

Providence Water Docket 4994

Bristol County Water Authority Data Request – Set 6 April 29, 2020

BCWA 6-1: What is the basis for Providence allocating Capital Fund, IFR Fund, and Vehicle/Equipment Fund expenses using “Net Plant In Service” (“Factor 21 - As Total Plant Excl. Land, COF”)?

RESPONSE: Over time, Providence Water will reinvest in its system in proportion to the level of existing investment. This factor is based on an allocation of the test year net plant in service (i.e. as of 6/30/2019) to the various cost drivers (e.g. base, max day, max hour), excluding land and the central operations facility. A version of this approach was proposed by Providence Water, accepted by all parties, and approved by the Commission in Docket 4618 and many dockets prior.

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BCWA 6-2: Why are the Capital Fund, IFR Fund, and Vehicle/Equipment Fund expenses allocated to Common to All and Retail Only based on the historical book value of assets and not planned capital spending, such as that indicated in the IFR Expenditure Plan (as provided in Exhibit GG-1 of the Direct Testimony of Gregg M. Giasson, PE)? [page 15 of “4994-PWSB-Giasson 12-2-19.pdf” – see Budget 2021]?

RESPONSE: Use of net plant in service results in a smooth allocation of capital costs over time due to gradual changes in overall net plant investment. The use of planned expenditures could cause the rates to change significantly with each rate case depending on where the money is being spent at the time, potentially resulting in rate shock for one group of customers in one rate case and another group in the next. The net plant in service approach minimizes these potentially wide swings in capital cost allocation by spreading them out over time and is consistent with guidance provided by the AWWA M-1 manual which states:

“Because annual capital expenses for different functions can vary considerably from year to year, capital costs are typically allocated based on past investments as an indicator of the trend for ongoing investments. Accordingly, the allocation of the accumulative book value of fixed assets by function is the principal tool used in the cost allocation process for capital-related annual revenue requirements. In the cash basis of revenue requirements, the sum of the annual debt service, debt-service reserves, and annual capital costs not financed through debt would be allocated to the cost components in the same proportion or ratios as the allocation of the utility’s fixed assets.”¹

¹ Manual of Water Supply Practices—M1, Seventh Edition Principles of Water Rates, Fees, and Charges; American Waterworks Association; 2017; pg. 60