

Prefiled Direct Testimony  
of  
NANCY PARRILLO  
before the  
PUBLIC UTILITIES COMMISSION

for

PROVIDENCE WATER

DOCKET No. \_\_\_\_\_

December 2019

PROVIDENCE WATER SUPPLY BOARD  
TESTIMONY OF NANCY E. PARRILLO

1           **Q.    Please state your full name and title?**

2           A.    Nancy E. Parrillo, Senior Manager – Finance for the Providence Water Supply  
3           Board (Providence Water, PW).

4           **Q.    How long have you been employed by Providence Water?**

5           A.    I have been employed since April of 2015 or 4 ½ years.

6           **Q.    Would you please state your education, background, and professional  
7           associations?**

8           A.    I have a Master’s Degree in Business Administration with a concentration in Finance  
9           from Bryant University. I graduated from Wheaton College in Norton, Massachusetts with  
10          a Bachelor of Arts degree with a major in Economics.

11                    Prior to joining Providence Water, I was the CFO for the RI Turnpike & Bridge  
12                    Authority. I have also spent 12 years in the water and wastewater sectors as CFO for the  
13                    MA Water Pollution Abatement Trust, which is the name of the Massachusetts State  
14                    Revolving Fund agency, and as CFO for the South Essex Sewerage District,  
15                    Massachusetts’s second largest wastewater treatment facility.

16          **Q.    Have you testified previously before the Commission?**

17          A.    I have. I testified in Docket 4571 as well as the last docket – Docket 4618. I have  
18          also testified in front of the Division on several occasions related to borrowings that  
19          Providence Water was pursuing.

20          **Q.    Please explain your duties and responsibilities.**

21          A.    I am responsible for the Finance Department which includes Accounting, Financial  
22          Planning, Budgeting, Accounts Payable, Payroll, and Regulatory.

23          **Q.    What would you like to present in this testimony?**

24          A.    I would like to discuss the changes being requested for the restricted funds.

25

1           **Q.    Ms. Parrillo, are any adjustments being considered for the various restricted**  
2           **funds?**

3           A.    Yes. I will address each restricted fund individually as the proposed adjustments are  
4           increases from the current funding levels.

5           *Capital Fund*

6                   I will address the Capital Fund first. This fund is used primarily for new additions  
7           to the Providence Water system. The last of the projects in the capital plan at the time of  
8           Docket 4618 are now virtually complete. The remaining balance in the fund is to complete  
9           the new Orthophosphate feeder system which is to be completed in FY2020. Once that  
10          project is completed debt service on the loan from the RI Infrastructure Bank that was used  
11          to complete the new Central Operations Facility located at 125 Dupont Drive will be the  
12          only expense in this fund. We are not requesting any adjustment to the funding in this  
13          restricted fund. See Schedule HJS-10a.

14          *Western Cranston Fund*

15                   The Western Cranston Fund is used to collect impact fees from new development in  
16          the Western Cranston area to be used to maintain and improve the delivery system in that  
17          area. These impact fees are used primarily to pay the debt service on bonds that were issued  
18          to upgrade sections of the system in 2002. The Series 2002A bonds will be paid off in  
19          FY2022.

20                   The carry-over balance in this fund at year-end of FY2019 is \$289,247. With the  
21          funding for the debt service already approved at \$40,000 and impact fees estimated at  
22          \$15,000 to \$25,000 per year, Providence Water is not requesting any additional funding for  
23          this restricted fund. See Schedule HJS-10b.

24          *Infrastructure Replacement Fund*

25                   The Infrastructure Replacement Fund (IFR) is how Providence Water funds its IFR  
26          expenditures plan. The current IFR plan submitted to RIDOH calls for planned expenditures  
27          for FY2020 through FY2023 to be \$41,926,000, \$30,185,000, \$54,065,000, and  
28          \$36,955,000 respectively, covering 51 projects. Significant initiatives include the

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1 inspection and rehabilitation of the 78", 90" and 102" aqueducts, the  
2 sedimentation/clarification system improvements, and the replacements and upgrades of  
3 water mains. There is also rehabilitation work scheduled for several pumping stations.  
4 Please see the testimony of Mr. Gregg Giasson for more discussion regarding the IFR plan.

5 Debt service is the other major expenditure from this fund. These payments continue  
6 to increase over the next three years with debt service being \$6,932,231 in FY2021 and  
7 estimated at \$7,876,387 and \$9,773,267 in FY2022 and FY2023 respectively.

8 Providence Water will continue to partner with the Rhode Island Infrastructure Bank  
9 (RIIB) to provide the lowest cost of borrowing for the planned work on the water mains  
10 which is estimated at \$57 million over the next 3 fiscal years. This would upgrade  
11 approximately 57 miles of mains as well as support the sedimentation/clarification project.  
12 These projects are currently on the Safe Drinking Water SRF Project Priority List.  
13 Certificates of Approval will be obtained as the commencement of these projects become  
14 imminent. We will be coming before the DPUC during the winter of FY2020 for the  
15 approval to borrow for the next phase of the water main rehabilitation project. We have  
16 calculated estimated debt service, assuming a construction fund of \$19 million, plus an 8%  
17 debt service reserve, 1% origination fee to the RIIB, and \$75,000 for the cost of issuance  
18 expense. The estimated debt service for this new anticipated bond issue is approximately  
19 \$1,900,000 per year for 20 years. We estimate approximately \$100,000 of debt service  
20 expense for every million dollars borrowed assuming a 5% interest rate and including  
21 estimated fees. We will continue to evaluate the levels of borrowing needed to complete  
22 these major projects and work to maintain the most effective methods to finance them.

23 The last cost attributable to the IFR is the applied overhead associated with the engineering  
24 wages for those employees working directly on the IFR projects.

25 The current funding level from rates for this fund is \$27.3 million per year as allowed  
26 in Docket 4618. We are proposing an increase in funding to the IFR Fund in the amount of  
27 \$2.0 million per year to cover the estimated debt service on the new bonds that we anticipate  
28 borrowing over the next 3 fiscal years. See Schedule HJS-10c.

29 *AMR/Meter Replacement Fund*

1           The AMR/Meter Replacement Fund was established to cover the cost of the upgrade  
2           of the manual meter reading system to the current automated reading system and to provide  
3           funding for the replacement of meters as they reach the end of their useful life or are broken  
4           or damaged over time.

5           The plan for this fund for the next five years covers four areas: meter replacement,  
6           leak detection, technology upgrades for meter reading, and emergency repairs.

7           The AMR / Meter Replacement Fund has authorized annual funding of \$500,000 as  
8           approved in Docket 4618. At that time, it was reduced from \$1,000,000 annually as the  
9           fund balance had grown to approximately \$3.1 million at the time. Since that time,  
10          Providence Water has put in place a program to replace meters within the system that are  
11          reaching the end of their useful life and are beginning to fail. We are also initiating a  
12          replacement program for our leak detection devices. They too are at the end-of-life and  
13          beginning to fail. These two initiatives will ensure that Providence Water will be able to  
14          accurately capture consumption data and identify leaks within the distribution system,  
15          allowing us to reduce the levels of unaccounted for water. These programs began in earnest  
16          in FY2019, expending a little over \$1.5 million dollars. Looking out over the next 3 years,  
17          we anticipate meter replacement costs to be approximately \$1.2 million per year. In order  
18          to cover these costs, we are asking that the funding for this fund be increased by \$500,000  
19          per year for a total of \$1,000,000 annually. See Schedule HJS-10d.

20          *Equipment/Vehicle Replacement Fund*

21          This fund is used to purchase replacement equipment and vehicles that have  
22          exceeded their useful life. The Support Services Department has a schedule of all vehicles  
23          and equipment owned by Providence Water and a schedule of when each will be replaced  
24          on a rotating basis so that every year a portion of the inventory is replaced thus spreading  
25          the expense. It is also used to make capital purchases of computer equipment, security  
26          equipment, and shop and plant equipment.

27          Providence Water has been able to manage our vehicle replacement program by staffing  
28          an internal automotive group that is responsible for the routine maintenance and repair of



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1 vehicles which has historically prolonged the life of the fleet. Financial projections for the  
2 replacement plan have historically performed under our projected budgets.

3 However, this model is becoming harder to sustain. Repair costs are increasing for some  
4 older assets that have exceeded our acceptable functional threshold, therefore replacement  
5 has become favorable. Also, the replacement costs are rising as we replace traditional  
6 gasoline/diesel vehicles with electric/hybrid options.

7 In order to optimize our replacement cycle, it is important to expand our actual  
8 vehicle replacement rotation. To do this, we will need to meet our projected purchases as  
9 identified.

10 The expected purchases for FY2021, FY2022 and FY2023 are \$735,227, \$567,614  
11 and \$495,000, respectively.

12 Providence Water has been working to secure its cyber infrastructure to safeguard  
13 itself from the growing cyber threats that are inherent in any sophisticated computer  
14 network. A designed program to purchase state-of-the-art servers and related equipment  
15 as well as the appropriate software is included as part of this fund. Please see testimony by  
16 Stephan Colman, Senior Manager – IT.

17 Because of these initiatives, we are seeking to increase funding for this fund by \$1  
18 million per year to \$1.6 million annually. See Schedule HJS-10e.

19 *Insurance Fund*

20 The Insurance Fund is used to pay insurance premiums on all policies – property &  
21 casualty, liability, workers' compensation – as well as pay claims for injuries and damages,  
22 safety related supplies, and deductibles related to workers' compensation claims.

23 Over the last 2 years we have seen very modest increases in insurance expense. The  
24 increase in the property, casualty, and liability policies were due to an increase in the value  
25 of the property – specifically the addition of the Central Operations Facility and the  
26 acquisition of the East Smithfield Water District. Since the addition of these assets,  
27 increases in pricing were due to increases in pricing across the industry. Increases in  
28 workers' compensation premiums and deductibles were based on the increase in claims  
29 causing higher experience modifications, and any increases in salary expense due to  
30 contractual obligations and new employees.

1           We are also including \$250,000 for the rate year in order to undertake a full asset re-  
2           valuation that is being required by the insurance carriers. The last valuation of assets -  
3           buildings and contents was over 10 years ago. With the completion of the Central  
4           Operations Facility, the acquisition of East Smithfield Water District, and improvements at  
5           the plant, the current valuations are out of date.

6           Providence Water put its insurance package out to competitive bid in spring of 2019  
7           and as a result we are expecting premiums to stay stable and adjusting for inflation going  
8           forward in to the future. As a result, we are not looking for any adjustment to the funding  
9           for insurance. See Schedule HJS-10f.

10           *Chemicals/Sludge Maintenance Fund*

11           The Chemical/Sludge Maintenance Fund covers the cost of the chemicals necessary  
12           to treat the water supply and the sludge maintenance cost to maintain the basins at the  
13           treatment plant.

14           In Docket 4618, the funding for this fund was reduced by \$1.5 million there had  
15           been an accumulating balance in the fund that would support the spending plan for the next  
16           few years.

17           The current chemical spending plan for the rate year and looking forward shows a  
18           slight increase in spending each year that reflects price increases anticipated under current  
19           contracts. See HJS-8a & 8b.

20           The current sludge maintenance contract is set to expire in FY2022. We will be  
21           looking to competitively bid the next contract at that time.

22           Because of the current carry forward balance in this fund and the anticipated  
23           expenses, we are proposing an increase in the current funding of the account from \$2.8  
24           million annually to \$3.8 million a year – an increase of \$1.0 million annually. See Schedule  
25           HJS-10g. See testimony from Mr. Gregg Giasson for more details regarding this fund.

26           *Property Tax Refund Fund*

27           This account is not funded through rates but through refunds of municipal taxes  
28           resulting from Providence Water challenging tax assessments and ultimately entering into

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1 tax agreements with various municipalities. In 2015, Providence Water and the Town of  
2 Foster entered into a tax agreement whereby Providence Water is receiving a refund of  
3 \$175,000 per year for 9 years and will receive approximately \$290,000 in the 10<sup>th</sup> year from  
4 the Town. The agreement reflects payment of \$1.6 million to Providence Water that settled  
5 overcharges for property taxes for the twelve-year period ending in 2014. The current  
6 receivable balance at June 30, 2019 is \$1,057,613.30. Upon receipt of the annual payment  
7 from Foster, \$175,000.00 is transferred to Operations to offset the property tax expense.  
8 See Schedule HJS-10h.

9 *Private Side Lead Service Replacement Program*

10 This program was approved in Docket 4618 in the amount of \$250,000 per year.  
11 The purpose of this program was in response to the concerns over potential lead levels in  
12 the water. This program assists homeowners in replacing the private side of their water  
13 service by providing 0% interest loans with a 3-year repayment term.

14 Because of the demand, Providence Water reached out to the RI Infrastructure Bank  
15 and they agreed to partner with us in this program. Providence Water entered into a loan  
16 with RIIB for \$1 million at 0% interest and a 3-year repayment schedule that mirrors the  
17 repayment period offered to the homeowners. This loan allowed Providence Water to  
18 complete these projects when the funding through rates was just beginning and the demand  
19 for this program was greater than the available internal funding.

20 As described by Mr. Caruolo in his testimony, this program is part of our overall  
21 lead reduction program. In an effort to accelerate the rate at which these lead services are  
22 replaced and the cost to do so, we are asking that the annual funding not be adjusted in the  
23 first year then increasing the funding by \$2,750,000 in FY2022 and FY2023. See testimony  
24 by Mr. Gregg Giasson. See Schedule HJS-10i.

25 *Revenue Reserve Fund*

26 The Revenue Reserve Fund is set aside to safeguard against revenue shortfalls due  
27 to “weather-related” conditions resulting in lower consumption, or reduced sales from  
28 overall lower consumption. The Revenue Reserve can only be drawn down if approved by  
29 the Commission. In October of 2017, Providence Water filed an original request to transfer



1 monies from the Revenue Reserve Fund to the Operating Fund because Providence Water  
2 was experiencing a decline in consumption which resulted in less than anticipated revenues  
3 needed to cover expenses. This was the first such request since a similar request made in  
4 2009. The final approval for this request was received on January 14, 2019 allowing for a  
5 transfer of \$5,526,691 to the Infrastructure Replacement Fund because the IFR fund had not  
6 been fully funded from rates due to the shortfall in revenues. In this filing, Providence  
7 Water has calculated the Revenue Reserve at the previously approved level of one-half of  
8 one percent to continue to replenish that fund.

9 Current funding was set at \$362,119 in Docket 4618. Based on the revenue requirements  
10 in this filing, the Revenue Reserve amount will be \$414,081. See Schedule HJS-10j.

11 **Q. Please explain the funding for the Revenue Reserve Fund.**

12 A. Prior to Docket 4406, Providence Water had a restricted Revenue Reserve of 2% and an  
13 unrestricted Operating reserve of 1%. The calculation of the amount of the reserve is  
14 determined by applying the reserve percentage to total revenues (excluding reserves) minus  
15 miscellaneous revenues. In Docket 4406, the Settlement provided for funding the reserves  
16 at a total of 2%: one-half percent (0.5%) for the Restricted Revenue Reserve and one and  
17 one-half percent (1.5%) for the Operating Reserve. The same funding percentages were  
18 maintained in Docket 4571 as well as Docket 4618. In this filing, we continue to use these  
19 same percentages to calculate the reserve funds.

20 **Q. What is the funding status of the restricted accounts as of June 30, 2019?**

21 A. At the open meeting of the Commission on January 14, 2019, the Commission approved  
22 our request to transfer \$5,526,691 from the Restricted Revenue Fund to the Infrastructure  
23 Replacement (IFR) Fund. This was to fund the IFR fund that was due rate funding from  
24 prior years that had not taken place because of shortfalls in revenue over several years.  
25 Upon approval from the Commission, we were able to transfer \$5,278,811.73 to the IFR  
26 which significantly reduced what was due to that fund. We did not transfer the full amount  
27 approved by the Commission at the time because the balance in this fund was not sufficient.  
28 We will be transferring the balance due to the IFR in December 2019.

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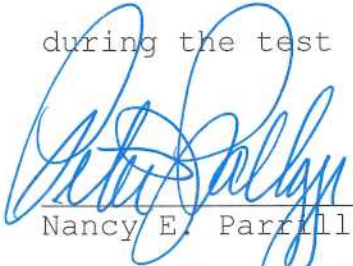
- 1 **Q.** **Ms. Parrillo, does this conclude your testimony?**
- 2 **A.** Yes, it does.

STATE OF RHODE ISLAND PUBLIC UTILITIES COMMISSION

DOCKET NO. \_\_\_\_\_

ATTESTATION UNDER RULE 5.7  
OF THE RULES OF PRACTICE AND PROCEDURE  
OF THE PUBLIC UTILITIES COMMISSION

I, Nancy E. Parrillo, in conformance with Rule 5.7 of the Rules of Practice and Procedure of the Public Utilities Commission, hereby attest that the financial data provided to our consultant and used by him in the rate case to present rate base, cost of service and other financial statements, purports to reflect the books of Providence Water and the results of operations and is true and correct to the best of my knowledge, information, and belief. All changes and differences between the books and test year data and any changes in the manner of recording said data during the test year have been expressly noted.

  
\_\_\_\_\_  
Nancy E. Parrillo  
*for Nancy Parrillo*

STATE OF RHODE ISLAND  
PROVIDENCE COUNTY

Subscribed and sworn to before me on the 26<sup>th</sup> of November 2019. #757383

  
\_\_\_\_\_  
Notary Public

