Mr. Bebyn, have you testified as an expert accounting witness prior to this**
11 **docket?**

12 A. Yes. I have provided testimony on rate related matters before utility commissions
13 in Rhode Island and Connecticut. Regarding the Rhode Island Public Utilities
14 Commission, I also prepared testimony and testified in the Pawtucket Water Supply
15 Board's (PWSB) last five rate filings, Dockets #3378, #3497, #3674, #3945 & #4550, and
16 the Providence Water Supply Board's rate filing Docket #3832 in support of the adjusted
17 test year. In addition to adjusted test year testimony, I also prepared testimony in
18 Interstate's general rate filing Docket #4373 in support of the adjusted test year and rate
19 design. I prepared testimony and testified on behalf of the Woonsocket Water
20 Department's last two rate filing Dockets #3800 and #4320 in support of rate design. I
21 also prepared testimony in A&R Marine's general rate filing Docket #4586 and on behalf
22 of the Pascoag Utility District in Docket #4341 in support of the adjusted test year, rate
23 year and rate design.

24
25 **Q. What is your educational background?**

26 A. I received my Bachelors of Science Degree in Accounting (BSA) from Rhode Island
27 College. I became a Certified Public Accountant in 2000 after successfully passing the
28 CPA exam.

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1 **Q. Who do you represent in this matter?**

2 A. B&E was engaged by the Towns of South Kingstown and Narragansett
3 And the Union Fire District to represent their interests.

4

5 **Q. What is the purpose of your testimony?**

6 A. The purpose of my testimony is to comment on the January 30, 2018 rate filing
7 submitted by Suez Water of Rhode Island, Inc. (SWRI). My testimony provides
8 recommended revisions to that filing.

9

10 **Q. What is the impact of the increase proposed by Suez Water on the Towns and**
11 **Union Fire?**

12 A. The increase purposed by Suez Water would result in a 21.29% increase in the
13 annual revenues of SWRI or \$1,024,856. Suez Water included a cost of service study in
14 this docket so calculated new rates will have different impacts for each customer class.

15

16 **Q. Initially how would you characterize this rate increase proposal?**

17 A. Suez Water's proposed increase comes less than five years since its last increase.
18 The purposed overall increase of 21.29% coupled with 32.8% (Docket #4434) and 32.5%
19 (Docker #4255) increases granted within past seven years has caused much concern for
20 Towns and Union Fire. The compounded effect of these increases would result in a total
21 increase of 110% in revenue from seven years ago. Much of these increases have been
22 the result of investment in Capital.

23

24 **Q. How have you organized the remainder of your testimony?**

25 A. The Remainder of my testimony is divided into three broader topics – Distribution
26 System Improvement Charges, Return on Rate Base, and Revenue Requirements.

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Distribution System Improvement Charges

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Q. Have you reviewed the Distribution System Improvement Charges as proposed by Suez Water?

A. Yes, I have reviewed Mr. Prettyman’s Testimony and schedules which supports Suez’s position on the establishment of the Distribution System Improvement Charge (DSIC) Surcharge.

Q. What is Mr. Prettyman proposing for this Distribution System Improvement Charges for Suez Water?

A. Mr. Prettyman in his testimony proposes the establishment of surcharge for the purposes of the replacement and rehabilitation of the distribution system. This would allow the company to invest in these types of improvements and recover costs in between base rate cases. The cost recovery, as detailed on Exhibit GSP-3, would allow for depreciation, return on rate base and the associated taxes & PUC assessments on the qualified new assets added in between rate base filing. The calculation for cost recovery would also provide for a deduction for accumulated depreciation and deferred taxes on those new assets. The rate of return would be based upon SWRI last approved rate case.

SWRI would initially file the DSIC surcharge with the PUC after this rate case if the Commission approves this surcharge. The filing would apply the surcharge to all customer bills equal to the percentage of the DSIC revenue requirement to the Company’s projected revenue for the next six months. Please note that the sample calculation on Exhibit GSP-3 presents the annual DSIC revenue requirement along with the annual projected revenue. Both factors would have to be presented on a 6-month basis if the filings are for six months. SWRI would subsequently file six month filing which would include a reconciliation of the over(under) recovery and an earning test. If the earnings test determines the Company is over earning the surcharge would stop until the Company is in an under earning position.

1 **Q. Mr. Bebyn what aspects of the proposed Distribution System Improvement**
2 **Charges do the intervenors find favorable?**

3 A. I am agreement with Mr. Prettyman that this surcharge would allow for the recovery
4 on a timelier basis which would also have the benefit of minimizing rate shock by
5 allowing for smaller rate increases over time. As I previously mentioned in my testimony
6 above, the Towns and Union Fire District have seen two major increases of over 30% and
7 this proposed increase in excess of 20% all within the past seven years. In addition, the
8 Company is proposing a cap on the amount of the increase to 7.5% which will further
9 mitigate potential rate shock.

10
11 Another aspect which the Towns and Union Fire District have expressed as
12 concerns during the open meeting which this surcharge may help to address is for the
13 ability for the intervenors to review the capital projects before they are undertaken.
14 Currently SWRI capital additions, since they are equity financed thru its parent company,
15 does not allow for intervenors the ability to review or give feedback on size, scope or
16 costs of these individual projects before they are added to the Company's rate base. The
17 only time currently to give feedback on these projects is during a full rate case once the
18 assets are for the most part is completed, and the Company is seeking cost recovery of
19 those assets. With the surcharge, the Company will be submitting the projects in the
20 filing as part of a review to ensure that those projects are appropriate. This will give the
21 intervenors that ability to review the filing and offer its position.

22
23 **Q. Mr. Bebyn do you have concerns with the proposed Distribution System**
24 **Improvement Charges?**

25 A. Yes. One aspect would be the timing of the filing. As indicated above, the Towns and
26 Union Fire District have a great interest in the ability to review and give feedback on
27 size, scope or costs of these individual projects before they are added to the Company's
28 rate base. Mr. Prettyman has proposed that the Commission would have 30 days to
29 review filing. This 30 days leaves little time for review and ask data responses and
30 provide a position on the filing. I would propose that the Commission consider using 90
31 days or 60 days at a minimum.

1 Another aspect of concern is there is no mention of how these funds are handled. Since
2 the funds are subject to a later revenue test and a reconciliation of over/(under)
3 collections that the funds would be held in a restricted fund and then freed up with the
4 subsequent 6-month filing. The Towns and Union Fire District would also like to see that
5 restricted funds remain as part of a restricted fund in the event there was ever a successor
6 company that had purchased SWRI.

7

8 Lastly, the proposed surcharge covers additions but there is no mention of retirements or
9 fully depreciated assets. If this surcharge is to allow the company to recover costs for
10 assets added between rate filing, then what about the depreciation that the company
11 would be over collecting for assets that are fully depreciated during the rate year or just
12 after the rate year? According to the data response to DIV 9-40, SWRI has just this
13 example occurring after the rate year. The data response to DIV 9-40 details that the
14 company's CIS has \$58,318 of depreciation for calendar year ending December 31, 2019
15 which is included in the rate year. The response also shows that after December 31, 2019
16 that asset will be fully depreciated. This one item alone accounts for nearly a third of the
17 DSIC revenue requirement sample calculation on Exhibit GSP-3 Page 1 of 3. I believe as
18 a result, that calculation should factor in retirements and the impact of assets that are fully
19 depreciated.

20

21 **Q. Does that conclude your Distribution System Improvement Charges portion of**
22 **your testimony?**

23 A. Yes.

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25 **Q. What would you like to discuss next?**

26 A. I would like to review my position on Rate of Return.

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Return on Rate Base

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Q. Have you reviewed the rate of return on rate base as proposed by Suez Water?

A. Yes, but to help control costs for the Towns and Union Fire’s costs, I have not spent a substantial time with the fine detail since knowing that the Division will consider this level of detail. I have however some concerns regarding the overall increase in the return on equity proposed.

Q. What is the SWRI proposing for a rate for the return on common equity?

A. Suez Water has proposed a 10.5 percent return on common equity which is presented on schedule 1 of Suez Water’s expert witness (Mr. Walker).

Q. Do you agree with this 10.5 percent rate for the return on common equity?

A. No. Suez Water had proposed a similar high 11.1 percent return on common equity in its prior case (Docket 4434) while the Division’s witness had calculated a 9.65. Ultimately Suez Water compromised to the Divisions position in the settlement agreement of 9.65 percent. Given that Suez is proposing a lower rate from their last filing I believe it would be appropriate to leave the rate of return at the current level of 9.65 percent.

Q. Do you agree SWRI proposed capital structure?

A. Yes. SWRI is utilizing the same methodology of using its parents structure as it did in the last rate case.

Q. Mr. Bebyn have you recalculated the overall rate of return?

A. Yes. I have calculated a rate of return of 7.36% as presented on schedule DGB-9 of my testimony.

Q. What would you like to discuss next?

A. I would like to review my position on Revenue Requirements.

1 **Revenue Requirements**

2
3 **Q. Have you reviewed the revenue requirements as proposed by Suez Water?**

4 A. Yes, but to help control costs for the Towns and Union Fire's costs, I have not spent
5 a substantial time reviewing that the Division is expected to consider. I have however
6 some concerns regarding a few areas which I have reviewed in greater detail.

7
8 **Rate Year Revenues**

9 **Q. How did the company project Consumption by Customer Class?**

10 A. Suez Water witness Ms. Gil used trend analysis for consumption by class, however
11 he used a various year trends for each customer class. For example, other than residential
12 consumption used a five-year trend with an estimated 2018 while residential uses a 5-
13 year trend. The result is that residential consumption for the rate year appears 6% lower
14 than the test year while other than residential consumption for the rate year appears is 7%
15 higher than the test year. The combination of these two retail customers is a 1% reduction
16 in consumption from the rate year to the test year. The main problem comes in that Sales
17 for resale (which includes both residential and commercial sales) has a projected decline
18 in consumption of almost 10% from the rate year to the test year.

19
20 **Q. What you proposing for the Rate Year Customer Counts and Water
21 Consumption for the Rate Year?**

22 A. I am recommending that the projected 2018 consumption presented on Schedule 2.8h
23 Page 7 of 12 of SWRI filing requirements be utilized for the Resale customers and the
24 General metered customers. The Residential consumption was left at test year levels.
25 The result of these revisions is an increase in revenues at present rates of \$104,695 which
26 is presented on schedule DGB-2.

1 **Q. Have you made any adjustments for expenses which have been impacted by the**
2 **change in Consumption for the Rate Year?**

3 A. Yes. I have increased the expense for electrical (presented on Schedule DGB-5),
4 chemicals (presented on Schedule DGB-6), and the tax impact for these adjustments
5 (presented on Schedule DGB-4).

6
7 **Cash Working Capital**

8 **Q. What is your opinion regarding eliminating deferred Rate Case expense from**
9 **rate base?**

10 A. Since there is precedence before the Commission which has been affirmed by the
11 Rhode Island Supreme Court this balance should be eliminated from rate base. This
12 adjustment reduces the rate base by \$87,383. See schedule DGB-8.

13
14 **Q. What is your projected Rate Year Revenue after the rate increase?**

15 A. I have projected \$5,729,464 as shown on Schedule DGB-1 which is a 16.49%
16 increase over revenue at present rates.

17
18 **Q. Are you proposing any Rate Design?**

19 A. No. In order to help control costs for the Towns and Union Fire's costs, I have not
20 spent a substantial time reviewing that the Division is expected to consider.

21
22 **Q. Does that conclude your testimony?**

23 A. Yes.

24

Suez Water Rhode Island
Operating Income as Adjusted at Present and Proposed Rates
Rate Year ending September 30, 2019

Schedule DGB-1

	Amount at Present Rates As Filed by SWRI	SKW Adjustments	Amount at Present Rates SKW Position	Revenue Increase/Decrease	Amounts After Rate Increase SKW Position
Operating Revenues	\$ 4,813,887	\$ 104,695	\$ 4,918,582	\$ 810,882 16.49%	\$ 5,729,464
Operating Expenses					
O&M Expenses	2,510,506	13,488	2,523,994	3,467	2,527,461
Depreciation Expenses	905,502	-	905,502	-	905,502
Taxes other than Income	536,842	1,309	538,151	10,136	548,287
Net Income before income Taxes	861,037	89,898	950,935	797,279	1,748,214
Current Income Tax	88,931	24,724	113,655	167,429	281,084
Amort of Reg Liability TCJA	(33,604)	-	(33,604)	-	(33,604)
Amortization of ITC	(4,662)	-	(4,662)	-	(4,662)
Total Operating Expense	4,003,515	39,521	4,043,036	181,031	4,224,067
Rate Base Revenue Increase	\$ 810,372	\$ 65,174	\$ 875,546	\$ 629,851	\$ 1,505,396
Rate Base	\$ 20,542,519		\$ 20,455,136		\$ 20,455,136
Rate of Return	3.94%		4.28%		7.36%

Suez Water Rhode Island
Adjustments to Consumption Revenue at Present Rates
Rate Year ending September 30, 2019

Schedule DGB-2

Amount at
Present Rates
As Filed by SWRI

Consumption Charges	MGL			
Residential				
0-24 CCF	284,849	4.035	\$	1,149,366
Over 24 CCF	92,951	5.059		470,239
General Metered Customers	234,256	3.853		902,588
Resale Customers	293,378	1.49		437,133
	905,434		\$	2,959,326

Amount at
Present Rates
SKW Position

Consumption Charges	MGL			
Residential				
0-24 CCF	301,780	4.035	\$	1,217,682
Over 24 CCF	98,476	5.059		498,190
General Metered Customers	229,139	3.853		882,873
Resale Customers	312,266	1.49		465,276
	941,661		\$	3,064,021

Change in Revenue \$ 104,695

Suez Water Rhode Island
Summary of Adjustments to O&M Expenses
Rate Year ending September 30, 2019

Schedule DGB-3

SKW Adjustments

Electric	\$	13,389	Schedule DGB-5
Chemicals		1,805	Schedule DGB-6
Difference for Salary Increase		(2,153)	Originally Filed Exhibit 3 Sch2 updated with Com 1-19
PUC Assessment		<u>448</u>	Schedule DGB-4
		<u><u>13,488</u></u>	

Summary of Adjustments to Federal Income Tax & Gross Receipts Tax before Revenue Increase
Rate Year ending September 30, 2019

<u>SKW Adjustments</u>			Impact on	Impact on	Impact on
			Federal	Gross Receipt	PUC
			Income Taxes	Taxes	Assessment
Revenue	\$ 104,695	Schedule DGB-2	\$ 21,986	\$ 1,309	\$ 448
Electric	13,389	Schedule DGB-5	\$ 2,812		
Chemicals	1,805	Schedule DGB-6	\$ 379		
Difference for Salary Increase	(2,153)	Originally Filed Exhibit 3 Sch2 updated with Com 1-19	(452.13)		
			<u>\$ 24,724</u>	<u>\$ 1,309</u>	<u>\$ 448</u>

Suez Water Rhode Island
 Adjustments to Purchase Power Cost
 Rate Year ending September 30, 2019

Schedule DGB-5

Rate Year Purchase Power	Usage	Project Water	Ave Usage per MG	kwh ave cost	Total Cost
Commodity	1717014	979	1,754	\$ 0.0850	\$ 145,946
Distribution	1717014	979	1,754	\$ 0.1176	\$ 201,921
				SKW Position	\$ 347,867
				As Filed by SWRI	\$ 334,478
				<u>SKW Adjustments</u>	\$ 13,389

Suez Water Rhode Island
 Adjustments to Purchase Power Cost
 Rate Year ending September 30, 2019

Schedule DGB-5

Rate Year Purchase Power	Usage	Project Water	Ave Usage per MG	kwh ave cost	Total Cost
Commodity	1717014	979	1,754	\$ 0.0850	\$ 145,946
Distribution	1717014	979	1,754	\$ 0.1176	\$ 201,921
				SKW Position	\$ 347,867
				As Filed by SWRI	\$ 334,478
				<u>SKW Adjustments</u>	\$ 13,389

Suez Water Rhode Island
 Cost of Capital & Rate of Return
 Rate Year ending September 30, 2019

Schedule DGB-7

	As Filed by SWRI (1)	SKW Position
Proposed Rate Base	\$ 20,542,519	\$ 20,455,136
Required Rate of Return	7.82%	7.36%
Net operating Income Required	1,606,425	1,505,396
Net operating Income at Present Rates	810,371	875,546
Net Income Surplus/(Deficiency)	(796,054)	(629,850)
Revenue Multiplier	1.28742	1.28742
Rate Base Revenue Increase	\$ 1,024,856	\$ 810,882
Revenue increase	\$ 1,024,856	\$ 810,882
PUC Assessment	4,381	3,467
Gross Receipts Tax	12,811	10,136
Federal Taxable income	\$ 1,007,664	\$ 797,279
Federal Tax	211,609	167,429
Net Income	\$ 796,055	\$ 629,851

Calculation of Revenue Multiplier

	Tax Rate	
Revenue		1.000000
PUC Assessment	0.4275%	0.004275
Gross Receipts Tax	1.2500%	0.012500
Federal Income Tax	21.0000%	0.983225
Revenue Conversion Factor		0.773225
Revenue Multiplier		1.28742

Suez Water Rhode Island
 Summary of Rate Base
 Rate Year ending September 30, 2019

Schedule DGB-8

	As Filed by SWRI (1)	SKW adjustments	SKW Position
Average Utility plant in Service	\$ 36,073,465	\$ -	\$ 36,073,465
Less:			
Accumulated Amortization	(8,362,574)		(8,362,574)
Contributions	(3,560,845)		(3,560,845)
Deferred Income Tax	(1,866,387)		(1,866,387)
Regulatory Liab -Tax Rate Change	(1,663,377)		(1,663,377)
Unamortized ITC	(66,926)		(66,926)
1/13th Unfunded FAS 106	(666,309)		(666,309)
Plus:			-
Materials & Supplies	202,236		202,236
Working Capital	307,171		307,171
Deferred Tank Painting	58,682		58,682
Deferred Rate Case	87,383	(87,383)	-
Deferred Operations	-		-
Deferred Acquisitions	-		-
Total Rate Base	\$ 20,542,519	\$ (87,383)	\$ 20,455,136

Suez Water Rhode Island
 Cost of Capital & Rate of Return
 Rate Year ending September 30, 2019

Schedule DGB-9

Type of Capital	<u>Ratios (1)</u>	<u>Cost Rate (%)</u>	<u>Weighted Cost Rate</u>
Debt	45.81%	4.65 (1)	2.13%
Preferred Stock	0.00%	0	0.00%
Common Equity	<u>54.19%</u>	9.65 (2)	<u>5.23%</u>
Overall Cost of Capital	<u><u>100.00%</u></u>		<u><u>7.36%</u></u>

(1) Per Schedule 1 of Walker Testimony

(2) Bebyn Testimony page 6