

# ***Larkin & Associates, PLLC***

**Certified Public Accountants  
And Regulatory Consultants  
15728 Farmington Road  
Livonia, Michigan 48154  
(734)522-3420**

## **Memo**

**To: Luly Massaro, Commission Clerk  
Rhode Island Public Utilities Commission**

**From: Ralph Smith, Senior Regulatory Consultant, and Megan Cranston, Regulatory  
Consultant, Larkin & Associates PLLC  
On Behalf of the Division of Public Utilities and Carriers**

**Date: June 16, 2021**

**Re: Docket 4994 – Providence Water Supply Board – Phase 2 Rate Increase**

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### **Providence Water's Request**

PWSB is requesting that the \$89,309,453 Phase 2 revenue requirement and the \$4,310,146 revenue increase for PWSB's proposed rates to become effective July 1, 2021 be approved as provided for in the Amended Settlement Agreement, without any changes.

To evaluate PWSB's requested Phase 2 revenue requirement and this revenue increase, the Division reviewed PWSB's accounting information and updated estimates for the fiscal year ending June 30, 2021 ("FY2021"), issued and reviewed discovery and had a conference call with PWSB management.

The Division's focus was on four primary areas: (1) revenue, (2) labor costs, (3) restricted accounts and (4) renewable energy certificates (RECs).

For the first three areas, the Division inquired of PWSB about the Phase 1 performance for the 12-month period ending June 30, 2021 and reviewed how performance for that period had deviated from the amounts used in the Amended Settlement Agreement for establishing the Phase 1 rates, and how and whether such deviations should result in modifications to Phase 2 prior to implementing the new Phase 2 rates on July 1, 2021. The review conducted was much less than a detailed rate case review and was limited in time and scope. It was focused on identifying and understanding significant deviations from actual results for the period ending June 30, 2021 and whether modifications for PWSB's Phase 2 revenue requirement appear to be needed prior to putting new Phase 2 rates into effect on July 1, 2021 as previously contemplated in the Amended Settlement Agreement.

## Revenue

For the 12-month period ending June 30, 2021, which corresponds with the first year of new rates for PWSB, the Amended Settlement Agreement had projected annual revenue of approximately \$85 million.

In its amended response to DIV 1-2, PWSB estimates that its actual revenue for the 12 months ending June 30, 2021 will be approximately \$78.3 million as summarized below:

Revenue by Category:	Actual Revenues (1) As of 4/30/2021	Actual Revenues 5/31/2021	Estimated Revenues (2) 6/30/2021	Final Revenues (3) FYE 6/30/2021
<b>Retail</b>				
Residential	\$ 25,744,637	2,714,326	1,833,324	\$ 30,292,287
Commercial	9,898,051	974,845	967,017	11,839,913
Industrial	475,070	105,146	11,793	592,009
Sub-Total Retail	36,117,758	3,794,317	2,812,134	\$ 42,724,209
Wholesale	15,120,682	1,538,424	1,641,367	18,300,473
Total Consumption Revenue	\$ 51,238,440	\$ 5,332,741	\$ 4,453,501	\$ 61,024,682
Service Charge	7,343,455	805,702	838,032	8,987,189
Private Fire Protection	3,297,068	345,153	331,080	3,973,302
Retail Providence FPSC	1,311,248	138,079	138,079	1,587,405
Hydrants	1,203,373	495,457	-	1,698,830
Miscellaneous Revenue	666,849	97,655	272,655	1,037,158
Total Revenue	\$ 65,060,433	\$ 7,214,786	\$ 6,033,346	\$ 78,308,566

This is a shortfall of approximately \$6.69 million versus the amount of annual revenues for PWSB used in determining the Phase 1 revenue requirement, as summarized in the following table:

Providence Water Supply Board - Docket No. 4994 - Phase 2				
Comparison of Revenue for Rate Year 1 Ending June 30, 2021				
		Per PWSB's Supp	Difference	
	Per Settlement	Response to DIV 1-2	Over (Under)	
Description	RY2021	FYE 6/30/21	Settlement	
Service Charge	\$ 10,056,362	\$ 8,987,189	\$ (1,069,173)	
East Smithfield Debt Surcharge	\$ 82,451	\$ -	\$ (82,451)	
Retail Sales	\$ 47,025,424	\$ 42,724,209	\$ (4,301,215)	
Wholesale Sales	\$ 18,456,517	\$ 18,300,473	\$ (156,044)	
Private Fire Protection	\$ 3,972,965	\$ 3,973,302	\$ 337	
Retail FPSC	\$ 1,885,959	\$ 1,587,405	\$ (298,554)	
Public Fire Protection	\$ 1,976,466	\$ 1,698,830	\$ (277,636)	
Miscellaneous Revenue	\$ 1,543,163	\$ 1,037,158	\$ (506,005)	
<b>TOTAL REVENUE</b>	<b>\$ 84,999,307</b>	<b>\$ 78,308,566</b>	<b>\$ (6,690,741)</b>	

During discussions between the Division and PWSB, PWSB expressed its understanding that the amount for the Phase 2 revenue increase that was provided for in the Amended Settlement Agreement cannot be increased at this time to address any revenue shortfall that is occurring in the 12-month period through June 30, 2021. If the revenue shortfall continues, PWSB has indicated

that the Company may need to file for expedited rate relief at some point later in calendar 2021, possibly in the fall.

### **Labor Costs**

As described in PWSB's updated responses to DIV 1-6, PWSB was unable to fill needed work positions on a timely basis, resulting in payroll expense being \$1,402,840 lower than anticipated and employee benefits being \$1,132,583 less than the Phase 1 approved amount in Docket No. 4994 for the 12 months ending June 30, 2021.

PWSB was not required to, and did not apply reserve accounting for the underruns in payroll and employee benefit costs it was experiencing during the 12 months ending June 30, 2021. *See, e.g.*, PWSB's response to DIV 1-6(b).

The Division discussed the unfilled positions and PWSB's effort to fill them in a conference call held on June 9, 2021. PWSB management has indicated that it is aggressively pursuing filling all open work force positions. PWSB management explained the impediments that it has encountered in filling needed positions. PWSB management indicated that issues with the City of Providence during the pandemic as well as general conditions including the availability of enhanced unemployment benefits were contributing factors to the Company not being able to fill needed positions on a timely basis. PWSB also expressed concerns that if the amount of labor costs for Phase 2, the 12-month period July 1, 2021 through June 30, 2022, were to be scaled back from the amounts provided for in the Amended Settlement Agreement, that could have the undesirable impact of making it harder for PWSB to fund the needed positions that PWSB has been working diligently to fill with qualified applicants. PWSB management expressed confidence that it would be able to fill all currently open positions that are needed for its work force and is continuing to take all steps necessary to fill the current roster of positions.

We note that PWSB's shortfall in FY2021 revenues of approximately \$6.7 million exceeded the shortfall in payroll and benefit costs.

### **Restricted Funds**

In response to DIV 1-3, PWSB provided actual information to-date and anticipated results for the balances in the following restricted funds through June 30, 2021:

- a. Capital Fund
- b. Western Cranston Fund
- c. IFR Replacement Fund
- d. AMR/Meter Replacement Fund
- e. Equip/Vehicle Replacement Fund
- f. Insurance Fund
- g. Chemicals/Sludge Maint. Fund
- h. Property Tax Refund Fund
- i. Private Side Lead Service Replacement Fund
- j. Revenue Reserve Fund

Based on deviations from actual results versus what had been projected for Phase 1, the Division inquired with PWSB about whether changes were needed for Phase 2 relating to any of the above-noted restricted funds.

PWSB's response to DIV 1-4 states that:

RESPONSE: No adjustments are necessary for the Phase 2 revenue requirement to address restricted funds. Providence Water has resumed normal operations; thus, any delayed projects or equipment purchases and upgrades in FY 21 due to the COVID pandemic will begin over the next few months.

The Division asked PWSB for the following in DIV 1-5:

DIV 1-5. Based on current PWSB knowledge, does PWSB expect that FY2022 activity for each of the restricted funds will be exactly or substantially as was previously projected in the corresponding Amended Settlement Schedules HJS 10a through 10j that were attached to the Commission's October 20, 2020 Report and Order? If not, identify, quantify and explain each significant change, based on PWSB's current knowledge to the corresponding Amended Settlement Schedules HJS 10a through 10j, and please provide updated corresponding Excel files reflecting current information and current PWSB expectations for each restricted fund through FY2022.

PWSB's amended response to DIV 1-5, dated June 15, 2021 stated as follows:

Based on current knowledge, we do not expect that the FY2022 activity for 8 of the 11 restricted funds will not change substantially from the activity indicated on the corresponding Amended Settlement Schedules HJS 10a through 10j that were attached to the Commission's October 20, 2020 Report and Order. We have updated Schedules HJS Amended Settlement 10c, 10d and 10e – IFR Fund, AMR/Meter Replacement Fund and Equipment/Vehicle Fund to indicate changes in expected spending in FY2022 due to FY2021 spending that did not take place because of the COVID-19 pandemic shutdown. See attached Exhibit 1.

Additionally, the PUC's data request PUC-1-1 and 2-1 compared amounts for PWSB's restricted funds from the Amended Settlement Agreement with the activity and anticipated results through June 30, 2021, noting a net discrepancy of approximately \$6.7 million. Based on that summary, the PUC asked PWSB to explain why the Company's expected contributions to restricted accounts are roughly \$6.7 million less than required through 6/30/21.

PWSB's response states that:

RESPONSE: There are two main reasons Providence Water is projecting a \$6.7 million shortfall in our restricted accounts. First, over the last few months, Providence Water has experienced a significant decline in water consumption resulting in less consumption revenue and a corresponding reduction in cash flow. Second, over the last few months, Providence Water has experienced an increase in our accounts receivable balances, which has also reduced our cash flow. Providence Water believes our growing accounts receivable balances are directly attributed to our inability to charge interest on unpaid balances. Providence Water intends to fully fund our restricted accounts when cash becomes available to transfer into these accounts. Providence Water needs the previously

approved Step 2 rate increase funding, effective July 1, to capture summer consumption in order to address these concerns adequately.

During the June 9, 2021 call with PWSB, the Division discussed the growing accounts receivable situation with PWSB management. Management indicated that it expects that amounts billed for water service will largely be collectible, although the timing in the collections has been deferred, reducing cash flow to the Company until collection will occur.

### **Renewable Energy Certificates**

PWSB has installed solar generating facilities which, in addition to generating energy, also generate renewable energy certificates (RECs) which relate to the renewable (i.e., “green”) attributes of the solar generation. One MWh of solar generation produces one REC. RECs have value and can be purchased and sold.

PWSB’s solar RECs can be identified and potentially could be sold, with the proceeds being used to reduce the cost of energy to PWSB’s customers. Additionally, there may be a premium value available for solar RECs that can be retired in the NEPOOL GIS over other types of RECs, such as wind. Thus, there could be an opportunity for PWSB to optimize its “green energy” performance by selling its solar RECs and replacing those with an equal or approximately equal quantity of other lower-cost RECs.

As stated in its response to DIV 1-7, PWSB did not sell any REC’s in FY2021 and does not expect to sell any RECs in the remainder of FY2021. Additionally, PWSB does not expect to sell any RECs in FY2022. PWSB indicated that any excess RECs are expected to be applied to the anticipated shortage of REC’s in FY2021. PWSB utilizes the NEPOOL GIS to track the generation of RECs from its two solar arrays. In FY2021 (July – December 2020) 1,923 RECs were generated and registered with NEPOOL GIS. In FY2021 (July – December 2020) PWSB indicates that one (1) REC was retired.

The REC situation was discussed with PWSB management. Based on that discussion, it is apparently management’s policy to track and retire in the NEPOOL GIS all of the RECs that are generated by PWSB’s solar facilities and not to sell RECs or attempt to optimize or reduce the cost of its “green” energy position by selling or buying RECs.

### **Conclusion and Recommendation**

Based on the analysis conducted, the Division is not recommending adjustments to PWSB’s labor costs for the Phase 2 revenue requirement. The Division agrees with PWSB’s proposal to implement the Phase 2 revenue increase of \$4,310,146.

The Division also recommends (1) that PWSB periodically report on its efforts to fill needed work force positions with qualified applicants<sup>1</sup>, and (2) that PWSB report on its revenues and

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<sup>1</sup> A periodic report from PWSB on work force and filled positions in October 2021, with updates in January 2022 and May 2022 is recommended. This should enable the Division and the Commission to keep reasonably informed about PWSB’s filling of needed positions. The report in May 2022 could impact on amounts allowed for PWSB’s labor cost for the Phase 3 revenue requirement and the Phase 3 rates contemplated for implementation by PWSB on July 1, 2022.

any revenue shortfalls quarterly including the Company's plans for addressing cash flow shortages and its ability to finance them.

The Division is not recommending that any changes be required at this time to PWSB's policy of retiring the RECs that are being produced by its solar generating facilities in the NEPOOL GIS.