

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
**PUBLIC UTILITIES COMMISSION**

IN RE: PROVIDENCE WATER SUPPLY BOARD :  
ABBREVIATED APPLICATION :  
FOR RATE RELIEF : DOCKET NO. 2961

REPORT AND ORDER

On June 30, 1999, the Providence Water Supply Board (“PWSB”), a non-investor owned utility, filed with the Public Utilities Commission (“Commission”) an abbreviated application for rate relief, requesting a rate increase of 7.07% for the collection of \$2,549,504 in additional revenues for a total revenue requirement of \$38,611,281.<sup>1</sup> An effective date of July 31, 1999 for the rate increase was requested. By order dated July 27, 1999, the Commission suspended the effective date of the original filing for a period of six months. The following parties moved to intervene in PWSB’s application for rate relief: Kent County Water Authority (“KCWA”), City of East Providence (“East Providence”), and City of Warwick (“Warwick”). No objection was filed in response to these motions, and they were granted.

The instant abbreviated rate case filing represents PWSB’s third rate filing in the last five years. The following table provides a brief history:

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<sup>1</sup> Section 2.10 of the Commission’s Rules of Practice and Procedure permits a non-investor owned utility to avail itself of an abbreviated filing process as long as the revenue increase is not more than 25% over normalized test year revenues and complies with the other requirements specified in that Section.

<u>Docket No.</u>	<u>Filing Date</u>	<u>Increase Requested</u>	<u>Increase Allowed</u>
2222	6/30/94	\$ 9,216,418	\$1,735,692
2304	3/31/95	\$11,270,666	\$8,093,883

## I. PROVIDENCE WATER SUPPLY BOARD

In support of this filing PWSB filed the testimony of Paul Titzmann, the Deputy General Manager of PWSB, and Jeanne Bondarevskis, the Regulatory Manager of PWSB. In his prefiled testimony, Mr. Titzmann explained that an abbreviated filing to raise rates is necessary due to contractual and inflationary increases in costs and to ensure the continuation of PWSB's Infrastructure Replacement ("IFR") Program. PWSB has fully utilized the step-up IFR funding it received in January 1997 and May 1998,<sup>2</sup> and thus is requesting approximately \$3 million per year in additional IFR funding to maintain and rebuild its water system. Currently at \$8 million, the annual IFR funding amount would thus be increased to \$11 million. The balance of the requested revenue increase is for additional operational and maintenance costs as well as property tax increases.

Mr. Titzmann also addressed PWSB's request for authorization from the Commission to use the accumulated funding in the Metering Improvement Fund on a pay-as-you-go basis. In Docket No. 2304, the Commission allowed \$400,000 annually in restricted funding for debt

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<sup>2</sup> In PWSB's last general rate case in 1996 (Docket No. 2304), the Commission approved \$4 million in annual pay-as-you-go funding for PWSB's IFR Program, as well as conditional annual ramp-ups of \$2 million in 1997 and 1998.

service costs for the Automated Meter Reading (“AMR”) program. The balance in this restricted debt service account now exceeds \$1 million. PWSB intended to begin the AMR program in August 1999 and requested Commission authorization to use the accumulated debt service funding because it “would result in a lower ultimate cost to our customer since no interest expense would be incurred.” (PWSB Exh. 1, Titzmann testimony at p. 4.)

In her prefiled testimony, Ms. Bondarevskis explained that an abbreviated rate filing was necessary to cover various immediate expenses and infrastructure needs because a general rate filing would have required PWSB to prepare a completely new rate design in accordance with the Commission’s directive in its last general rate case order in Docket No. 2304. Ms. Bondarevskis noted that a majority of the increase is for additional IFR funding and new capital needs. The remainder of the increase is to normalize salaries and wages, to provide for property tax increases, to reduce insurance funding, to adjust fringe benefits and retirement expenses and to obtain additional rate case expense.

Mr. Bondarevskis summarized PWSB’s proposed expense adjustments for six test-year items in the abbreviated rate filing. The total adjustments sought constituted an increase of \$5,143, 530. In debt service and IFR funding, PWSB sought an increase of \$3,591,967. The additional \$3,000,000 IFR funding is for projects requested by the

Engineering Department. As for salaries and wages, PWSB requested an increase of \$689,194. PWSB also sought an increase of \$376,514 for property taxes. Due to the implementation of a self-insurance workers compensation program, PWSB reduced its insurance expenses by \$71,545. In regards to pension and benefits, PWSB requested an increase of \$499,971. Lastly, PWSB sought an additional \$57,429 in regulatory and rate case expense. Ms. Bondarevskis pointed out that there were no major changes to the cost allocation and rate design authorized in PWSB's previous general rate case.

## II. THE DIVISION

Responding to the filing, the Division of Public Utilities and Carriers ("Division") conducted an investigation of PWSB's proposed rate request through two sets of data requests. PWSB's rate filing and its responses to the data requests were reviewed by the Division's staff and by its outside consultant, Thomas Catlin. The Division filed testimony recommending a revenue increase of \$2,073,709, or \$475,795 less than the increase requested by PWSB.

In support of its recommendation, the Division filed testimony of its staff water engineering specialist, Alberico Mancini, and of its consultant, Thomas Catlin. Mr. Catlin determined that PWSB's rate increase should be \$2,073,709 or 5.75%. The difference between PWSB's proposal and Mr. Catlin's recommendation was based on adjustments to

PWSB's claimed operation and maintenance expenses as well as property taxes.

In PWSB's operations and maintenance, Mr. Catlin recommended adjustments in PWSB's health insurance costs, property insurance and injuries and damage expenses, and regulatory commission expenses. In regards to health insurance costs, PWSB requested \$1,128,435 based upon projected increases in the premiums to be paid to Blue Cross, Harvard Health and Delta Dental. After reviewing PWSB's responses to the Division's first data request, which stated the actual health insurance premiums, Mr. Catlin reduced the amount requested by \$105,799 to \$1,022,636.

PWSB requested \$529,000 for property insurance and injuries and damages expenses. However, Mr. Catlin reduced this amount by \$170,000 to \$359,000 to meet only the costs of insurance premiums. The recommended reduction by Mr. Catlin included \$50,000 for insurance studies, \$20,000 for safety training, and \$100,000 for injuries and damages claims. Mr. Catlin noted that PWSB maintains a restricted insurance account for property insurance and injuries and damage and that the balance in this account was \$2.92 million as of June 30, 1999. Mr. Catlin recommended that PWSB draw on the balance in this restricted account to pay for insurance studies, safety training and actual claims payments.

PWSB sought \$140,918 for the regulatory commission expenses. Mr. Catlin reduced this amount by \$30,994 to \$109,924. Mr. Catlin based this reduction upon the elimination of \$5,994 PWSB included in costs associated with Docket 2108 because there will be no further hearings in that docket. The reduction was also based upon Mr. Catlin's determination that the Division's expenses in this proceeding will be \$20,000 or less and not the \$45,000 estimated by PWSB.

In regards to property tax expense, PWSB sought \$4,380,723. Included in this amount was an estimate of the additional property taxes to be paid to Cranston as a result of PWSB's acquisition of the water distribution system in Western Cranston. In response to a data request, PWSB indicated the actual property tax bills for the year ending June 30, 2000. According to these facts, Mr. Catlin reduced the total property tax expense by \$161,971, from \$4,380,723 to \$4,218,752.

In order to pay for the requested rate increase, PWSB sought a 7.31% increase in the revenues from water and fire services while also proposing a reduction in public fire hydrant rates of 34.26%, a reduction in monthly and quarterly customer charges ranging from 5.63% to 39.67%, an average increase in retail consumption charges of 12.19% and an increase in wholesale consumption charges of 12.16%. However, Mr. Catlin disapproved of implementing the proposed rates which he stated reflect significant changes in revenue recovery among rate

classes.<sup>3</sup> He recommended that a thorough review of PWSB's rate levels be deferred until a general rate filing is made by PWSB, in view of PWSB's stated intention to file a general rate case in the near future.

Mr. Catlin proposed that the entire increase be allocated to retail and wholesale consumption rates based on the allocation of IFR costs. He stated that this proposal was consistent with this Commission's decision in Docket No. 2304. He also noted that the total revenue increase sought by PWSB is actually less than the \$3 million annual increase requested in IFR funding. Mr. Catlin therefore recommended an increase in the wholesale rate of \$46.46 per million gallons for a wholesale rate of \$950.54, and an increase in retail dmiwholesalT2lwholte lwhol\$.10n

mains as well as many components of the Providence Water's Treatment Plant have been replaced, and the rehabilitation of the Aqueduct Reservoir is near completion.

Mr. Mancini noted that according to PWSB, there is a small credit balance in the IFR restricted account as of September 1999, but the revenue requirement for the IFR plan for the year 2000 is \$11 million. The need for additional IFR funding is due to unforeseen occurrences such as the rupture and subsequent rehabilitation of the 102 inch Aqueduct. Also, in August 1999, PWSB began its AMR Project. The Division recommends that the Commission require PWSB to submit quarterly program reports on AMR meter installations.

### III. KENT COUNTY WATER AUTHORITY AND CITY OF EAST PROVIDENCE

Responding to the filing, KCWA and East Providence, which purchase water at wholesale rates from PWSB, examined the abbreviated rate filing through two sets of data requests, and filed the testimony of their outside consultant, Christopher P.N. Woodcock, recommending a revenue increase of \$2,248,251, which is \$301,253 less than requested by PWSB.

Mr. Woodcock determined that PWSB's proposed administration expenses should be reduced by \$117,134 from \$10,418,229 to \$10,301,095. Mr. Woodcock eliminated \$5,994 in rate case expenses related to Docket No. 2108 thereby reducing PWSB's proposed regulatory commission expense from \$140,198 to \$134,924. Mr. Woodcock also adjusted PWSB's proposed employee pensions and benefits expenses from \$4,701,481 to \$4,590,341 for a reduction of \$111,140. This reduction consisted primarily in PWSB's costs associated with Blue Cross, Wellness Program, the Laborers International Pension and the Vision Program. Regarding property tax expenses, Mr. Woodcock reduced this amount from \$4,380,723 to \$4,218,790, a reduction of \$161,933. These adjustments reflected primarily the recalculation of property taxes of the municipalities of Scituate, Cranston and North Providence.

Mr. Woodcock disagreed with the “unaccounted for water” percentage proposed by PWSB. He stated that the four-year average used by PWSB was not representative and he recommended that 10% be used. He explained that this rate was slightly above what PWSB used, but that 10% represented a long-term goal expressed by PWSB in the prior docket. Although Mr. Woodcock represented his adjustment to the unaccounted for water percentage as minor (less than 1%), he stated that it did have a significant impact for wholesale customers.

In regards to cost allocations, Mr. Woodcock took issue with the development of a number of allocations and with the level of expense accounted for as “Miscellaneous Transmission & Distribution Costs”. Accordingly, he revised a number of allocators and the allotment of miscellaneous costs between distribution and transmission.

With regard to the new costs for PWSB associated with the acquisition of the Western Cranston system, Mr. Woodcock stated that the additional new taxes and debt associated with the Western Cranston system should not have an impact on wholesale customers, but that PWSB had, in fact, made cost allocations which affected wholesale rates. Mr. Woodcock instead proposed that the new property tax and debt related to the acquisition of Western Cranston system be assigned to retail customers only. Based upon his revised revenue requirements and cost allocations, Mr. Woodcock calculated a wholesale rate of \$926.00

per million gallons. This represents a reduction of \$87.89 from the \$1,013.98 rate proposed by the PWSB.

#### IV. PWSB REBUTTAL

In response to the Division's testimony and the testimony of KCWA and East Providence, PWSB submitted the rebuttal testimonies of Mr. Titzmann and Ms. Bondarevskis. Mr. Titzmann agreed to provide the Division with information on PWSB's plans and implementation schedule for the AMR project.

Ms. Bondarevskis responded to the testimony of Mr. Catlin and Mr. Woodcock. In regards to Mr. Catlin's testimony, Mr. Bondarevskis accepted Mr. Catlin's adjustment to Health Insurance Costs, Property Taxes, Property Insurance and Injuries & Damages, and Regulatory Commission Expense. She also accepted Mr. Catlin's rate design proposal which allocates revenue increase entirely to consumption rates based upon the similar allocation of IFR costs.

In regards to Mr. Woodcock's testimony, Ms. Bondarevskis indicated that PWSB had accepted the Division's adjustments to the revenue requirements and thus would not consider the revenue adjustments of Mr. Woodcock. As for units of service, Ms. Bondarevskis reiterated PWSB's view that using a four-year average to calculate the level of unaccounted for water was appropriate. Regarding Mr. Woodcock's assertion that PWSB failed to follow previously approved methods for cost allocations, Ms. Bondarevskis admitted some errors

were made by PWSB in this area. Lastly, Ms. Bondarevskis did not consider Mr. Woodcock's rate design suggestions since PWSB had adopted the Division's rate design proposal.

#### V. KCWA AND EAST PROVIDENCE SURREBUTTAL

In response to the rebuttal of PWSB, KCWA and East Providence submitted the surrebuttal testimony of Mr. Woodcock. With regard to revenue requirements, Mr. Woodcock noted that although PWSB has agreed with the Division's proposed adjustments, PWSB had not addressed KCWA's proposed adjustments to Laborers legal fees, Laborers Pension, Vision Program, Employee Death Benefits, and the Wellness Program. Mr. Woodcock reiterated his opinion that the unaccounted for water percentage should be 10%, noting that this value was less than the five year historic average originally reported by PWSB.

Addressing the rate design for the revenue increase, Mr. Woodcock asserted that his revised cost allocations are reflective of past Commission orders and should be applied in this filing. Consequently, Mr. Woodcock did not concur with the Division's suggestion, which was adopted by PWSB, that the approved revenue increase be applied entirely to retail and wholesale consumption rates based upon the similar allocation of IFR costs. Mr. Woodcock's proposed wholesale rate was \$941.48 per million gallons, in contrast to the Division's proposed wholesale rate of \$950.54 per million gallons. Mr. Woodcock indicated

that the \$9 per million gallons rate difference would amount to at least \$90,000 in additional wholesale revenues.

## VI. THE SETTLEMENT AGREEMENT

Following notices, hearings for the purpose of taking public comment on the abbreviated rate filing were conducted at the North Providence Town Hall on October 12, 1999, and at the offices of the Commission on October 18, 1999. Subsequently, PWSB, the Division, KCWA, East Providence and Warwick reached an agreement on PWSB's abbreviated rate filing, and on December 8, 1999 they jointly filed a Settlement Agreement ("Settlement")<sup>4</sup> with the Commission.

A public hearing on the proposed Settlement was conducted at the offices of the Commission, 100 Orange Street, Providence, Rhode Island on December 9, 1999. The following appearances were entered:

FOR PWSB:	Michael R. McElroy, Esq. Schatct & McElroy
FOR KCWA:	Francis X. Flaherty, Esq.
FOR WARWICK:	Seth Handy, Esq. Edwards & Angell
FOR THE DIVISION:	Elizabeth Kelleher, Esq. Special Assistant Attorney General
FOR THE COMMISSION:	Steven Frias Senior Legal Counsel

In the Settlement, the parties agreed to an annual revenue requirement of \$38,135,486, constituting an increase of \$2,073,709, or

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<sup>4</sup> A copy of the Settlement is attached as Appendix B hereto and incorporated by reference herein.

5.7% over PWSB's present rate revenues. To arrive at this figure the parties agreed to the Division's adjustments to PWSB's original filing. In particular, the parties agreed that: PWSB's health insurance costs will be \$1,022,636, which is \$105,799 less than originally proposed by PWSB; PWSB's property insurance and injuries and damages expense will be \$359,000, which is \$170,000 less than originally sought by PWSB; PWSB's regulatory commission expense will be \$109,924, which is \$30,994 less than PWSB's original request; and PWSB's property tax expense will be \$4,218,752, which is \$161,971 less than PWSB's original filing.

In regards to rate design, the parties settled on a wholesale rate of \$945.00 per million gallons. The parties also agreed that the first block retail rate will be set at \$1.44 per hundred cubic feet (HCF) and the second block rate will be set at \$1.37 per HCF, which differs only slightly from the Division's original recommendation.<sup>5</sup>

PWSB agreed that in its next full rate case, it will reevaluate the possible benefits and merits of utilizing long-term debt to finance a portion of its IFR program and other capital improvements, and will also reevaluate the appropriate level of insurance premiums and injuries & damages expense to be included in rates in light of the accumulated balance in the restricted insurance account at that time. Lastly, the parties agreed that differences continue to exist with respect to the

allocation of miscellaneous Transmission and Distribution operating costs, but that PWSB will address this concern in its next full rate case.

With respect to the AMR project, the parties agreed to modify the restriction of the annual debt service allowance of \$400,000 so that PWSB may use the accumulated funds in the restricted Meter Replacement/AMR account for AMR improvements on a pay-as-you-go basis. The parties further agreed that after these funds are depleted, PWSB may borrow additional funds to complete the AMR project. In addition, PWSB agreed to submit an AMR installation schedule to the Commission within 20 days of the Settlement's approval by the Commission, and to submit quarterly reports to the Commission and the Division on January 1, April 1, July 1, and October 1 of each year indicating AMR installations on both a monthly and cumulative basis.

#### COMMISSION FINDINGS

At an open meeting conducted on December 16, 1999, the Commission considered the evidence presented in the case and found that the proposed Settlement was just and reasonable and in the best interest of ratepayers. In particular, the Commission approved the agreed upon annual revenue increase of \$2,073,709, for a total cost of service of \$38,135,486.<sup>6</sup> The Commission also approved the settled wholesale rate of \$945.00 per million gallons, as well as a first block

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<sup>5</sup> The new block rates reduce the differential between them from 8¢ (under the existing block rates) to 7¢ per HCF.

retail rate of \$1.44 per HCF and a second block retail rate of \$1.37 per HCF.

The Settlement requires that PWSB report quarterly to the Commission and Division on the progress of AMR installations. The Commission directs that these reports shall also include a monthly accounting of the program expenditures for the quarter and on a cumulative basis, and shall also provide a summary of the expenditures for the AMR installations by general category of expense, the source of funding, and the available balance of restricted AMR funds.

Also, the Commission shall continue to restrict the funding for those same accounts that were restricted in our last general rate order in Docket No. 2304. The restricted funds and the current allotments are: General Debt Service and Capital Leases--\$3,104,408; IFR--\$11,000,000; Meter Replacement/AMR--\$400,000; and Insurance and Injuries & Damages--\$359,000. The funds provided for these accounts shall continue to be held in interest-bearing accounts and funds not expended will be reserved and carried over to subsequent years for expenditure for their designated purposes. As provided in the Settlement, the accumulated balance in the restricted Meter Replacement/AMR account may be used to fund the AMR program on a pay-as-you-go basis.

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<sup>6</sup> Contained in PWSB's December 14, 1999 compliance filing is the Cost of Service Schedule approved by the Commission; a copy of said Schedule is attached as Appendix A hereto and incorporated by reference herein.

Accordingly, it is

(16073) ORDERED:

1. The June 30, 1999 rate application filing by the Providence Water Supply Board is hereby denied and dismissed.
2. The Settlement Agreement filed on December 8, 1999 providing for a revenue increase of \$2,073,709, for a total cost of service of \$38,135,486, is hereby approved.
3. The compliance tariffs filed by the Providence Water Supply Board on December 14, 1999 are hereby approved for consumption on and after February 1, 2000.
4. The Providence Water Supply Board shall comply with the reporting requirements and all other terms and conditions imposed by the Settlement Agreement and this Report and Order.

EFFECTIVE AT PROVIDENCE, RHODE ISLAND ON DECEMBER 16, 1999, PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER ISSUED MARCH 10, 2000.

PUBLIC UTILITIES COMMISSION

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Kate F. Racine, Commissioner

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Brenda K. Gaynor, Commissioner

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY BOARD : DOCKET NO. 2961  
APPLICATION FOR RATE RELIEF :

Stipulation / Settlement

Pursuant to Rule 1.24 of the Rules of Practice and Procedure, the parties executing this stipulation/settlement hereby stipulate and agree as follows:

1. Providence Water Supply Board's (Providence Water) additional revenue requirement is \$2,073,709 to provide total pro forma revenues of \$38,135,486 as set forth on Schedule TSC-1<sup>7</sup> attached hereto and incorporated by reference herein.

2. Agreed adjustments to Providence Water's original proposal are set forth in Schedules TSC-1, TSC-2, TSC-3, TSC-4, and TSC-5 attached hereto and incorporated by reference herein.

3. The wholesale rate is set at \$945.00 per million gallons.

4. The first block retail rate is set at \$1.44 per hundred cubic feet (HCF), and the second block retail rate is set at \$1.37 per HCF.

5. Providence Water agrees in its next full rate case to reevaluate the possible benefits and merits of financing a portion of Providence Water's IFR plan and other capital improvements through long term debt.

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<sup>7</sup> Although the heading is described as "Adjustment to Regulatory Commission Expense", that is an error, and the heading should be entitled "Summary of Revenues and Expenses Under Present and Proposed Rates."

6. Providence Water agrees in its next full rate case to reevaluate the appropriate level of insurance premiums and injuries and damages expense to be included in rates in light of the restricted account balance at that time.

7. The Commission has authorized \$400,000 annually in a restricted account for the debt service of metering improvements. This restriction is modified so that Providence Water may use the accumulated funds in this account on a pay-as-you-go basis. As the funds are depleted, Providence Water may borrow additional funds to complete the AMR project.

8. Providence Water agrees to submit its implementation schedule for AMR installation to the Commission within 20 days of the approval of this stipulation/settlement by the Commission and will also submit quarterly reports to the Commission and the Division on January 1, April 1, July 1, and October 1 of each year, which reports will show AMR meter installations on a per month basis and cumulative installations to date.

9. The parties agree that there remain differences with respect to miscellaneous T&D, and Providence Water will address accounting for miscellaneous T&D in its next full rate case.

10. The change in rates may be implemented by Providence Water for consumption on and after February 1, 2000.

11. This stipulation/settlement is the result of a negotiated settlement among the parties. The agreement by the parties to this stipulation shall not be construed as an agreement to any matter of fact or law addressed in this stipulation/agreement in any future Division or Commission proceeding, and no party, by executing this

stipulation/settlement, is bound by any of the positions taken in this stipulation/settlement, and no position taken by any of the parties to this stipulation/settlement on any issue is to be construed as a precedent in any future Division or Commission proceedings.

12. In the event the Commission rejects or fails to approve any part of this stipulation/settlement, the entire stipulation/settlement shall be void.

Executed this 7th day of December, 1999.

Providence Water Supply Board  
By its attorney

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