



Tap Water Delivers

July 3, 2020

Mrs. Luly Massaro
Commission Clerk
RI Public Utilities Commission
89 Jefferson Boulevard
Warwick, RI 02888

The Hon. Jorge O. Elorza
Mayor

Ricky Caruolo
General Manager

RE: Dk 4994; Commission; Set 2

Dear Mrs. Massaro:

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Attached please find Providence Water's response to the second set of data request from the Commission. An electronic copy has been provided to the service list.

Thank you for your attention to this matter.

Sincerely,

Mary L. Deignan-White
Division Manager-Finance

cc: service list(via email)

MEMBER

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(401) 521-6300

125 Dupont Drive
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Providence Water Docket 4994

Public Utilities Commission Data Request – Set 2 June 26, 2020

PUC 2-1

Assume that the PUC decided to implement individual rates for wholesale customers in this docket: Please provide what Providence Water believes would be the appropriate rate for each wholesale customer for each of the rate years. Please explain your position and methodology and how it is supported by generally accepted ratemaking principles.

RESPONSE:

Providence Water is unable to calculate individual wholesale rates which are just and reasonable because it does not have sufficient information at this time to reflect all of nuances involved in serving each wholesale customer individually. As requested by the Commission in Docket 4618, Providence Water completed and submitted a “new cost of service study conducted without reference to previously used Commission adjusted allocators.” This new study, as presented in Harold Smith’s direct and rebuttal testimonies, utilized Providence Water’s existing customer classes (residential, commercial, industrial and wholesale) because the combined wholesale rate was not a disputed issue in that Docket.

Providence Water believes that the rates proposed in Harold Smith’s rebuttal testimony are just and reasonable with respect to serving the wholesale customers as a combined group. That said, it is possible to sub-divide customer classes into smaller groups in order to recognize differences in cost of service.

Providence Water believes that, if properly studied and calculated, individual wholesale rates could be developed that are just and reasonable. Accordingly, and as noted in Providence Water’s response to DIV 4-5 and in Harold Smith’s rebuttal testimony, Providence Water is willing to thoroughly study the issue and—after ensuring that all of the operational, engineering, contractual and financial issues are examined in detail with input from all stakeholders—implement individual wholesale rates if ordered to do so by the Commission.

That said, doing so in this Docket would not result in just and reasonable rates because Providence Water does not have sufficient information available right now. Mr. Maker’s limited approach, which focuses on differences in peak demand and flushing and pumping, would not result in just and reasonable rates because there are a number of other operational, financial, engineering, and contractual issues which have not yet been studied. These include, but are not limited to the following:

1. **The impact of the peak demand on Providence Water’s costs may not be the same by individual wholesale customer.** In some cases peak demand may have little to no impact on Providence Water’s costs. In fact it may represent a beneficial impact on Providence Water’s operations to the extent that it improves water quality in certain portions of Providence Water’s system. This nuance

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would not be captured by merely including individual peaking factors into the cost of service study because the impact may not be the same for each customer.

2. **The different assets used to serve each individual wholesale customer.** This includes a distinction between high service (requires pumping) and low service (gravity-fed) areas, but is not limited to this issue. Providence Water would need to evaluate the individual reservoirs, pump stations and transmissions mains to ensure that the cost allocations reflect the unique use of these assets by each individual wholesale customer. In other words, the traditional base-extra capacity approach may need to be modified under an individual wholesale rate determination.
3. **The uncertain revenue impact to Providence Water related to the arrangements between Kent County and Warwick.** If Warwick's rates significantly increase, as proposed by Mr. Maker, and if Kent County Water Authority's rates decrease, as proposed by Mr. Maker, Warwick will be incentivized to purchase more water from Kent County, as opposed to Providence Water. While this may mean increased purchases by Kent County, these would be at a lower rate, resulting in overall revenue for Providence Water which is a lower than approved and putting Providence Water in a difficult financial situation. It is also possible that increased purchases by Warwick from Kent County could drive Kent County's peak demand higher, and Warwick's demand lower. In other words, operational changes made by these two customers after such rates are implemented could result in a use of Providence Water's system that is significantly different than what was assumed when the individual wholesale rates were developed.
4. **Contractual issues resulting from the wheeling arrangement between Kent County and Warwick.** As noted in Mr. Bebyn's rebuttal testimony, the current arrangement is based on Providence Water's uniform wholesale rate. Individual rates may present contractual issues that will need to be evaluated by the two parties.

While some of these issues are related to cost of service, others present contractual, engineering, operational and financial challenges which will take time to properly evaluate. This is especially evident in Kent County's response to BCWA's proposal. Despite the fact that Kent County would pay a lower rate under BCWA's proposal, Kent County has *opposed* the individual wholesale rates developed by Mr. Maker of BCWA, citing concerns regarding potential contractual issues with the City of Warwick. Providence Water believes these issues could be resolved should the Commission direct Providence Water to study and develop individual wholesale rates, but this resolution will take funding, time, information and study in order to come to a just and reasonable result.