

**BEFORE THE
PUBLIC UTILITIES COMMISSION
OF RHODE ISLAND**

PROVIDENCE WATER SUPPLY BOARD) DOCKET NO. 4994

**DIRECT TESTIMONY ON COST OF SERVICE STUDY
OF
JEROME D. MIERZWA**

**ON BEHALF OF THE
DIVISION OF PUBLIC UTILITIES AND CARRIERS**

October 7, 2021

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I. INTRODUCTION

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Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS
 ADDRESS?

A. My name is Jerome D. Mierzwa. I am a Vice President of and a Principle with Exeter Associates, Inc. (“Exeter”). My business address is 10480 Little Patuxent Parkway, Suite 300, Columbia, Maryland 21044. Exeter specializes in providing public utility-related consulting services.

Q. ARE YOU THE SAME JEROME D. MIERZWA WHO PREVIOUSLY
 SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I submitted direct testimony on behalf of the Division of Public Utilities and Carriers (“Division”) on May 4, 2020.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. On December 2, 2019, in Docket No. 4994, the Providence Water Supply Board (“Providence Water”) filed an application with the Public Utilities Commission (“Commission”) requesting a three step increase in rates over the course of three years (Rate Year 1, Rate Year 2, and Rate Year 3). An Initial Settlement Agreement (“ISA”) was filed in Docket No. 4994 on July 3, 2020. The ISA provided for uniform wholesale rates based on a cost of service study that was filed with the ISA. The Commission

1 subsequently conducted evidentiary hearings on the ISA and at an open meeting on
2 August 18, 2020, the Commission modified the ISA. Among other adjustments and
3 modifications, the Commission rejected uniform wholesale rates and required
4 implementation of graduated individual rates for each wholesale customer.

5 On August 25, 2020, Providence Water submitted an Amended Settlement
6 Agreement (“ASA”) reflecting the Commission’s adjustments and modifications to the
7 ISA. The ASA included a cost of service study that utilized individual peaking factors
8 for each wholesale customer without any other material changes to the cost of service
9 study included in the ISA. However, the ASA did not include rates that fully reflected
10 the results of a cost of service study which utilized individual peaking factors for each
11 wholesale customer. Instead, as directed by the Commission at its August 18, 2020
12 open meeting, the rates for the first step of the three step increase for Rate Year 1
13 reflected one-third of the change between the rates in the ISA and the rates developed
14 utilizing individual peaking factors for each wholesale customer. On August 27, 2020,
15 the Commission voted to accept the ASA.

16 In its Report and Order in Docket No. 4994 (Order No. 23928), issued October
17 20, 2020, the Commission required Providence Water to perform a new allocated cost
18 of service study taking into account certain directives which the Commission identified
19 in Order No. 23928. On April 1, 2021, Providence Water filed its new cost of service
20 study in compliance with Order No. 23928. Exeter Associates was retained by the
21 Division to review the cost of service study and rate design proposals presented by
22 Providence Water in its initial December 2, 2019 application in Docket No. 4994. The
23 purpose of my testimony is to evaluate and assess the new cost of service study filed
24 by Providence Water on April 1, 2021.

1 Q. WHAT COST OF SERVICE STUDY DIRECTIVES DID THE
2 COMMISSION ESTABLISH IN ORDER NO. 23928?

3 A. In Order No. 23928, the Commission identified the following issues to be addressed in
4 Providence Water's new cost of service study:

- 5 1. Transmission and Distribution Labor Cost Allocation
- 6 2. Central Operations Facility Allocation
- 7 3. Non-Revenue Water Allocation
- 8 4. Pumping Cost Allocation
- 9 5. Unidirectional Flushing Cost Allocation

10 Q. WERE THESE THE ONLY ISSUES WHICH THE COMMISSION
11 DIRECTED PROVIDENCE WATER TO ADDRESS IN THE NEW COST
12 OF SERVICE STUDY?

13 A. No. Order No. 23928 also indicated that it was the Commission's objective to approve
14 individual wholesale rates which take "into account all relevant factors, in a manner
15 that is fair to all the affected parties," (Order, at 33).

16 Q. WHAT REVENUE REQUIREMENT DID PROVIDENCE WATER
17 UTILIZE IN ITS NEW COST OF SERVICE STUDY?

18 A. Providence Water utilized its Rate Year 2 revenue requirement in its new cost of service
19 study.

20 Q. PLEASE IDENTIFY THE CUSTOMERS SERVED BY PROVIDENCE
21 WATER.

22 A. Providence Water provides service to retail customers and serves the following seven
23 wholesale customers:

- 24
- East Providence

- 1 • Warwick
- 2 • Bristol County
- 3 • Greenville
- 4 • Lincoln
- 5 • Smithfield
- 6 • Kent County

7 Q. DID YOUR REVIEW OF PROVIDENCE WATER’S NEW COST OF
8 SERVICE STUDY REVEAL ANY CONCERNS?

9 A. Yes. My review of Providence Water’s new cost of service study revealed a concern
10 with respect to the revised allocation of pumping costs.

11 Q. PLEASE EXPLAIN HOW PROVIDENCE WATER ALLOCATED
12 PUMPING COSTS IN ITS NEW COST OF SERVICE STUDY?

13 A. As explained by Providence Water witness Harold J. Smith in his compliance
14 testimony, most of Providence Water’s system is fed by gravity and does not require
15 any additional pumping. All customers use the gravity portion of the system. However,
16 there are some customers who are served by the gravity system and a series of pump
17 stations. Mr. Smith refers to customers that only use the gravity portion of the system
18 as low service customers. Mr. Smith refers to customers that use the gravity system and
19 require pumping as high service customers. Bristol County, East Providence, Kent
20 County, and Warwick are low service customers and do not require additional
21 pumping. Greenville, Lincoln, and Smithfield are high service customers and are
22 served by two pump stations: the Neutaconkanut Pump Station and the Bath Street
23 Pump Station. The allocation of pumping costs in the cost of service study filed in the
24 ASA did not distinguish between high and low service customers. The new COSS

1 addresses this issue by differentiating between the low service system, which is used
2 by all customers, and the high service system, which is used by retail customers,
3 Greenville, Lincoln, and Smithfield only. More specifically, Mr. Smith added two cost
4 component categories to the new cost of service study titled “CTA – Supply, Treatment
5 and Low Service” and “High Service and Retail.” CTA – Supply, Treatment and Low
6 Service costs are those which relate to Providence Water’s source of supply, treatment
7 plant and the Aqueduct and Neutaconkanut Reservoirs. These costs are incurred to
8 serve all customers and are allocated based on base, maximum day, and maximum hour
9 demands for each customer class. High Service and Retail Costs relate to Providence
10 Water’s pump stations which are used to serve certain wholesale customers and
11 Providence Water’s retail customers. These costs are allocated based on base,
12 maximum day, and maximum hour demands for retail, Greenville, Lincoln, and
13 Smithfield.

14 Q. WHAT IS YOUR CONCERN WITH PROVIDENCE WATER’S
15 ALLOCATION OF PUMPING COSTS?

16 A. Only a portion of the base, maximum day, and maximum hour demands of retail
17 customers are served by the high service system. However, the total base, maximum
18 day, and maximum hour demands of retail customers have been used to allocate high
19 service system costs in the new cost of service study. The demands of retail customers
20 served by the low service system should be excluded from the allocation of pumping
21 costs.

22 Q. HAS PROVIDENCE WATER REVISED ITS NEW COST OF SERVICE
23 STUDY TO ADJUST THE ALLOCATION OF PUMPING COSTS TO

1 EXCLUDE THE DEMANDS OF RETAIL CUSTOMERS THAT ARE
2 SERVED BY THE LOW SERVICE SYSTEM?

3 A. Yes. At the Division's request, Providence Water revised its new cost of service study
4 to adjust the allocation of pumping costs to exclude the demands of retail customers
5 that are served by the low service system. A comparison of Providence Water's initial
6 and revised new cost of service studies is presented in Table 1 below. Also identified
7 in Table 1 are the percentage changes in rates which would be required under each
8 study to adopt cost of service rates.

**Table 1.
Comparison of Cost of Service Study Results - Rate Year 2**

| Description | New Study | | New Revised Study | | Study Difference |
|-------------------------------|---------------------|---------------|---------------------|---------------|-------------------|
| | Cost of Service | Increase | Cost of Service | Increase | |
| <u>Retail</u> | | | | | |
| Monthly Service Charges | \$10,753,832 | 1.36% | \$10,753,832 | 1.36% | \$0 |
| Volumetric Charges: | | | | | |
| Residential | 35,398,278 | 8.86% | 35,347,901 | 8.71% | (50,377) |
| Commercial | 17,714,618 | 8.00 | 17,686,326 | 7.82 | (28,292) |
| Industrial | 758,291 | 9.77 | 757,355 | 9.64 | (936) |
| East Smithfield | 82,451 | 0.00 | 82,451 | 0.00 | 0 |
| Public Fire Surcharge | 2,017,357 | 1.39 | 2,017,357 | 1.39 | 0 |
| Total Retail: | \$66,724,827 | 7.12% | \$66,645,222 | 6.99% | (\$79,605) |
| <u>Wholesale</u> | | | | | |
| Bristol County | \$2,535,090 | 3.59% | \$2,535,090 | 3.59% | \$0 |
| East Providence | 2,935,818 | -3.77 | 2,935,818 | -3.77 | 0 |
| Greenville | 828,554 | 14.40 | 849,803 | 17.33 | 21,249 |
| Kent County | 3,202,650 | -28.16 | 3,202,650 | -28.16 | 0 |
| Lincoln | 1,993,477 | 13.68 | 2,033,394 | 15.96 | 39,917 |
| Smithfield | 1,005,225 | 48.73 | 1,022,065 | 51.22 | 16,840 |
| Warwick | 5,627,917 | -7.56 | 5,627,917 | -7.56 | 0 |
| Total Wholesale: | \$18,128,731 | -5.57% | \$18,206,737 | -5.16% | \$78,006 |
| <u>Fire Protection</u> | | | | | |
| Private Fire | \$4,239,860 | 1.16% | \$4,240,659 | 1.18% | \$799 |
| Hydrants | 2,112,073 | 1.29 | 2,112,073 | 1.29 | 0 |
| Total Fire Protection: | \$6,351,933 | 1.20% | \$6,352,732 | 1.21% | \$799 |
| TOTAL RATE REVENUES: | \$91,205,491 | 3.92% | \$91,204,691 | 3.92% | (\$800) |

1 As indicated in Table 1, the revised allocation of pumping costs slightly reduces the
2 indicated cost of service of retail customers and slightly increases the indicated cost of
3 service of those wholesale customers served by the high service system.

4 Q. IS PROVIDENCE WATER PROPOSING TO ADOPT THE RATES
5 INDICATED BY ITS NEW COST OF SERVICE STUDY FOR RATE
6 YEAR 2?

1 A. No. Providence Water has indicated that it would be appropriate for the Commission
2 to consider a more gradual phase-in of cost of service rates. Mr. Smith has suggested
3 that the Commission could employ the same approach used in the ASA. That is, moving
4 1/3rd of the way to cost of service rates in Rate Year 2022 and another 1/3rd in Rate
5 Year 2023. Another approach suggested by Mr. Smith would be to establish a
6 percentage increase cap of 1.75 times the overall revenue requirement increase. Classes
7 above the cap would be limited to an increase of that amount, with the difference
8 recovered via higher increase to customers below the cap.

9 Q. IS IT YOUR RECOMMENDTION THAT THE RATES INDICATED BY
10 THE REVISED NEW COST OF SERVICE STUDY FOR RATE YEAR 2
11 BE ADOPTED?

12 A. No. Like Mr. Smith, I agree that it would be appropriate for the Commission to
13 consider a more gradual phase-in of cost of service rates. I recommend that a hybrid
14 approach to the two alternatives proposed by Mr. Smith be adopted. That is, each
15 wholesale customers should be moved 1/3rd of the way toward cost of service rates
16 subject to a cap increase of 12 percent. My proposed allocation of Providence Water's
17 Rate Year 2 increase is presented in Table 2.

| Table 2. | | | |
|---|----------------------|-----------------------|-----------------|
| Division Proposed Distribution of Revenue Increase | | | |
| Description | Present Rates | Proposed Rates | Increase |
| <u>Retail</u> | | | |
| Monthly Service Charges | \$10,609,165 | \$10,753,832 | 1.36% |
| Volumetric Charges: | | | |
| Residential | 32,516,684 | 34,913,586 | 7.37 |
| Commercial | 16,402,983 | 17,485,485 | 6.60 |
| Industrial | 690,770 | 748,754 | 8.39 |
| East Smithfield | 82,451 | 82,529 | 0.09 |
| Public Fire Surcharge | 1,989,631 | 2,017,357 | 1.39 |
| Total Retail: | \$62,291,684 | \$66,001,543 | 5.96% |
| <u>Wholesale</u> | | | |
| Bristol County | \$2,447,301 | 2,478,899 | 1.29% |
| East Providence | 3,050,760 | 3,015,286 | -1.16 |
| Greenville | 724,285 | 766,846 | 5.88 |
| Kent County | 4,458,129 | 4,043,444 | -9.30 |
| Lincoln | 1,753,567 | 1,848,584 | 5.42 |
| Smithfield | 675,870 | 756,974 | 12.00 |
| Warwick | 6,088,219 | 5,940,380 | -2.43 |
| Total Wholesale: | \$19,198,131 | \$18,850,414 | -1.81% |
| <u>Fire Protection</u> | | | |
| Private Fire | \$4,191,361 | \$4,240,659 | 1.18% |
| Hydrants | 2,085,114 | 2,112,073 | 1.29 |
| Total Fire Protection: | \$6,276,475 | \$6,352,732 | 1.21% |
| TOTAL RATE | | | |
| REVENUES: | \$87,766,290 | \$91,204,689 | 3.92% |

1 Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

2 A. Yes, it does.