

**KENT COUNTY WATER AUTHORITY
DOCKET NO. 5012
SETTLEMENT TESTIMONY OF ALBERICO MANCINI**

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Alberico Mancini. I am employed by the Rhode Island Division of Public Utilities and Carriers (the “Division”). The Division is located at 89 Jefferson Blvd., Warwick, Rhode Island 02888.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS MATTER?

A. I am testifying on behalf of the Division.

Q. WHAT IS YOUR POSITION WITH THE DIVISION AND HOW LONG HAVE YOU BEEN SO EMPLOYED?

A. I am the Assistant Chief Accountant for the Division. I have been employed in this position since April 2019. Prior to being promoted to the Assistant Chief Accountant, I was a Rate Analyst for the Division from May 2014 through April 2019 and a Public Utilities Engineering Specialist with the Division from February 1999 through May 2014.

Q. WHAT DOES YOUR POSITION WITH THE DIVISION ENTAIL?

A. As Assistant Chief Accountant for the Division, I am responsible for detailed analysis of the accounting records and financial structure of utilities under the jurisdiction of the Public Utilities Commission (“PUC” or “Commission”) and the Division. This includes reviewing utility filings in concert with Division consultants and presenting the

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1 Division’s findings and recommendations to the Division Administrator and the
2 Commission.

3

4 **Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.**

5 A. I graduated from the University of Rhode Island in 1994 with a Bachelor of Science
6 degree in Civil Engineering.

7

8 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?**

9 A. I am a member of the American Water Works Association (AWWA), New England
10 Water Works Association (NEWWA), and the Rhode Island Water Works Association
11 (RIWWA).

12

13 **Q. HAVE YOU PREVIOUSLY TESTIFIED AS AN EXPERT BEFORE THE RHODE
14 ISLAND PUBLIC UTILITIES COMMISSION?**

15 A. Yes. I provided direct testimony in Docket No. 2904, relating to the request of the
16 Woonsocket Water Department’s request for Infrastructure Replacement (“IFR”)
17 funding; in Docket No. 2961, relating to the Providence Water Supply Board’s
18 (“PWSB”) request for IFR funding; in Docket No. 2969, relating to Prudence Island
19 Utilities Corporation’s moratorium on new service connections; in Docket No. 2985,
20 relating to Newport Water Division’s request for IFR/Capital Improvement Project
21 (“CIP”) funding; in Docket No. 3164, relating to Pawtucket Water Supply Board’s
22 request for IFR funding; in Docket No. 3311, relating to Kent County Water Authority’s
23 (“KCWA”) IFR and CIP programs; in Docket No. 3660, relating to KCWA’s IFR and

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1 CIP projects; in Docket No. 4571, relating to PWSB’s request for CIP funding; in Docket
2 4611, relating to KCWA’s IFR and CIP projects; and most recently in Docket 4996,
3 relating to National Grid’s FY 2021 Gas ISR Filing.

4
5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to describe the review that was performed by the
7 Division regarding KCWA’s Abbreviated Rate Filing submitted to the Commission on
8 January 31, 2020 and to discuss, in general terms, the manner in which the settlement
9 terms were reached in the mutually agreed upon settlement agreement accompanying this
10 testimony.

11
12 **II. REVIEW AND ANALYSIS**

13
14 **Q. PLEASE OUTLINE THE REVIEW THAT FOLLOWED KCWA’S FILING.**

15 A. On January 31, 2020, the Company submitted their abbreviated filing requesting an
16 overall revenue requirement decrease of \$2,050,751 or 8.56% primarily resulting from
17 eliminating part of the meter replacement funding in current rates. As a first step in
18 undertaking its evaluation of the filing, the Division retained experts Jerry D. Mierzwa
19 and Lafayette K. Morgan, Jr. of the firm Exeter Associates, Inc to consult on the filing.

20
21 The Division then issued its first two sets of data requests on February 12, 2020 and on
22 February 18, 2020. KCWA responded to both sets. After reviewing the data responses

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1 and filing with its experts, the Division began discussions with KCWA regarding several
2 issues. This resulted in a third set of data requests sent to KCWA on April 14, 2020.

3
4 The Division and KCWA engaged in telephonic settlement discussions on April 23rd and
5 again on May 12th of 2020. The Division and KCWA worked together to resolve the
6 issues detailed below. The terms of the settlement agreement are a result of the
7 discussions between the parties.

8
9 **Q. WHAT WERE THE DIVISION'S PRINCIPAL CONCERNS WITH THE INITIAL**
10 **FILING?**

11 A. The Division's concerns centered on the following seven (7) issues:

- 12 1) Treatment of the surplus funds collected as of December 31, 2019 from the current
13 meter replacement program;
- 14 2) The creation of a new meter replacement account;
- 15 3) KCWA's use of the additional meter replacement funds collected after December 31,
16 2019;
- 17 4) How KCWA may pay off its outstanding bonds, the effect on the associated restricted
18 reserve accounts, and how to reallocate the debt service funding;
- 19 5) The interplay of Providence Water's wholesale rate pass-through increase and the
20 effective date of the rate change;
- 21 6) KCWA transition to monthly billing; and
- 22 7) KCWA's cost of service allocation for public and private fire service.

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1 **Q. HOW WOULD YOU LIKE TO ORGANIZE THE REMAINDER OF YOUR**
2 **TESTIMONY?**

3 A. I would like to organize the remainder of the Division's testimony as follows:

4 1) Review of the test year.

5 2) Discussion of the adjustments and/or changes in the eight areas addressed in the
6 settlement agreement. The eight areas addressed are:

7 a) Surplus Funds Collected for the Current Meter Replacement Program as of
8 December 31, 2019;

9 b) Request for a New Restricted Meter Replacement Account;

10 c) Additional Meter Replacement Funds Collected for the Current Meter
11 Replacement Program After December 31, 2019;

12 d) 2012 and 2017 Debt Service Funding and the Associated Reserve Accounts;

13 e) Effective Date of the Rate Change;

14 f) Monthly Billing;

15 g) Cost of Service Allocation for Public and Private Fire Service; and

16 h) Credit Card and ACH Fees.

17 3) Quonset Development Corporation (QDC) Wholesale Rate.

18

19 **Q. PLEASE DISCUSS THE DIVISION'S REVIEW OF THE ADJUSTMENTS MADE**
20 **TO THE TEST YEAR.**

21 A. The test year was derived from Docket No. 4611's rate year and adjusted to include
22 KCWA's Commission approved second step increase and for Providence Water's Docket
23 No. 4641 wholesale pass-through increase. KCWA's approach to developing the test

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1 year, including the adjustments, appears reasonable and the Division does not
2 recommend any adjustments.

3
4 **Q. PLEASE DISCUSS THE SURPLUS FUNDS RELATED TO THE CURRENT**
5 **METER REPLACEMENT PROGRAM AS OF DECEMBER 31, 2019 AND THE**
6 **RESOLUTION REACHED IN THE SETTLEMENT AGREEMENT.**

7 A. In Docket 4611, the Commission approved \$6.6 million in funding for KCWA's meter
8 replacement program to replace small meters (up to 2" in size) over a three-year period
9 ending December 31, 2019. KCWA explained in its testimony that it realized cost
10 savings in the initial stages of the program that will result in an estimated surplus of
11 \$1,253,365 in the meter fund at the conclusion of the small meter replacement program.
12 In its filing, KCWA proposed to use the surplus to fund the survey and replacement of
13 medium and large unitized measuring elements and single register meters (meters 2" or
14 greater in size) through the existing meter replacement program. The Division
15 understands that this category of meters needs replacement and believes it would be an
16 ideal use for the surplus funds. The settlement allows for this proposal to be implemented
17 upon Commission approval. It further requires the continued restriction of the funds, and
18 that any balance remaining after the completion of the expanded meter replacement
19 program be transferred to the IFR account. The settlement further requires a final
20 accounting of the meter fund including the total revenues and expenses, and the balance
21 available for transfer to the IFR account. The restricted meter fund will be closed after the
22 transfer of the balance to the IFR account. The Division finds this to be a reasonable
23 resolution and in the interests of the ratepayers.

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Q. PLEASE DISCUSS KCWA’S PROPOSAL FOR A NEW RESTRICTED METER REPLACEMENT ACCOUNT AND THE RESOLUTION AGREED TO IN THE SETTLEMENT AGREEMENT.

A. In its testimony, KCWA proposed an annual funding of \$396,000 to accrue funds in a new restricted account to be utilized for ongoing meter replacements, maintenance, meter reading infrastructure, and testing of large meters. KCWA explained that this approach would eliminate the process of ratepayers having to come up with approximately \$8,000,000 in 15 to 20 years for KCWA to replace meters, as required, once every 20 years. The Division was concerned regarding the creation of a new restricted meter account. KCWA’s past meter replacement programs have raised questions regarding meter ownership and who is responsible for meter replacement costs. All regulated water utility customers are required to purchase a new meter when a new service is requested. That meter, regardless of who owns it, is maintained and replaced by the utility using funds obtained through rates.¹ Other regulated water utilities fund their meter replacement programs by utilizing their IFR funds as needed. This approach gives a utility the flexibility to fund a meter replacement program each year as needed. As long as the utility includes the meter replacement program in their approved IFR Plan filed with the RI Department of Health, the utility has the flexibility to use the IFR funds when needed for meter replacement.

¹ In the case of damage caused by customer negligence, such as freezing or any physical damage to the meter, the customer is responsible for said damage.

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1 To address KCWA’s request for future meter replacement funding, the Division and
2 KCWA agreed to an ongoing meter replacement program be funded through KCWA’s
3 IFR program rather than creating a separate restricted meter account. The settlement
4 removes the \$396,000 funding request for a new meter replacement account. The
5 Division finds this to be a reasonable solution and in the best interest of ratepayers.

6
7 **Q. PLEASE DISCUSS THE RESOLUTION AGREED TO IN THE SETTLEMENT**
8 **AGREEMENT REGARDING THE METER FUNDS COLLECTED AFTER**
9 **DECEMBER 31, 2019.**

10 A. As explained earlier, the Commission approved meter replacement funding to be
11 collected through December 31, 2019 in Docket 4611. KCWA was required to make a
12 compliance filing with the Commission to remove the meter funding from rates by
13 December 31, 2019. KCWA received approval to extend the deadline for the required
14 filing to January 31, 2020. KCWA included the request to eliminate the funding for its
15 meter replacement program in this abbreviated rate filing. The settlement includes an
16 effective date of September 1, 2020 which will result in KCWA collecting an estimated
17 \$1,533,333 in additional meter replacement funds for the period of January 1, 2020
18 through August 31, 2020.

19 The Division and KCWA discussed alternatives for these funds. After much discussion
20 the parties agreed to use the funds to cover one-time expenses that would further mitigate
21 rates in this case. They also agreed to use the balance towards the early retirement of
22 outstanding debt which will help mitigate rates in the future. I will discuss the early
23 payoff of outstanding debt later in this testimony.

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1 The parties have agreed that the additional meter replacement funds collected after
2 December 31, 2019 will be first used to offset any current rate case expense in this docket
3 and any required deposits to the O&M and R&R Reserve accounts for the 2020 calendar
4 year. This reduces the revenue requirements in this case by eliminating the need to
5 include funding in the rates for these purposes. The remaining balance will be transferred
6 to the 2017 Series Debt Service Account to aid in satisfying the 2017 Bond Series which
7 is to be paid in full by June 2021. The Division finds this to be reasonable and in the best
8 interest of ratepayers.

9
10 **Q. PLEASE ADDRESS THE OUTSTANDING 2012 AND 2017 BONDS AND THE**
11 **RESOLUTION REACHED IN THE SETTLEMENT AGREEMENT.**

12 A. The Division reviewed KCWA's remaining 2012 and 2017 bond payments and the
13 reserve accounts associated with these bonds. The 2017 Bond is due to be paid off in July
14 of 2023 and the 2012 Bond is due to be paid off in January of 2024. There are three (3)
15 Reserve accounts required for these bonds: the Operations and Maintenance Reserve, the
16 Renewal and Replacement Reserve, and the Debt Service Reserve. The balance in these
17 accounts totaled \$6,683,117 as of May 31, 2020. The total pay-off amount for both bonds
18 would be \$9,855,000 after the January 15, 2021 payments. The Division concluded that
19 by liquidating the reserve accounts and utilizing the estimated \$1,533,333 in meter
20 replacement funds discussed above, these bonds could be paid off in early 2021 rather
21 than the scheduled 2023/2024 payoff dates. This would result in several benefits to
22 KCWA and its ratepayers. First, it would eliminate all debt owed by KCWA. Second, it
23 would save the rate payer approximately \$350,000 in interest payments less fees

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1 associated with the defeasance costs. Third, it would eliminate five (5) restricted accounts
2 that KCWA is currently required to maintain: the 2012 Debt Service Account, the 2017
3 Debt Service Account, the Renewal & Replacement Reserve Account, the Operations and
4 Maintenance Reserve Account, and the Debt Service Reserve Account. Fourth, over \$1.8
5 million per year would remain in KCWA's IFR account as the \$154,005 monthly transfer
6 from the IFR restricted account needed to service the 2017 Bond would no longer be
7 needed. This would give KCWA full access to all of the \$6 million collected yearly for
8 IFR funding to aid in completing important infrastructure replacement projects. Fifth, the
9 debt service funding of \$181,937 per month for the 2012 bond could now be transferred
10 to KCWA's cash capital account to be used for pay-as-you-go capital projects or future
11 debt service payments related to new borrowings to fund capital projects.

12 The parties agree that both the 2012 and 2017 bonds will be paid in full prior to June 30,
13 2021. The funding for the 2012 Bond (\$181,937), once the bond is paid in full, will be
14 transferred to the pay-as-you-go capital account. The funding for the 2017 Bond
15 (\$154,005) will remain in the IFR restricted account. Both debt service accounts as well
16 as all three reserve accounts will be eliminated. This will also decrease the revenue
17 requirement by \$146,521 as the O&M and R&R reserve coverage will be set at "0" for
18 the rate year. The Division finds this resolution to be reasonable and in the best interest of
19 ratepayers.

20
21 **Q. PLEASE DISCUSS THE DIVISION'S CONCERNS REGARDING KCWA'S**
22 **EFFECTIVE DATE OF THE PROPOSED RATE CHANGE AND THE**
23 **RESOLUTION REACHED IN THE SETTLEMENT AGREEMENT.**

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1 A. As KCWA’s filing is proposing a rate decrease, the Division would have preferred to
2 decrease rates as of July 1, 2020. However, given that Providence Water was in the
3 middle of its rate filing which could potentially increase KCWA’s wholesale rate, that
4 date was too early to avoid further filings by KCWA to address the wholesale rate. This
5 scenario would result in a rate decrease followed by a potential increase shortly after. The
6 Division and KCWA agreed that setting an effective date of September 1, 2020 to include
7 the Providence Water’s pass-through wholesale rate change would create less confusion
8 to ratepayers by simplifying the rate change.² The Division finds this to be reasonable
9 and in the best interest of ratepayers.

10

11 **Q. PLEASE DISCUSS HOW MONTHLY BILLING WILL BE INTRODUCED AND**
12 **THE RESOLUTION REACHED IN THE SETTLEMENT AGREEMENT.**

13 A. At this time only medium and large meter accounts (greater than 2 inches) will be moved
14 to monthly billing. As part of KCWA’s medium and large meter replacement program,
15 all registers will be replaced with unitized measuring elements coupled with integrated
16 radio read devices to facilitate meter reading. Once this replacement program is
17 completed, KCWA will convert all medium and large meter accounts (greater than 2
18 inches) to monthly billing. All small meter accounts (2 inches or less) will remain on
19 quarterly billing. The Division finds this planned change reasonable.

20

² The settlement reflects Providence Water’s proposed wholesale rate included in its current rate case (Docket 4994). The parties agree to adjust the rate and revenue requirements included in this settlement to reflect the new rate upon the conclusion of the Providence Water case when the actual wholesale rate is known.

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1 **Q. PLEASE EXPLAIN THE ADJUSTMENT TO PUBLIC AND PRIVATE FIRE**
2 **SERVICE CHARGES PROVIDED UNDER THE COST OF SERVICE STUDY**
3 **AND THE RESOLUTION REACHED IN THE SETTLEMENT AGREEMENT.**

4 A. KCWA's current rates were established by the settlement approved in Docket No. 4611.
5 This settlement provided for rate increases effective January 1, 2017 and January 1, 2018
6 (multi-year rate plan). In Docket No. 4611, KCWA initially proposed, based on its cost of
7 service study, rate increases for public and private fire protection services of
8 approximately 80 percent and 75 percent, respectively. Due to the magnitude of the rate
9 increases, the parties in Docket No. 4611 agreed to limit the increase in public and
10 private fire charges for the first step of the multi-year rate plan to 30 percent. The parties
11 also agreed to move public and private service charges to the cost of service in KCWA's
12 next rate filing. As a result of limiting the fire service increases to 30 percent, the
13 settlement in Docket No. 4611 provided for the recovery of \$670,017 in costs allocated to
14 fire service from KCWA's retail customers (the "Fire Subsidy"). In its initial application
15 in this proceeding, KCWA proposed to maintain the full Fire Subsidy established in
16 Docket No. 4611. The settlement in this proceeding reduces the Fire Subsidy by 50
17 percent and, therefore, moves public and private fire service charges closer toward the
18 full cost of service. The Division finds that reducing the Fire Subsidy by 50% is
19 reasonable as it gradually moves the public and private fire charges closer toward the full
20 cost of service as was intended as part of the settlement agreement in Docket 4611.

21

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1 **Q. PLEASE DISCUSS KCWA’S PROPOSAL WITH RESPECT TO CREDIT CARD**
2 **FEES AND ACH FEES AND THE AGREEMENT SET FORTH IN THE**
3 **SETTLEMENT AGREEMENT.**

4 A. After the filing of this petition, KCWA filed a petition with the Commission asking it to
5 waive credit card fees and ACH fees for customers during the current pandemic. The
6 Commission approved that request. KCWA has requested to discontinue charging these
7 fees to customers going forward. The Division does not oppose KCWA’s request and
8 recommends that KCWA remove these fees from their tariff.

9
10 **Q. PLEASE DISCUSS THE DIVISION’S REVIEW OF KCWA’S PROPOSED**
11 **WHOLESALE RATE FOR QUONSET DEVELOPMENT CORPORATION**
12 **(“QDC”)?**

13 A. QDC is a new wholesale customer for KCWA. KCWA does not currently have any
14 wholesale customers and does not have a current wholesale rate. The demand and usage
15 data necessary to develop a cost of service for QDC was estimated by KCWA and is
16 anticipated to account for 1 percent of total usage by KCWA customers. As less
17 investment is typically required to serve a wholesale customer, the cost of serving a
18 wholesale customer is typically less than the cost of serving a retail customer. The rate
19 proposed for QDC under the settlement is \$3.739 HCF. This is 25 percent less than the
20 rate proposed for large retail customers (6” inch meters and larger). Given the lack of
21 demand and usage data for QDC and the relatively minimal anticipated water usage by
22 QDC, the Division finds the proposed rate for QDC reasonable.

23

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1 **Q. PLEASE PROVIDE A BRIEF STATEMENT OF THE REVENUE**
2 **REQUIREMENT AS A RESULT OF THE SETTLEMENT DISCUSSIONS.**

3 A. The parties agree to an effective date of September 1, 2020 for new rates based on a total
4 rate year revenue requirement of \$21,343,396, which is a decrease of \$2,601,409. This
5 represents a revenue requirement decrease of 10.86%.

6

7 **III. CONCLUSION**

8

9 **Q. DOES THE DIVISION BELIEVE THAT THIS SETTLEMENT IS IN THE BEST**
10 **INTEREST OF RATEPAYERS?**

11 A. Yes. The Division finds this settlement agreement to be a reasonable resolution of the
12 issues and in the best interests of the ratepayers.

13

14 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

15 A. Yes.