

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PAWTUCKET WATER SUPPLY BOARD :
COST OF SERVICE STUDY AND RATE DESIGN : DOCKET NO. 3193

REPORT AND ORDER

I. BACKGROUND

In Docket No. 2674, the Public Utilities Commission (“Commission”) directed Pawtucket Water Supply Board (“PWSB”) in its next general rate filing or by January 1, 2000 to present a retail rate design which develops flat commodity rates for residential, multi-dwelling, commercial, industrial, wholesale and fire services classes.¹ In support of this flat rate design, PWSB was also directed to utilize data relating to class consumption and demand.² On January 10, 2000, PWSB requested an extension until September 1, 2000 to file a flat rate design with the Commission because accurate consumption data for a cost of service study was not unavailable until June 1999 when a new meter reading system was established.³ The Division of Public Utilities and Carriers (“Division”) supported this request.⁴ At an open meeting on January 31, 2000, the Commission granted PWSB’s request for an extension.

¹ Order No. 15664 (issued January 17, 1998), at p. 88 .

² Id.

³ PWSB’s letter dated January 17, 2000.

⁴ Division’s letter dated January 26, 2000.

II. PWSB'S COST OF SERVICE STUDY AND RATE DESIGN

On September 1, 2000, PWSB filed a cost of service study ("COSS") using the base-extra capacity method. In support of this study, PWSB provided pre-filed testimony by Walter Edge, Jr. and David Bebyn.⁵ On December 4, 2000, PWSB filed an updated COSS and new rate design based upon the annual revenue requirement approved by the Commission in Docket No. 3164. In support of this filing, PWSB provided pre-filed testimony by Pamela Marchand, PWSB's Chief Engineer, and David Bebyn.⁶ A single flat commodity rate was developed for each of the six retail rate classes and the wholesale class, but the new flat rates did not take into account the results of the COSS to reflect any revenue reallocations among the various rate classes. According to the COSS filed on December 4, 2000, present rates for the residential class, Osram Sylvania Products, Inc. ("Osram") and the large industrial class are recovering an appropriate amount of revenue. However, the COSS also indicated that present rates for public fire and wholesale service were under-recovering the costs to serve these classes, and present rates for private fire, commercial and small industrial service were over-recovering the costs to serve these classes.

⁵ See PWSB Ex. 1 and 3.

⁶ See PWSB Exs. 2 and 3A.

III. OSRAM

In response, on March 1, 2001, Osram provided pre-filed testimony of its consultant, Gary Shambaugh.⁷ Mr. Shambaugh recommended that Osram's annual revenue requirement be decreased by \$76,353, primarily to reflect the elimination of extra capacity (or demand) costs which he believed were inappropriately allocated to OSRAM, a base-load customer. In addition, Mr. Shambaugh recommended that a wholesale rate be developed for Central Falls customers, including Osram, in PWSB's next rate case.

IV. DIVISION

On March 1, 2001, the Division provided pre-filed testimony of its consultant, Thomas Catlin.⁸ While Mr. Catlin agreed with the use of the base-extra capacity method for the COSS, he also recommended a number of modifications to the classification and allocation of costs in PWSB's COSS. Mr. Catlin's resulting cost of service study was similar to PWSB's in many aspects, and for the most part, he noted, the variances between class revenues and costs produced by his study and PWSB's were "in the same direction."⁹ With respect to costs to serve the public and private fire protection classes, however, Mr. Catlin's study showed a significant revenue deficiency for private fire service, whereas PWSB's

⁷ See Osram Ex. 1. On March 14, 2001, Mr. Shambaugh filed additional testimony in response to the Division's pre-filed testimony filed by Thomas Catlin on March 1, 2001. See Osram Ex. 2.

⁸ See Div. Ex. 1.

⁹ Id., at p. 26.

study showed a significant revenue deficiency. In addition, Mr. Catlin's study indicated a 15% revenue deficiency under present wholesale rates. Ultimately, however, Mr. Catlin recommended against revising rates at this time, suggesting that "adjustments to rates to more closely align class revenues with the cost of service be made in conjunction with PWSB's next rate case."¹⁰

V. SETTLEMENT

On April 24, 2001, the Division, PWSB and OSRAM filed a Settlement Agreement ("Settlement"), recommending that no changes in PWSB's rate design be made at this time and that disposition of the rate design issues pending in this docket be addressed in PWSB's next rate filing.¹¹ The Settlement specifies that in its next rate case PWSB will file a cost of serve study based on the base-extra capacity methodology and utilize an agreed upon fire flow requirement of 6,000 gallons per minute with a duration of 6 hours. The settling parties recommended against implementing any rate design or rate changes until PWSB's next rate filing because: (1) further rate changes could result in unwarranted customer confusion due to significant rate changes that have occurred since last August and are likely to result from PWSB's next rate case; (2)

¹⁰ Id., at p. 27.

¹¹ The Settlement filed on April 24, 2001 was signed by all parties in this docket except the city of Central Falls. The Settlement is attached as Appendix A hereto and incorporated by reference herein.

the cost of service study filed in this docket; (3) class cost responsibilities will be impacted by the inclusion in rates of the new treatment plant costs; and (4) additional information regarding class demands is being gathered and will be available for use in the PWSB next rate case.

After notice, a public hearing was conducted on April 30, 2001 at the offices of the Commission, 89 Jefferson Boulevard, Warwick, Rhode Island. The following appearances were entered:

- FOR PWSB: Francis X. Flaherty, Esq.
Joseph Keough, Jr., Esq.

- FOR DIVISION: Leo Wold, Esq.
Special Assistant Attorney General

- FOR OSRAM: Gregory Benik, Esq.

- FOR COMMISSION: Steven Frias, Esq.
Executive Counsel

At the hearing, Mr. Edge and Ms. Marchand testified on behalf of PWSB in support of the Settlement. Ms. Marchand indicated that PWSB is currently gathering more data regarding class demands and customer classifications and that she expected this information to be available in the next few months and, in any event, for the next rate case.¹² Ms. Marchand testified that PWSB preferred to implement a new rate design in connection with the new rates approved in PWSB's next rate case.¹³

¹² Tr. 4/30/01, pp. 31-32.
¹³ *Id.*, pp. 33-34.

The Division presented Mr. Catlin as a witness at the hearing. Mr. Catlin also testified in support of the Settlement, explaining that it would be difficult for PWSB to implement a new rate design at this time because PWSB is still trying to identify which customers belong in each rate class.¹⁴

COMMISSION FINDINGS

At an open meeting on May 15, 2001, the Commission considered the evidence presented in the case and found the Settlement was just and reasonable and in the best interest of the ratepayers. The Commission noted that PWSB had testified that it was expecting to file a general rate case in the near future and that a new rate design could be implemented when new rates are established in that case. The Commission also acknowledged PWSB's testimony that it needed additional time to acquire the customer classification and class demand data necessary to implement a new rate design. The Commission is mindful, however, of the statutory mandate to eliminate declining block rates set forth in R.I.G.L. § 46-15.4-6, and anticipates that PWSB will satisfy this mandate in conjunction with its next rate filing.

Accordingly, it is

¹⁴ Id., p. 83.

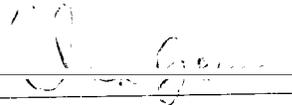
(16714) ORDERED:

The Settlement Agreement filed on April 24, 2001 by the
Division of Public Utilities and Carriers, the Pawtucket
Water Supply Board, and Osram Sylvania Products, Inc.
is hereby approved.

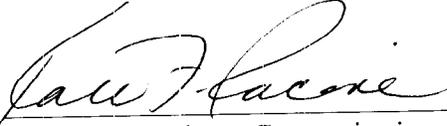
EFFECTIVE AT WARWICK, RHODE ISLAND ON MAY 15, 2001,
PURSUANT TO AN OPEN MEETING DECISION. WRITTEN ORDER
ISSUED SEPTEMBER 11, 2001.

PUBLIC UTILITIES COMMISSION

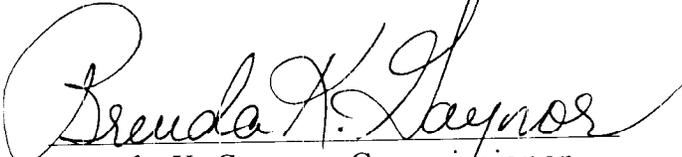




Elia Germani, Chairman



Kate F. Racine, Commissioner



Brenda K. Gaynor, Commissioner

4. While significant progress has been made in resolving issues related to cost allocation, the parties have concluded that changes in rate design should not be made at this time and that further litigation of the issues would not be productive. This conclusion reflects the following considerations: (i) significant changes in rates have taken place since August 2000 and further changes are likely within the next year due to the anticipated rate increase filing; as a result, additional rate changes from this docket may lead to unwarranted customer confusion, (ii) for the most part, class revenues do not presently depart significantly from costs based on the study presented in this docket, (iii) relative class cost responsibilities will be impacted by the inclusion in rates of the costs of the new treatment plant to be included in PWSB's upcoming filing, and (iv) additional information regarding class demands is currently being gathered, and will be available for use in the next PWSB proceeding.

5. Accordingly, due to the aforementioned reasons, the Parties believe that Commission disposition of the rate design issues pending in this docket should be postponed, and the issues should be addressed as part of the anticipated PWSB general rate application.

II. TERMS OF SETTLEMENT

1. No changes in rates shall be implemented as a consequence of or in conjunction with this docket.

2. In PWSB's next filed rate case, PWSB agrees to file the Cost of Service Study based on the "base-extra capacity" methodology. This methodology is generally consistent with the methodology contained in the study submitted by the Division in this docket.

3. In the Cost of Service Study, the Parties agree that a fire flow requirement of six-thousand (6,000) gallons per minute with a duration of six (6) hours is appropriate.

III. EFFECT OF SETTLEMENT

1. This Settlement Agreement is the result of a negotiated settlement. The discussions which have produced this Settlement Agreement have been conducted with the explicit understanding that all offers of settlement and discussion relating thereto are and shall be privileged, shall be without prejudice to the position of any party or participant presenting such offer or participating in any such discussion, and are not to be used in any manner in connection with these or other proceedings.

2. The agreement by any party to the terms of this Settlement Agreement shall not be construed as an agreement as to any matter of fact or law beyond the terms thereof. By entering into this Settlement Agreement, matters or issues other than those explicitly identified in this agreement have not been settled upon or conceded by any party to this Settlement Agreement, and nothing in this agreement shall preclude any party from taking any position in any future proceeding regarding such unsettled matters.

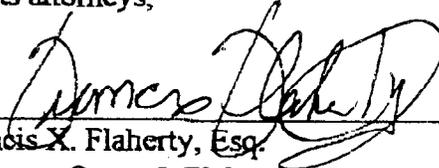
3. In the event that the Commission rejects this Settlement Agreement, or modifies this agreement or any provision therein, then this agreement shall be deemed withdrawn and shall be null and void in all respects.

IN WITNESS WHEREOF, the Parties agree that this Settlement Agreement is reasonable, in the public interest and in accordance with regulatory policy, and have caused this agreement to be executed by their respective representatives, each being authorized to do so.

Dated at Providence this 21st day of April, 2001.

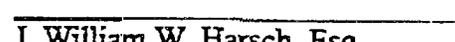
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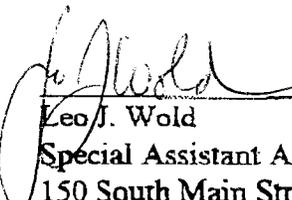

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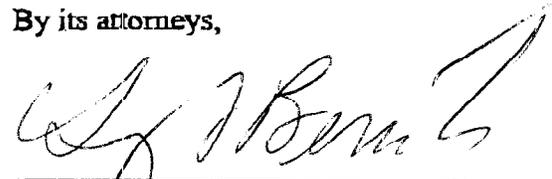
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