

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY :
BOARD'S ABBREVIATED RATE FILING : DOCKET NO. 3446

REPORT AND ORDER

I. Introduction

On July 1, 2002, Providence Water Supply Board ("Providence Water") made an abbreviated rate filing with the Public Utilities Commission ("Commission"). The abbreviated rate filing, if approved, would result in an overall increase of 12.99 percent, increasing rates across-the-board by 13.38 percent, for a total revenue requirement of \$47,401,320, an increase of \$5,448,798. The effect on a typical residential customer using 75,000 gallons of water per year would be a rate increase of \$27 per year, or approximately \$7 per quarter. Providence Water requested an effective date of July 31, 2002.¹ On July 18, 2002, the Commission suspended the filing. On July 15, 2002, Kent County Water Authority ("KCWA") filed a Motion to Intervene based on its status as a wholesale purchaser of water from Providence Water. No objection was filed and the Motion was granted in accordance with Rule 1.13(e) of the Commission's Rules of Practice and Procedure.

This is Providence Water's third request for rate adjustments in the past three years. A brief history follows:

Docket No.	Filing Date	Effective Date	Increase Requested	Increase Allowed
3163	6/30/00	1/1/01	\$5,416,622	\$2,813,974
2961	6/30/99	2/1/00	\$2,549,504	\$2,073,709

In its filing, Providence Water indicated that the rate increase was necessary due to the following: (1) an increase in city pension contributions; (2) an increase in salary expenses; (3) an increase in health care costs; (4) an increase in revenue to cover the test year shortfall; (5) an operating reserve; (6) an allocation to sludge removal from settling lagoons; (7) adjustments for reductions in consumption; (8) adjustments for an expected increase in private fire collection revenues; (9) increases in miscellaneous charges; and (10) a decrease in insurance collections from the test year to the rate year.

II. Providence Water's Direct Testimony

In support of its filing, Providence Water submitted the pre-filed direct testimony of Boyce Spinelli, Deputy General Manager, Jeanne Bondarevskis, Director of Finance, Paul Gadoury, Director of Engineering, Joseph Spremulli, Director of Support Services, and Paul Titzmann, Director of Special Projects.

Mr. Spinelli testified that the majority of the requested increase is for known and measurable expenses such as changes in salaries and wages, employee benefits, and property taxes. He explained that the balance is for sludge maintenance of Providence Water's lagoons. According to Mr. Spinelli, Providence Water is not requesting an increase in restricted funding in the instant filing.²

Addressing Providence Water's insurance expenses for fiscal year 2003, Mr. Spinelli indicated that the total projection is approximately \$1.2 million. However, rather than requesting the entire amount be approved in rates, Providence Water requested that the Commission allow Providence Water to use funds from its restricted insurance fund balance, leaving \$359,000 to be collected from rates. He testified that such an approach

¹ Although Providence Water requested an effective date of July 31, 2002, it presented its filing based on an effective date of January 1, 2003.

would provide over two years of rate relief to consumer before it would become necessary to request full funding from rates.³

Turning specifically to property taxes, Mr. Spinelli indicated that due to a property revaluation by the Town of Scituate, Providence Water's tax bill from Scituate for the period January 1, 2001 through December 31, 2001, increased by more than \$900,000. Scituate has appealed the valuation of its property, specifically with regard to property it believes should be deemed forest land for tax purposes. However, during the pendency of the appeal, Providence Water must continue to pay the amounts billed.⁴

Regarding Providence Water's contributions to the City of Providence's Employees Retirement System, Mr. Spinelli testified that in order to be aligned with contributions by the City of Providence ("City of Providence" or "City") and by the School Department, Providence Water is requesting an increase of \$1,372,378. He testified that in the past, Providence Water was contributing 100 percent of its actuarially recommended contribution while the City and the School Department were contributing less than their respective recommended contributions. Therefore, in 2001 and 2002, Providence Water contributed percentages in line with the City and the School Department and will continue to do so in the future, with its contribution for fiscal year 2003 totaling 80 percent of the recommended amount, or \$1,922,387.⁵

Ms. Bondarevskis provided pre-filed testimony to address the financial requirements and adjustments made to Providence Water's revenue requirements. She testified that Providence Water is not seeking adjustments for debt service, chemicals,

² Providence Water Exhibit 1A (Pre-filed testimony of Boyce Spinelli), p. 2.

³ Id. at 3.

⁴ Id. at 4-5.

⁵ Id. at 5-6.

insurance, infrastructure replacement funding or purchased water. She indicated that the request is primarily for contractual increases in employee related expenses as well as a significant increase in property tax liability.⁶ Providence Water proposed to apply the rate increase across-the-board to all rate categories.⁷

According to Ms. Bondarevskis, the test year used in the instant filing was calendar year ending December 31, 2001 and the rate year is calendar year ending December 31, 2003. Ms. Bondarevskis testified that in order to arrive at the rate year, she made the following normalizing adjustments: removing year end revenue accruals; adding back overhead applied costs; removing a one time insurance expense; and reclassifying some expenses.⁸

Ms. Bondarevskis' net adjustments to the test year total \$4,079,466. She made adjustments to seven items in its cost of service. She increased salaries and wages by \$1,089,149, increased property taxes by \$894,722, reduced insurance by \$414,220, increased pension and other employee benefits by \$2,066,480 and increased regulatory and rate case expenses by \$43,334. She made adjustments to various items of debt service and restricted funding requirements, but the net effect of these adjustments was no change from the test year to the rate year.⁹

Mr. Gadoury testified to the need for additional funds to install valves at a 78 inch aqueduct at the KCWA wholesale connection and additional funding for ongoing operation and maintenance ("O&M") costs to maintain Providence Water's sludge lagoons. Mr. Gadoury indicated that the ability to provide water to KCWA is primarily

⁶ Providence Water Exhibit 1B (Pre-filed testimony of Jeanne Bondarevskis), pp. 2-3.

⁷ Id. at 5.

⁸ Id. at 4.

⁹ Id. at 5, Schedules A & B.

dependent upon the integrity of this connection. He noted that the Commission had previously approved funding for a similar project at the Warwick 102” connection. He explained that because of the need for valves at the 78” connection, Providence Water included it when soliciting bids for the Warwick connection. The bids received showed that if the two projects were combined, Providence water could save approximately \$110,000 over the cost of having the projects done separately.¹⁰ Therefore, Mr. Gadoury recommended the Commission approve additional funding to cover installation of the valve at the 78 inch connection to be constructed in conjunction with the previously funded 102 inch project. Mr. Gadoury noted that in Docket 3163, the Commission authorized \$500,000 in annual revenue to be restricted to the valve fund for two years. After the two-year period had passed, Providence Water was to deposit the \$500,000 into the infrastructure replacement (“IFR”) fund. Now, Providence Water is requesting a continuation of the practice of depositing the \$500,000 into the valve fund until payment of both projects is complete, at which time the money will be deposited into the IFR account.¹¹

In support for annual funding for sludge lagoon maintenance, Mr. Gadoury testified that the lagoons provide detention time for the settling out of sludge solids prior to discharge of water into the Pawtuxet River. Providence Water has three such lagoons. He explained that standard industry practice is to clean the lagoons regularly in order to maintain their effectiveness. In the past, Providence Water had not maintained the lagoons adequately. However, in 1998, as part of its IFR program, Providence Water

¹⁰ Providence Water Exhibit 1C (Pre-filed testimony of Paul Gadoury), pp. 1-4. Providence Water received bids for both projects to be completed for \$1,742,750 compared to a total of \$1,852,630 if the projects were bid separately. Id. at 4.

¹¹ Id. at 6.

began restoring the lagoons and now requests funds to properly maintain them. Mr. Gadoury estimated an annual operations and maintenance cost of \$400,000.¹²

Mr. Spremulli provided testimony regarding Providence Water's insurance requirements. He noted that as part of the Settlement in Docket No. 3163, "Providence Water agree[d] in its next rate filing to submit a study of the recommended level of insurance premiums and injuries and damages expense to be included in rates."¹³ Pursuant to that agreement, Providence Water hired the firm of Starkweather and Shepley to conduct a study. Included in that study was an analysis to identify loss exposures of Providence Water, to review Providence Water's current insurance program to determine adequacy, to review current Workers' Compensation claims to determine the proper reserves, to assist Providence Water in preparing specifications for new insurance coverage and analyze the new programs to be implemented, and to estimate future insurance costs.¹⁴ Mr. Spremulli noted that although Providence Water's overall insurance program was found to be adequate, certain recommendations were made and Providence Water worked those recommendations into its plan when re-bidding its insurance coverage.

In summary, Providence Water has calculated its annual insurance costs to be approximately \$1,039,000, of which \$359,000 will come from rates and \$679,000 from the restricted insurance fund. The total insurance reserve of \$1,000,000 has been calculated, with \$645,000 allocated to Workers' Compensation claims and \$355,000 allocated to third party claims and deductibles. Providence Water proposes leaving that amount in the insurance fund. The insurance fund balance after calculation of the

¹² Id. at 6-9.

¹³ See Order No. 16552 (issued March 27, 2001).

necessary reserves is \$1,837,159. Providence Water proposes utilizing a portion of this excess plus the annual insurance allocation to cover the insurance costs. According to Mr. Spremulli, the balance will be depleted in just over 2 ½ years. However, this option allows for more rate stability to customers who, if the insurance contributions were cut now and then increased dramatically in a few years, would see a steeper rate increase in the future than under this proposal.¹⁵

Mr. Titzmann provided testimony to address the increase in “miscellaneous fees and charges” that have not been revised since 1993. He indicated that the focus was ensuring that services required by only a portion of Providence Water’s customers are paid for by those customers and not socialized among the entire rate base.¹⁶ Miscellaneous charges include fees for photocopying, returned checks, hydrant flow tests, new water service, pavement/sidewalk restoration, police detail, new meter installation, service and restoration, and salaries associated with Plan Checking/Water Availability Review and Easement/Abandonment Requests. Mr. Titzmann anticipated that the proposed changes will result in additional revenue of \$198,629.¹⁷

III. Division’s Direct Pre-Filed Testimony

The Division of Public Utilities and Carriers (“Division”) submitted the pre-filed direct testimony of Thomas S. Catlin, consulting economist to the Division. Mr. Catlin provided recommendations regarding the overall increase to which he believed Providence Water should be entitled and regarding rate design issues. In summary, Mr. Catlin made \$1,732,874 in adjustments to Providence Water’s proposed cost of service,

¹⁴ Providence Water Exhibit 1D (Pre-filed testimony of Joseph S. Spremulli), pp. 1-2.

¹⁵ Id. at 3-4.

¹⁶ Providence Water Exhibit 1E (Pre-filed testimony of Paul Titzmann), p. 2.

¹⁷ Id. at 2-7.

arguing that only \$3,715,924 of Providence Water's request could be justified, resulting in a 9.04 percent increase in rate year revenues.¹⁸

Mr. Catlin made adjustments to Providence Water's estimates of rate year sales and revenue. The results of updating the number of water and fire service customers are small increases in the revenue from retail service charges, private fire protection service charges and public fire hydrant charges. Updating wholesale water sales results in a small reduction in estimated sales. Finally, because Bristol County Water has expanded the upgrade to its water treatment plant, Mr. Catlin included additional sales volumes to Bristol County Water for the first six months of the rate year based on the increase in sales experienced during the first six months of 2002. As a result of his rate year sales estimate, Mr. Catlin adjusted rate year revenues upward by \$377,897.¹⁹

Mr. Catlin next addressed Providence Water's salaries and wages. He noted that Providence Water had adjusted its salary and wage requirements to account for an overall increase of 8.16 percent in accordance with union contracts. However, Mr. Catlin argued that only half of the annual effect of the wage increase scheduled for July 1, 2003 should be included in the rate year calculation due to the fact that the increase will only be in effect for half of the rate year. Mr. Catlin's resulting adjustment was a \$231,970 reduction from Providence Water's calculation of salary and wage expense.²⁰

Addressing Providence Water's pension expenses, Mr. Catlin recommended that the Commission approve an allowance for pension funding equal to 60 percent of the actuarially recommended contribution for 2003. According to Mr. Catlin, this is based on

¹⁸ Division Exhibit 1 (Pre-filed testimony of Thomas Catlin), pp. 3-4, Schedules TSC-1, TSC-2. Mr. Catlin indicated that in developing the rate increase, he included an operating reserve of 1.5% as previously approved in Docket Nos. 2304, 2961 and 3163. Id.

¹⁹ Id. at 5-6, Schedule TSC-3.

the percentage of the actuary's recommended pension contribution which has been made by the City, School Board and Providence Water over the four years from fiscal year 1999 through fiscal year 2002. Mr. Catlin's resulting adjustment is a \$480,595 reduction from Providence Water's proposal. Mr. Catlin noted that Providence Water was basing its request on 80 percent of the actuary's recommended contribution based on a belief that the City and the School Department would match that amount. However, given the City of Providence's financial situation, Mr. Catlin believed that the City and the School Department would not meet the 80 percent calculation and further opined that a 60 percent contribution by Providence Water would put it in line with the City and School Department. Finally, Mr. Catlin recommended that no matter what amount the Commission allows Providence Water to collect in rates for pension contributions, Providence Water be directed to contribute a percentage of the actuary's recommendation no greater than that contributed by the City and the School Department.²¹

Adjustments to employee benefit costs other than pensions that had been included by Providence Water for three items affected the FICA taxes and "½% wage assignment" expense, with reductions to reflect Mr. Catlin's downward adjustment to salaries and wages. He also adjusted the employer contribution to training expenses, specified by the union contract, basing it on an agreement by Providence Water that the calculation should be based on the average of the funding rates effective on July 1, 2002 and July 1, 2003. This adjustment reduces the rate year expenses by \$26,632.²²

Next, Mr. Catlin explained his rate year adjustments related to the wages and benefits chargeable to Providence Water's IFR and capital improvement project ("CIP")

²⁰ Id. at 6-7.

²¹ Id. at 8-11.

programs. He proposed to reduce the labor costs to be funded directly from rate revenue to recognize the cost of three in-house professional IFR and/or CIP positions as already being funded from the IFR and CIP allotments. He based his calculation on the approval given by the Commission in Docket No. 3163 for the three positions at a wage rate of \$44,485 brought up to rate year wage levels. Mr. Catlin's adjustment would reduce the rate year costs to be funded directly from revenues by \$205,275.²³

Mr. Catlin also increased the amortization of Providence Water's rate case expenses from one year to two years, resulting in a \$30,000 decrease in the cost of service calculation.²⁴ He reduced the chemicals expense by \$108,805 to reflect a two-year average of the quantities utilized and current chemicals prices.²⁵ Mr. Catlin reduced Miscellaneous Expenses-Water Treatment by \$25,000 so that only one year is included for state license fees.²⁶ With regard to sludge lagoon maintenance costs, Mr. Catlin noted that there is a significant amount of uncertainty as to the annual cost because Providence Water has little experience in undertaking regular removal and disposal of sludge from its lagoons. Therefore, he recommended that the annual allowance for sludge removal and disposal be set aside in a restricted account.²⁷ Because computer upgrading occurs approximately once every three years, Mr. Catlin proposed adjusting computer maintenance expenses to include one-third of the cost of the upgrade, resulting in a reduction of rate year expenses by \$97,573.²⁸

²² Id. at 11-12.

²³ Id. at 12-13, Schedule TSC-7.

²⁴ Id. at 12-14, Schedule TSC-8.

²⁵ Id. at 14-15, Schedule TSC-9.

²⁶ Id. at 15, Schedule TSC-10.

²⁷ Id. at 19-20.

²⁸ Id. at 15-16, Schedule TSC-11.

In adjusting the property tax expenses, Mr. Catlin proposed utilizing actual fiscal year 2003 property taxes rather than estimates to develop rate year property tax expenses. In addition, he proposed to revise the growth rate used to adjust fiscal year 2003 property taxes to rate year levels. In lieu of the one-half of annual growth rate of 5.78 percent utilized by Providence Water, Mr. Caltin used one-half of his calculation of the annual growth rate or 1.32 percent. The result is a \$129,102 reduction of Providence Water's rate year claim.²⁹ Mr. Catlin also noted that Providence Water has appealed the Scituate property tax revaluation and recommended that Providence Water place any refunded tax payments, whether in the form of cash or offset of future tax payments, in a restricted account and submit a proposal to the Division or Commission as to the utilization of the money.³⁰

Finally, addressing rate design, Mr. Catlin indicated that because this is an abbreviated filing without a new cost study, he would accept Providence Water's proposal that the allowed revenue increase be recovered through a uniform increase in all rates. However, he did note that in Docket No. 3163, the cost studies revealed that private fire service rates were found to be well above cost while public fire service rates were well below cost. While the rate changes adopted in Docket No. 3163 moved rates closer together and toward costs, it was not possible to adjust all rates to equal costs.³¹

IV. KCWA's Direct Pre-Filed Testimony

On October 1, 2002, KCWA submitted the pre-filed direct testimony of Christopher P.N. Woodcock, a consultant. The purpose of Mr. Woodcock's testimony was to comment on the impact of Providence Water's filing on KCWA, a wholesale

²⁹ Id. at 16-18, Schedule TSC-12.

³⁰ Id. at 17-18.

customer of Providence Water. Mr. Woodcock first noted that the proposed rates represent a 13.4 percent increase in wholesale rates. Additionally, Mr. Woodcock argued that some of Providence Water's proposed increases should be denied entirely on the basis that they are not "known and measurable costs," while other proposals appear overstated to Mr. Woodcock, leading him to adjust them downward.³² In summary, Mr. Woodcock made \$2,195,558 in adjustments to Providence Water's proposed cost of service, arguing that only \$3,114,565 of Providence Water's request could be justified, resulting in a 7.6 percent increase in revenues.³³

Mr. Woodcock adjusted Providence Water's proposed salary and wage costs and associated FICA costs to reflect the fact that the half of the increase will be implemented during the first half of the rate year and the remainder during the second half of the rate year.³⁴

Regarding Providence Water's claim for debt service and funding related to the Western Cranston System, Mr. Woodcock indicated that the impact fees charged by Cranston and turned over to Providence Water had not been reflected in its filing. Second, Mr. Woodcock noted that Providence Water had conceded that debt service had dropped since the last rate case, but it was still requesting \$150,000, of which any excess would be used for vaguely termed capital projects. Therefore, Mr. Woodcock recommended disallowing the \$87,931 allocated as cash funding "until such time as Providence Water details the expenses, provides substantiation for the projects,

³¹ Id. at 20-21.

³² KCWA Exhibit 1 (Pre-filed testimony of Christopher Woodcock), pp. 1-2.

³³ Id. at 6, Schedule 1.0.

³⁴ Id. at 2.

determines which projects are IFR related and provides information on the impact fee revenues that can be used for some of these costs.”³⁵

Mr. Woodcock recommended that Providence Water’s request for continued funding of \$150,000 per year for an alternative supply study be disallowed because in Docket No. 3163, the Commission had allowed \$300,000 for the study over a two-year period ending prior to the rate year in the instant docket. He also adjusted treatment costs and related license fees to address Providence Water’s correction of those costs.³⁶

Mr. Woodcock made adjustments to Providence Water’s request for funding of the Equipment Replacement Fund-Cash Funding, citing substantial lease reductions. He did not agree that Providence Water should be allowed to offset the reductions by increasing its cash funding levels. Addressing the CIP debt payments, Mr. Woodcock made adjustments based on the average due over the next four years, noting that some of the payments were still estimated. Noting that Providence Water had not filed a new IFR report with the Department of Health or with the Commission, Mr. Woodcock also made adjustments to the Cash Funded IFR to make the total of the cash funded IFR work, IFR debt and capitalized labor equal the \$12.5 million previously authorized by the Commission for IFR spending.³⁷

Furthermore, Mr. Woodcock made adjustments to property taxes, arguing that because Providence Water had not yet received all of its tax bills for 2003, the additional estimated billings should not be included. He made another adjustment to the City

³⁵ Id. at 2-3.

³⁶ Id. at 3. Providence Water’s Response to the Division’s Data Request 1-19 indicated a downward adjustment of \$108,804.41 to Providence Water’s rate year chemical expenses. In addition, due to a late billing by the City of Providence, Providence Water inadvertently included a \$25,000 annual license fee twice in its original filing. See Providence Water’s Response to Division Data Request 1-19.

³⁷ KCWA Ex. 1, pp. 3-4.

Services Expenses, noting that a re-evaluation was ordered in Docket No. 3163 and was not completed. Therefore, he argued that until such time as the re-evaluation is completed, the Commission only allow the amount allocated for fiscal year ending June 30, 2001. He also made adjustments to Operating Revenues, Regulatory Expenses and Administrative Contract Services.³⁸

V. Providence Water's Pre-filed Rebuttal Testimony

On October 23, 2002, Providence Water filed the rebuttal testimony of Jeanne Bondarevskis and Boyce Spinelli. Ms. Bondarevskis indicated that Providence Water agreed with the adjustments made by the Division to the following items: (1) customer counts; (2) wholesale sales reflecting updated customer counts and a four year average, ending June 30, 2002; (3) salaries and wages; (4) employee benefits costs; (5) training expenses; (6) rate case expenses; (7) chemical expenses; (8) miscellaneous water treatment expenses; (9) computer maintenance; (10) property taxes; and (11) sludge lagoon maintenance. According to Ms. Bondarevskis, the result of the agreed adjustments is a revenue increase of 11.28 percent, with a resulting impact on rates of 11.62 percent.

According to Ms. Bondarevskis, Providence Water disagreed with Mr. Catlin's adjustments in two areas and with Mr. Woodcock's adjustments in seven areas. Addressing the temporary water sales to Bristol County Water, Ms. Bondarevskis argued that the Division's method for calculating the consumption level for the pro forma year would result in an unusually high consumption level, forcing Providence Water to readjust rates effective January 1, 2004, when the sale to Bristol County Water ceases; absent this adjustment, Providence Water will not collect enough money to meet its

³⁸ Id. at 4-6.

expenses. Therefore, she argued in favor of utilizing a four-year average in assessing the water usage, to include the unusually high, temporary usage of Bristol County Water, but averaged against the typical usage in order to set a wholesale rate that can be in effect for more than a single year.

Regarding Mr. Catlin's downward adjustments to IFR and CIP wages for three employees, Ms. Bondarevskis explained that in Order No. 16552, the Commission had allowed Providence Water to hire three employees to do the work that Providence Water would ordinarily hire consultants to perform. Providence Water was allowed to fund the positions from the IFR and CIP accounts on a trial basis to determine whether Providence Water's assertion that such a plan would save money could be proven. Ms. Bondarevskis indicated that the three employees were never hired, consultant fees were not reduced and as such, Providence Water's cost of service has not been reduced. In fact, Providence Water has been working to fill four engineering positions, including three to be paid from the IFR and CIP accounts.

Addressing Mr. Catlin's position on the pension contribution, Mr. Spinelli argued that Providence Water requested pension funding at 80 percent of the actuary's recommendation because the City of Providence is definitely contributing 80 percent. Mr. Spinelli argued that Providence Water does not have the discretion to unilaterally contribute at a rate different from the 80 percent rate of the City. Providence Water's previous reduction in its contribution was approved by the City after Providence Water made the case to the City that it should be at parity with the City and the School Department.³⁹

VI. Settlement

On November 6, 2002, the parties filed a Stipulation/Settlement (“Settlement”) with the Commission for its consideration at the public hearing scheduled for November 14, 2002. The parties agreed to an overall revenue requirement of \$46,782,148, an increase of \$4,658,599, or 11.395 percent across-the-board on rates. The effect on an average residential customer using 100 cubic feet, or 74,800 gallons per year is \$22.90, for a total annual bill of \$223.90. The agreed effective date for rates is January 1, 2003.⁴⁰

The parties agreed to set the residential retail rate at \$1.79 per hundred cubic feet (“hcf”), the commercial retail rate at \$1.72 per hcf, the industrial retail rate at \$1.67 per hcf and the wholesale rate at \$1,132.89 per million gallons. The agreed upon projected annual retail consumption is 15,880,937 hcf and the projected wholesale consumption is 13,872,411 hcf. The annual public fire supply rate was set at \$210.50 per hydrant and the private fire supply rate was set at \$803.04 per hydrant per year for a six inch service size.⁴¹

As part of the Settlement, Providence Water agreed to re-evaluate City service expenses in its next full rate filing. According to the Settlement, Providence Water is to limit its future pension contributions to a percentage of the actuarial recommendation not to exceed the percentage of actuarial contributions made by the City of Providence or the School Department. Furthermore, in the event the contribution falls 10 percent or more below \$1,922,378, the pension collections allowed in the instant rate case, Providence Water is to notify the Commission and Division in its semi-annual report. In that event,

³⁹ Providence Water Exhibit 2B (Pre-filed rebuttal testimony of Boyce Spinelli), pp. 2-3.

⁴⁰ Joint Exhibit 1 (Stipulation/Settlement), pp. 1-3.

⁴¹ Id. at 1-2.

Providence Water will be required to demonstrate why the excess should not be set aside to fund future pension contributions.⁴²

Providence Water agreed to continue to restrict all accounts previously restricted. Additionally, the parties agreed to allow Providence Water an annual collection of \$400,000 for sludge removal and disposal, to be deposited into a restricted account. An annual allowance of \$1,376,516 for chemical expenses was also agreed upon, to be deposited into a restricted account.⁴³

The parties agreed that Providence Water may use IFR and CIP funds to pay for \$405,532 of capitalized labor costs. Additionally, the parties agreed that Providence Water may use IFR and CIP funds to pay for the three additional engineers approved by the Commission in Docket 3163, to be paid from IFR and CIP funds, as set forth in Order No. 16552.

VII. Hearing

A public hearing was held at the Commission's offices, 89 Jefferson Boulevard, Warwick, Rhode Island, on November 14, 2002 to assess the propriety of the Settlement. The following appearances were entered:

FOR PROVIDENCE WATER:	Michael McElroy, Esq.
FOR THE DIVISION:	William Lueker, Esq. Special Assistant Attorney General
FOR THE COMMISSION:	Steven Frias, Esq. Executive Counsel

In support of the Settlement, Providence Water presented witnesses Jeanne Bondarevskis, Joseph Spemulli, Paul Gadoury, Robert Kilduff, Paul Titzmann, Michael

⁴² Id. at 2-3.

⁴³ Id. at 2.

Covellone, Peter Pallozzi and Boyce Spinelli. The Division presented Thomas Catlin and John Bell as its witnesses and KCWA presented Christopher Woodcock.

A. Fire Service and Rate Design

In his opening statement, Mr. McElroy indicated that Providence Water recognized that an across-the-board rate increase on public and private fire service may not be in line with the Commission's intent in the previous docket to eventually bring public and private fire rates in line with their respective actual cost of service. However, it was his opinion that any other allocation would create a rate design change prohibited by the Commission's abbreviated filing rules. However, Providence Water had prepared revised schedules to reflect an increase in public fire rates and no increase in private fire rates.⁴⁴

Mr. Catlin testified that historically, in abbreviated rate cases, the rate increase has either been an across-the-board increase or an update of an accepted cost study. Mr. Woodcock agreed with Mr. Catlin's assessment because the Commission's Rules of Practice and Procedure do not allow for a change in rate design as part of an abbreviated case. However, Mr. Catlin also testified that he believed that the Commission could legitimately decide to allocate the fire service increase exclusively as a continuation of the Commission's policy initiated in the Docket No. 3163.⁴⁵

Both witnesses agreed that in order to continue the Commission's goal of bringing public and private fire service rates in line with their costs while not having the effect of rate shock on public rates, an acceptable method would be to allocate the entire fire service increase to public fire service rates. The effect of such a proposal would be an

⁴⁴ Tr. 11/14/02, pp. 11-12, Providence Water Exhibit 3.

⁴⁵ Tr. 11/14/02, pp. 24-29.

additional 10 percent increase on public fire rates, or a total of 21.42 percent over test year rates. In dollars, this equates to a \$19 increase over Providence Water's initial proposal. Despite this increase, the public fire rates would still be below the cost of service for public fire service.⁴⁶ Additionally, the witnesses agreed that although the municipalities were noticed regarding an 11.395 percent increase, municipalities understand that budgets are subject to change. Furthermore, the Commission's notice indicates that it may allow an increase that is less or more than that noticed.⁴⁷

B. Salaries Related to IFR/CIP

With regard to the proposal to fund \$405,532 in capitalized labor costs out of the IFR and CIP accounts, Mr. Catlin explained that at the time of the hearing, all labor was funded out of operating revenues, despite the increase in the amount of labor within Providence Water that is devoted to capital activities (capitalized labor). In order to moderate the amount of requested rate increase, the parties assigned some recovery of capitalized labor from the IFR and CIP funds that already existed, thereby enabling the rate increase to be decreased by \$405,532.⁴⁸

Mr. Catlin explained that the capital-related charges paid from the restricted funds are accounted for in a manner that is specific, giving Providence Water no flexibility over the allocation of funds.⁴⁹ In other words, the annual amount to be charged to capital labor and paid for out of restricted funds cannot exceed \$405,532. According to Mr. Catlin, this requirement was a significant issue for KCWA and the Division.⁵⁰

⁴⁶ Id. at 27-28, 33.

⁴⁷ Id. at 32-34.

⁴⁸ Id. at 39-40.

⁴⁹ Id. at 40.

⁵⁰ Id. at 40-41.

Addressing the derivation of the amount, Mr. Catlin testified that the parties looked at the amount of growth in operating labor since the last rate case and accounted for the labor plus 45 percent of benefits associated with that labor. According to Mr. Catlin, the total amount of capitalized labor is approximately \$900,000 per year as compared to approximately \$600,000 in the last rate case.⁵¹ Therefore, taking the growth in labor and accounting for the benefits associated with that labor, the amount that is taken from rates is limited to the amount at the level of the last rate case adjusted for wage increases.⁵² Finally, Providence Water and the Division agreed that the funds used for capitalized labor should only be taken from current funds as opposed to bond proceeds.⁵³

C. Pension Funding Levels

The parties agreed to Providence Water's original request for \$1.922 million for its pension contribution. The purpose of the provision was to allow Providence Water to match the percentage contributions by the City of Providence and the School Department. However, if the amount of Providence Water's contribution falls below 10 percent of the amount allowed, the parties proposed that Providence Water will notify the Commission and Division.

In response to questioning from the bench why the pension contribution should not be placed into a restricted account, Providence Water indicated a desire for flexibility in the event the pension contribution is lower than allowed and there is a need for the funds in other areas of operations. Mr. Catlin explained that a restricted account

⁵¹ Providence Water estimated that 20 positions would be affected by this provision. *Id.* at 88.

⁵² *Id.* at 41-43.

⁵³ *Id.* at 47-50. According to Ms. Bondarevskis, most of the capitalized labor is IFR related and as such, would come out of pay-as-you-go IFR funds regardless. *Id.* at 47-49.

normally has a specific amount attached to it and would provide Providence Water with no flexibility to adjust the amount contributed in the event it goes above or below the \$1.922 million allowed. For example, if the contribution is actually \$2.1 million, Providence Water will have a shortfall in the account to be made up by ratepayers in a future case. On the other hand, for example, if the pension contribution goes down and property taxes go up, Providence Water will not have the flexibility to use the remaining pension funds for property taxes. Therefore, there was hesitancy on the part of the parties to designate the pension fund as a restricted account. In an attempt to fully respond to Commission concerns, Providence Water agreed that if its annual contribution is below the \$1.922 million allowed from rates, it will deposit the difference into a restricted account to be used for future pension contributions, provided, however, that Providence Water needs these funds for another purpose, it may petition the Commission to use those funds for that purpose, even if a year had passed since an Order was issued.⁵⁴

D. Scituate Property Taxes

At the hearing, Providence Water agreed to put any refunds from the disputed property tax assessments from Town of Scituate into a restricted account.

E. Alternative Source Supply Funding

Addressing the additional funds and extended study time proposed in the Settlement for the Alternative Source Supply Study, the parties explained that further evaluation is necessary in light of the new security concerns resulting from the September 11, 2001 events. Additionally, funding for the Study is shared by the Rhode Island Water Resources Board, so Mr. Catlin opined that he believed there is a check and balance on

⁵⁴ *Id.* at 75-86. Commission Rule of Practice and Procedure 1.28(c) limits a party to one year from the issuance of an Order to petition for relief from that Order under circumstances set forth in Rule 1.28(b).

what gets funded and how much is accomplished. Providence Water expects that the final report on the first phase, including recommended actions will be completed in 2003.⁵⁵

F. Commission Issues – Management Independence and AMRs

At the hearing, the Commission expressed concern that the efficiency of Providence Water has been hindered by a lack of independent management, especially in the area of personnel management. The Commission noted that it had commissioned a Management Study in 1994 and one of the main recommendations was to give Providence Water more autonomy from the City of Providence in the area of personnel management.⁵⁶ Mr. Kilduff stated that Providence Water “would welcome the Commission’s help and input in these matters to clarify the autonomous or semi-autonomous nature of the Water Supply Board.”⁵⁷

Revisiting an issue from Docket 3163, the Commission requested an update on the installation of automated meters (“AMRs”). Mr. Pallozzi testified that as of November 12, 2002, approximately 46 to 47 percent of installations, or 33,338, had been completed.⁵⁸ Questioning and testimony focused on the difficulties Providence Water and ratepayers face when plumbing from the street to inside of the building (business or residence) cannot support the new meters without repairs. Providence Water explained that its responsibility ends at the curb where responsibility shifts to the ratepayer. Therefore, if the plumbing cannot support the new meters, Providence Water cannot

⁵⁵ Id. at 89-94.

⁵⁶ Id. at 68-73.

⁵⁷ Id. at 73.

⁵⁸ Id. at 97-98.

change the meter until the ratepayer hires a plumber to make the necessary repairs or upgrades.⁵⁹

In response to Commission concerns regarding delay and ratepayer hardship, Mr. McElroy suggested the Commission ask Providence Water to make a recommendation in its next rate filing as to how best to address the situation, whether through some sort of revolving loan fund through Providence Water or the City of Providence that would not create more problems such as those associated with cross-subsidization among rate classes.⁶⁰

VIII. Commission Findings

The Commission finds that the terms of Settlement entered into by and between the Providence Water, Division of Public Utilities and Carriers and the Kent County Water Authority are in the best interest of ratepayers. The Settlement will allow Providence Water to recover additional operating revenues in the amount of \$4,658,599 and implement an increase of 11.39 percent on all rates except for fire hydrant rates effective January 1, 2003.

A. Fire Protection

Regarding hydrant rates, Providence Water shall maintain the current rate for Private Fire Service and allocate the portion of the increase to Public Fire Service to reduce the rate differential between private and public. The Commission adopts amended schedule CA-20 that reflects the calculation of the rates for public and private fire service. Therefore, effective January 1, 2003, public hydrant rates will increase by 21.42 percent, thereby reducing the difference between public and six-inch private hydrant rates

⁵⁹ *Id.* at 101-116.

⁶⁰ *Id.* at 116.

to from \$492. In Commission Order No. 16552, the Commission reduced private fire rate and increased public fire rates in an attempt to bring each more in line with their respective cost of service and with each other. Under that Order, the difference between the two rates was reduced from \$595 to \$532.⁶¹ The current decision furthers the Commission's policy set in 2001 by reducing the differential from \$532 to \$492. The Commission notes that an across-the-board increase applied to public and private fire rates would have actually *increased* the differential between the two rates.

B. Capitalized Labor

The Commission has been hesitant to allow capitalized labor to be funded from IFR and CIP funds as opposed to operating revenues because of both the concern that long term debt would be used for current labor expenses and the concern that it would be difficult to accurately track the labor costs as they could simply be rolled into the overall costs of a project. However, in Order No. 16552, the Commission allowed three positions to be funded in this manner on a trial basis. Unfortunately, Providence Water did not fill the positions prior to filing the instant case. The testimony in the instant case has indicated that the purpose of including the proposal this year was to mitigate the impact of the rate increase and that the \$405,532 allowed for capitalized labor will be accounted for in a restricted account. To address the concern that long-term debt proceeds are not used to pay for labor costs, the Commission approves the use of funds from the "Capital Fund Cash" within the Water Capital Fund to fund capitalized labor costs. Additionally, to address the issue of tracking these expenses within the overall project costs, Providence Water is required to identify and provide costs associated with

⁶¹ Order No. 16552 (issued March 27, 2001); Division Exhibit 2, Docket 3163 (Pre-filed Testimony of Jerome Mierzwa), Exhibit JDM-1, Schedule 2.

capitalized labor. This shall be included as a separate line item in Providence Water's semi-annual reporting requirement.

C. Pension Funding

The Commission finds the reasoning provided by Providence Water and the Division as to why the pension fund should not be restricted to be reasonable. However, the Commission finds that in the event Providence Water's contribution in any given year is substantially less than that approved in rates, the excess funds should be set aside to be used for future pension contributions. More specifically, in the event Providence Water is required to make a substantially lower pension contribution (10 percent or more below the approved funding level) in any given year, it must restrict the funds representing the difference and should use those funds to fund future pension contributions. However, notwithstanding the one-year rule set forth in Commission Rule 1.28(c), Providence Water may, at any time, file a request with this Commission seeking permission to use all or any portion of such excess funds for a purpose other than the funding of future pension contributions and the Commission will consider and rule upon said request as expeditiously as possible. In making such a request, the burden shall be upon Providence Water to demonstrate why the excess pension funds should be allowed to be used for a purpose other than funding future pension contributions.

D. Property Taxes

With regard to the property tax dispute between Providence Water and the Town of Scituate, Providence Water is directed to notify the Commission of any property tax refund and to maintain these funds in a restricted account until such time as the Commission rules on how the money should best be returned to ratepayers.

D. Management Autonomy Issues

The Commission is concerned that the ability of Providence Water to run as efficiently as possible may be hindered with respect to personnel issues. Therefore, the Commission has requested a meeting with Mayor Cicilline or his designee to review the Management and Operations Study of Providence Water prepared by the Vista Consulting Group in September 1994 to discuss what can be done to give better management autonomy to Providence Water.

E. AMR Program

Providence Water is required to continue reporting on the installation of the AMRs and is directed to identify and account for ERT charge revenues in the cost of service. The Commission is concerned that ratepayers, especially those on a fixed income, potentially have a high financial burden associated with responsibility for water system upgrades to ready their dwellings for the installation of AMRs. This burden, in turn, puts a burden on Providence Water in the form of slowing their progress and reducing their meter reading efficiency.

The Commission accepts Providence Water's suggestion that the Commission include in its order a requirement that it provide the Commission with an analysis regarding upgrades associated with the installation of AMRs. Therefore, no later than twelve months from December 4, 2002, Providence Water shall provide the Commission with an analysis that includes the following: (1) the estimated total cost to upgrade the average residential home (broken out by single family and multi-family dwelling) in preparation for installation of an AMR (this should include a breakdown of the most common upgrades necessary and their associated costs); (2) the estimated number of

dwellings that will need to be upgraded during the course of the program; (3) the estimated overall cost to upgrade all residential dwellings in the service territory; and (4) Providence Water's recommendation of who should pay and on what terms.

F. Restricted Accounts

Finally, the Commission approves funding of the following restricted accounts: Water Capital Fund - \$2,450,000; Western Cranston Fund - \$62,069; IFR - \$12,500,000; Meter Replacement Fund - \$400,000; Equipment and Vehicle Replacement Fund - \$1,100,000; 102" Valve Fund - \$500,000; Alternate Supply Study Fund - \$150,000; Insurance Fund - \$359,000; and Sludge Removal and Chemical Expense Fund - \$1,776,516 (\$400,000 sludge + \$1,376,516 chemicals).

Accordingly, it is

(17344) ORDERED

1. Providence Water Supply Board's Abbreviated Rate Filing of July 1, 2002, is hereby denied and dismissed.
2. The Stipulation/Settlement filed on November 6, 2002 by and between Providence Water, Kent County Water Authority and the Division of Public Utilities and Carriers,⁶² providing for a revenue increase of \$4,658,599, resulting in a total cost of service of \$46,782,148, is hereby approved, with the following modifications:
 - a. private hydrant rates shall not be increased and public hydrant rates shall be increased by 21.42 percent;

⁶² A copy of the Stipulation/Settlement is attached as Appendix A and incorporated herein by reference.

- b. capitalized labor costs, not to exceed \$405,532 annually, shall be allowed to be drawn from the “Capital Fund Cash” account within the Water Capital Fund;
 - c. in the event Providence Water is required to make a significantly lower pension contribution (10 percent or more below the approved funding level), it must restrict the funds representing the difference and should use those funds for future pension contributions.
3. Providence Water shall include in its semi-annual reports a line item that breaks out capitalized labor in its reports on IFR and CIP projects.
4. No later than December 4, 2003, Providence Water shall provide the Commission with an analysis related to installation of AMRs to conform with the requirements set forth in the Commission Findings.
5. Providence Water shall identify and account for ERT charge revenues in the cost of service.
6. The compliance tariffs filed by the Providence Water Supply Board as part of the Settlement are hereby approved for consumption on and after January 1, 2003.
7. The Providence Water Supply Board shall comply with the reporting requirements and all other terms and conditions imposed by the Stipulation/Settlement Agreement and this Report and Order.

EFFECTIVE AT WARWICK, RHODE ISLAND PURSUANT TO AN OPEN MEETING DECISION ON DECEMBER 4, 2002. WRITTEN ORDER ISSUED JANUARY 23, 2003.

PUBLIC UTILITIES COMMISSION

Elia Germani, Chairman

Kate F. Racine, Commissioner

Brenda K. Gaynor, Commissioner

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY BOARD :
ABBREVIATED APPLICATION : Docket No. 3446
FOR GENERAL 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. On or about June 28, 2002, Providence Water Supply Board (Providence Water) filed for additional revenues of \$5,448,798 (an overall increase of 12.99%) to support a total revenue request of \$47,401,320. However, after negotiating several issues, all parties now agree that Providence Water may be granted additional revenues of \$4,658,599 to provide total proforma revenues of \$46,782,148 as set forth on Schedule CA-1 Settlement attached hereto and incorporated by reference herein.

2. Agreed calculations and adjustments to Providence Water's original proposal are set forth in Schedules CA-1 Settlement (Cost of Service Summary), CA-1a Settlement (Summary of Settlement Adjustments), CA-2 Settlement (Calculation of Proforma Revenues at Old Rates), CA-20 Settlement (Calculation of Water Rates), CA-25 Settlement (Calculation of Revenues at Present and Proposed Rates), CA-29 Settlement (Rate Impact), and CA-30 Settlement (Rate Comparison).

3. The wholesale rate is set at \$1,132.89 per million gallons.
4. The residential retail rate is set at \$1.79 per hundred cubic feet (hcf); the commercial retail rate is set at \$1.72 per hcf; and the industrial retail rate is set at \$1.67 per hcf.
5. Retail consumption is projected at 15,880,937 hcf; and wholesale consumption is projected at 13,872,411 hcf.
6. The overall rate increase percentage is 11.395%.
7. The public fire supply rate is set at \$210.50 per hydrant. Private fire rates are shown on CA-20 Settlement.
8. With regard to City services expenses, Providence Water agrees that these expenses will be reevaluated and restudied in its next full rate filing, including, but not limited to, purchasing, legal, personnel, and data processing expenses and allocations, as well as Providence Water's own expenses in relation to other City departments.
9. It is agreed that Providence Water may use IFR and CIP funds to pay for \$405,532 of capitalized labor costs. In addition, Providence Water may use IFR and CIP funds to pay for the three additional engineers approved by the Commission to be paid from IFR and CIP funds in Docket No. 3163 on the terms set forth therein.
10. Providence Water will limit its future pension contributions to a percentage of the actuary's recommendation no greater than the City and the school department. In addition, if the actual contributions made by Providence

Water fall 10% or more below the amount included in the cost of service used to set rates in this matter (\$1,922,378), then Providence Water must notify the Commission and the Division in its semi annual report filed after the end of each fiscal year. In that case, in Providence Water's next rate case following such an occurrence, Providence Water shall be required to demonstrate why any reduction in the funding below the allowed amount should not be set aside to fund future pension contributions.

11.It is agreed that this change in rates may be implemented by Providence Water for consumption on and after January 1, 2003.

12.It is agreed that all accounts currently restricted by previous Commission Orders shall remain restricted. It is also agreed that the \$400,000 annual allowance for sludge removal and disposal, together with the \$1,376,516 annual allowance for chemical expenses, shall be deposited into a restricted account.

13.It is agreed that Providence Water's new tariffs will be those shown as Schedules A through F, inclusive, attached hereto. The charges reflected in Schedule F are accepted as filed. It is also agreed that the revenue reconciliation attached hereto as CA-25 Settlement is accurate, and the minor differences due to rounding are acceptable.

14.This Stipulation/Settlement is the result of negotiated settlement among the parties. The agreement by the parties to this Stipulation/Settlement shall not be construed as an agreement to any matter of fact or law addressed in this

Stipulation/Settlement in any future Division or Commission proceedings, 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 constructed as a precedent in any future Division or Commission proceedings, nor shall it be cited as a precedent.

15. 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 ____ day of November, 2002.

Providence Water Supply Board
By its attorney,

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PWSB1:Abb-Stipulation/Settlement#2

Cost of Service Summary
Providence Water

	<u>Adjusted</u> <u>Test Year</u>	<u>Combined</u> <u>Adjustments</u>	<u>Proforma</u> <u>Old Rates</u>	<u>Additional</u> <u>Revenue</u> <u>Requirement</u>	<u>Proforma</u> <u>New rates</u>
Revenue					
Retail Water Sales	\$25,495,738	(\$366,419)	\$25,129,319		
Wholesale	10,850,226	-298,063	10,552,163		
Retail Service Charge	3,303,620	-156,875	3,146,745		
Private Fire Service Charge	673,843	287,095	960,938		
Public Fire protection	1,086,200	6,614	1,092,814		
Miscellaneous Income	<u>1,042,942</u>	<u>198,629</u>	<u>1,241,571</u>		
Total Revenue	42,452,569	-329,020	42,123,549	\$4,658,599 11.06%	\$46,782,148
Expenses					
Operation and Maintenance	18,940,634	3,116,446	22,057,080	-306,839	21,750,241
City Service Expense	806,769	0	806,769	-76,775	729,994
Property Taxes	4,805,320	894,723	5,700,043	-129,102	5,570,941
Capital Labor	<u>836,967</u>	<u>68,297</u>	<u>905,264</u>	<u>0</u>	<u>905,264</u>
Net Operations	25,389,690	4,079,466	29,469,156	-512,716	28,956,440
Capital Fund Cash	942,272	0	942,272		942,272
Debt Service CIP Fund	1,507,728	0	1,507,728		1,507,728
Western Cranston Fund	150,000		150,000	-87,931	62,069
Infrastructure Replacement	9,208,782	0	9,208,782		9,208,782
Debt Service IFR Fund	3,291,218	0	3,291,218		3,291,218
102" Valve	500,000	0	500,000		500,000
Alternative Source of Supply	150,000	0	150,000		150,000
Meter Replacement	400,000	0	400,000		400,000
Equipment Replacement	<u>1,100,000</u>	<u>0</u>	<u>1,100,000</u>	<u>0</u>	<u>1,100,000</u>
Net Restricted	17,250,000	0	17,250,000	-87,931	17,162,069
Total Expense	42,639,690	4,079,466	46,719,156	-600,647	46,118,509
Revenues Over (Under) Expenses (1)	<u>(\$187,121)</u>	<u>(\$4,408,486)</u>	<u>(\$4,595,607)</u>	<u>\$5,259,246</u>	<u>\$663,639</u>

(1) Includes Net Operating Revenue at 1.5% of a net revenue of \$44,242,596.

Summary of Settlement Adjustments
Providence Water

Settlement
Adjustments to
Test Year

Description

Retail Water Sales	\$0
Wholesale	159,198
Retail Service Charge	4,864
Private Fire Service Charge	349
Public Fire protection	6,614
Miscellaneous Income	<u>0</u>
Total Revenue	\$171,025

Expenses

Employee Cost Increases	231,970
Employee Benefits	26,632
Capital Labor	405,532
Rate Case Expense Amortization	45,669
Chemical Cost Normalization	-525,537
State License Expense	25,000
Computer Maintenance	<u>97,573</u>
Sub-total O & M	306,839
City Service Expense	76,775
Property Tax Expense	129,102
Western Cranston Fund	<u>87,931</u>
Total Expense Adjustments	600,647
Net Operating Income adjustment (1)	<u>18,525</u>
Total Expense	<u>\$619,172</u>

(1) Net Operating Income adjustment at 1.5% of 44,242,596.

Original Additional Revenue Requirement	\$5,448,798
less revenue adjustment	-171,025
less total expense adjustment	<u>-619,172</u>
Revised Additional Revenue Requirement (CA-1)	<u>\$4,658,601</u>

Calculation of Proforma Revenues at Old Rates**Providence Water**

	<u>Average Consumption</u>	<u>Docket 3163 Rates</u>	<u>Proforma Old Rates</u>
<u>Retail Metered Revenue</u>			
Residential	10,155,307	\$1.61	\$16,350,045
Commercial	4,770,757	\$1.54	7,346,965
Industrial	<u>954,873</u>	\$1.50	<u>1,432,309</u>
Sub-total Retail	15,880,937		25,129,319
Wholesale	<u>13,872,411</u>	\$0.760658	<u>10,552,163</u>
Sub-total Metered	29,753,347		35,681,482
<u>Non-metered Water Revenue</u>			
	<u>Units</u>		
Service Charge Residential	64,478		2,719,582
Commercial	6,229		375,950
Industrial	685		51,214
Private Fire Service Charge	<u>1,392</u>		<u>960,938</u>
Sub-total Service Charge	72,784		4,107,683
Public Fire Supply	5,783	\$188.97	<u>1,092,814</u>
Sub-total Non-metered			5,200,497
Total Water Revenue			<u>40,881,978</u>
Miscellaneous Revenue			<u>1,241,571</u>
Grand Total Revenue			<u>\$42,123,549</u>

CA-20 Settlement

Calculation of Water Rates

Providence Water

		0.11395		Percentage
<u>Retail Consumption:</u>		<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>
Residential	per HCF	\$1.61	\$1.79	11.395%
Commercial	per HCF	\$1.54	\$1.72	11.395%
Industrial	per HCF	\$1.50	\$1.67	11.395%

<u>Service Charge:</u>		<u>Quarterly</u>		Percentage	<u>Monthly</u>		Percentage
<u>(Meter size inches)</u>		<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>
5/8		\$10.00	\$11.14	11.395%	\$5.95	\$6.63	11.395%
3/4		\$10.71	\$11.93	11.395%	\$6.16	\$6.86	11.395%
1		\$12.57	\$14.00	11.395%	\$6.78	\$7.55	11.395%
1-1/2		\$15.05	\$16.76	11.395%	\$7.60	\$8.47	11.395%
2		\$21.88	\$24.37	11.395%	\$9.88	\$11.01	11.395%
3		\$72.16	\$80.38	11.395%	\$26.64	\$29.68	11.395%
4		\$90.79	\$101.14	11.395%	\$32.85	\$36.59	11.395%
6		\$134.24	\$149.54	11.395%	\$47.33	\$52.72	11.395%
8		\$183.90	\$204.86	11.395%	\$63.89	\$71.17	11.395%
10		\$228.91	\$254.99	11.395%	\$78.89	\$87.88	11.395%
12		\$273.92	\$305.13	11.395%	\$93.89	\$104.59	11.395%

<u>Wholesale</u>	per HCF	\$0.760658	\$0.847335	11.395%
	per Million Gallons	\$1,017.00	\$1,132.89	11.395%

<u>Public Fire Supply</u>	per Hydrant	\$188.97	\$210.50	11.395%
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<u>Private Fire Supply:</u>		<u>Quarterly</u>		Percentage
<u>(Service size inches)</u>		<u>Current Rates</u>	<u>Proposed Rates</u>	<u>Increase</u>
3/4		\$10.77	\$12.00	11.395%
1		\$14.26	\$15.88	11.395%
1-1/2		\$23.00	\$25.62	11.395%
2		\$33.48	\$37.30	11.395%
4		\$92.87	\$103.45	11.395%
6		\$180.22	\$200.76	11.395%
8		\$285.03	\$317.51	11.395%
10		\$407.30	\$453.71	11.395%
12		\$547.05	\$609.39	11.395%

Calculation of Revenues at Present and Proposed Rates
Providence Water

	<u>Consumption</u> <u>/Units</u>	<u>Current</u> <u>Rates</u>	<u>Revenues</u> <u>Current</u>	<u>Proposed</u> <u>Rates</u>	<u>Revenues</u> <u>Proposed</u>	<u>Percent</u> <u>Increase</u>
Retail Customers						
Residential	10,155,307	\$1.61	\$16,350,045	\$1.79	\$18,213,132	11.395%
Commercial	4,770,757	\$1.54	\$7,346,965	\$1.72	\$8,184,152	11.395%
Industrial	<u>954,873</u>	\$1.50	<u>\$1,432,309</u>	\$1.67	<u>\$1,595,521</u>	11.395%
Sub-total Retail	15,880,937		\$25,129,319		\$27,992,805	
Wholesale Customers	<u>13,872,411</u>	\$0.760658	<u>\$10,552,163</u>	\$0.847335	<u>\$11,754,582</u>	11.395%
Total Consumption Revenue	29,753,347		\$35,681,482		\$39,747,387	11.395%
Residential Service Charges			\$2,719,582		\$3,029,478	11.395%
Commercial Service Charges			\$375,950		\$418,789	11.395%
Industrial Service Charges			<u>\$51,214</u>		<u>\$57,049</u>	11.395%
Sub-total Service Charges			\$3,146,745		\$3,505,317	11.395%
Private Fire Supply			\$960,938		\$1,070,437	11.395%
Hydrant Charges	5,783	\$188.97	<u>\$1,092,814</u>	\$210.50	<u>\$1,217,340</u>	11.395%
Sub-total Fire Protection			\$2,053,752		\$2,287,776	
Total Water Revenue			\$40,881,978		\$45,540,480	11.395%
Miscellaneous Revenues			<u>1,241,571</u>		<u>1,241,571</u>	0.00%
TOTAL REVENUE			\$42,123,549		<u>\$46,782,051</u>	11.059%
		Rate Increase			<u>\$4,658,501</u>	

CA-29 Settlement

Providence Water

Rate Impact

	D 3163 Rates	Proposed Rate	Dollar Increase	Percent <u>Increase</u>	Proposed Quarterly Bill
<u>Residential</u>					
100 HCF w/ 5/8 meter					
Customer Charge	\$40.00	\$44.56	\$4.56		
Consumption	\$161.00	\$179.35	\$18.35		
Total 100 HCF	<u>\$201.00</u>	<u>\$223.90</u>	<u>\$22.90</u>	11.395%	<u>55.98</u>
<u>Commercial</u>					
2,000 HCF w/ 2in meter					
Customer Charge	\$87.52	\$97.49	\$9.97		
Consumption	\$3,080.00	\$3,430.97	\$350.97		
Total 2000 HCF	<u>\$3,167.52</u>	<u>\$3,528.46</u>	<u>\$360.94</u>	11.395%	<u>882.11</u>
<u>Industrial</u>					
10,000 HCF w/ 6in. meter					
Customer Charge	\$536.96	\$598.15	\$61.19		
Consumption	\$15,000.00	\$16,709.25	\$1,709.25		
Total 10,000 HCF	<u>\$15,536.96</u>	<u>\$17,307.40</u>	<u>\$1,770.44</u>	11.395%	<u>4,326.85</u>
<u>Industrial (Large)</u>					
50,000 HCF w/ 10in. meter					
Customer Charge	\$915.64	\$1,019.98	\$104.34		
Consumption	\$75,000.00	\$83,546.25	\$8,546.25		
Total 50,000 HCF	<u>\$75,915.64</u>	<u>\$84,566.23</u>	<u>\$8,650.59</u>	11.395%	<u>21,141.56</u>
	D 3163 Rates	Proposed Rate	Dollar Increase	Percent <u>Increase</u>	Monthly Bill
<u>Wholesale</u>					
400,000 HCF	\$304,263	\$338,934	\$34,671	11.395%	\$28,245
2,500,000 HCF	\$1,901,645	\$2,118,338	\$216,693	11.395%	\$176,528

Rate Comparison
Providence Water

Retail Consumption Charge

Class		Current Rate	Proposed Rate	Net Change	% Change
Residential	per HCF	\$1.61	\$1.79	\$0.18	11.395%
Commercial	per HCF	\$1.54	\$1.72	\$0.18	11.395%
Industrial	per HCF	\$1.50	\$1.67	\$0.17	11.395%

Retail Service Charge

Private Fire Service Charge

Meter/Service (inches)	Retail Service Charge				Private Fire Service Charge							
	Current Quarterly	Proposed Quarterly	Net Change	% Change	Current Monthly	Proposed Monthly	Net Change	% Change	Current Quarterly	Proposed Quarterly	Net Change	% Change
5/8	\$10.00	\$11.14	\$1.14	11.395%	\$5.95	\$6.63	\$0.68	11.395%	-	-	-	-
3/4	\$10.71	\$11.93	\$1.22	11.395%	\$6.16	\$6.86	\$0.70	11.395%	\$10.77	\$12.00	\$1.23	11.395%
1	\$12.57	\$14.00	\$1.43	11.395%	\$6.78	\$7.55	\$0.77	11.395%	\$14.26	\$15.88	\$1.62	11.395%
1-1/2	\$15.05	\$16.76	\$1.71	11.395%	\$7.60	\$8.47	\$0.87	11.395%	\$23.00	\$25.62	\$2.62	11.395%
2	\$21.88	\$24.37	\$2.49	11.395%	\$9.88	\$11.01	\$1.13	11.395%	\$33.48	\$37.30	\$3.82	11.395%
3	\$72.16	\$80.38	\$8.22	11.395%	\$26.64	\$29.68	\$3.04	11.395%	-	-	-	-
4	\$90.79	\$101.14	\$10.35	11.395%	\$32.85	\$36.59	\$3.74	11.395%	\$92.87	\$103.45	\$10.58	11.395%
6	\$134.24	\$149.54	\$15.30	11.395%	\$47.33	\$52.72	\$5.39	11.395%	\$180.22	\$200.76	\$20.54	11.395%
8	\$183.90	\$204.86	\$20.96	11.395%	\$63.89	\$71.17	\$7.28	11.395%	\$285.03	\$317.51	\$32.48	11.395%
10	\$228.91	\$254.99	\$26.08	11.395%	\$78.89	\$87.88	\$8.99	11.395%	\$407.30	\$453.71	\$46.41	11.395%
12	\$273.92	\$305.13	\$31.21	11.395%	\$93.89	\$104.59	\$10.70	11.395%	\$547.05	\$609.39	\$62.34	11.395%

Based on Meter Size

Based on Meter Size

Based on Service Size

Wholesale Consumption Charge

	Current Rate	Proposed Rate	Net Change	% Change
Per Million Gallons	\$1,017.00	\$1,132.89	\$115.89	11.395%

Hydrant Charge

	Current Rate	Proposed Rate	Net Change	% Change
Per Hydrant Per Year	\$188.97	\$210.50	\$21.53	11.395%

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PROVIDENCE WATER SUPPLY BOARD TARIFF

Replaces Tariff

January 1, 2001

Effective: January 1, 2003

RI Public Utilities Commission Docket No. 3446

TARIFF SCHEDULES

Schedule

- | | |
|---|---|
| A | Service Charges - Retail |
| B | Metered Sales - Retail |
| C | Bulk Sales to Public Authorities for Resale |
| D | Public Fire Protection |
| E | Private Fire Service |
| F | Miscellaneous Charges |

SCHEDULE A

Providence Water Supply Board
Service Charges
Retail

Rhode Island Public Utilities Commission
Docket No. 3446

Effective: January 1, 2003

Applicability

Applicable to all metered customers for industrial, commercial and residential use, exclusive of fire service connection, in the Providence Water Supply Board service area.

Rates

For each service connected to the Providence Water Supply Board mains, the following customer service charges shall apply:

<u>SIZE OF METER</u>	<u>QUARTERLY</u>	<u>MONTHLY</u>
5/8"	\$11.14	\$6.63
3/4	11.93	6.86
1	14.00	7.55
1 1/2	16.76	8.47
2	24.37	11.01
3	80.38	29.68
4	101.14	36.59
6	149.54	52.72
8	204.86	71.17
10	254.99	87.88
12	305.13	104.59

Terms of Payment

All customer service charges may be billed quarterly or monthly in advance and are due and payable when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE B

Providence Water Supply Board
Metered Sales
Retail

Rhode Island Public Utilities Commission
Docket No. 3446

Effective: January 1, 2003

Applicability

Applicable to all general metered water service in the Providence Water Supply Board service area.

Rates

For all quantities used except for bulk sales for resale the following rates shall apply:

Quarterly Accounts

Residential	\$1.79
Commercial	\$1.72
Industrial	\$1.67

Monthly Accounts

Residential	\$1.79
Commercial	\$1.72
Industrial	\$1.67

Terms of Payment

All metered sales bills due are rendered in arrears quarterly or monthly at the option of the Providence Water Supply Board and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE C

Providence Water Supply Board
Bulk Sales to Public Authorities for Resale

Rhode Island Public Utilities Commission
Docket No. 3446

Effective: January 1, 2003

Applicability

Applicable to all public authorities in the Providence Water Supply Board service area purchasing water for resale.

Rates

\$1,132.89 per million gallons

Terms of Payment

All bills for bulk sales are rendered quarterly or monthly in arrears in accordance with contract agreements and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE D

Providence Water Supply Board
Public Fire Protection

Rhode Island Public Utilities Commission
Docket No. 3446

Effective: January 1, 2003

Applicability

Applicable to all service to public fire hydrants in the Providence Water Supply Board service area.

Rates

For each hydrant:\$210.50 per annum

Terms of Payment

All bills for public fire service rendered quarterly are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE E

Providence Water Supply Board
Private Fire Service

Rhode Island Public Utilities Commission
Docket No. 3446

Effective: January 1, 2003

Applicability

Applicable for service to private fire protection appliances owned and maintained by the customer in the Providence Water Supply Board service area.

Rates

For each fire service connection to the Providence Water Supply Board mains, the following charges shall apply:

<u>SIZE OF SERVICE</u>	<u>QUARTERLY</u>
3/4"	\$12.00
1	15.88
1 1/2	25.62
2	37.30
4	103.48
6	200.76
8	317.51
10	453.71
12	609.39

Terms of Payment

All bills for private fire services may be rendered quarterly in advance and are due and payable in full when rendered.

Interest at a rate of 1% per month will be charged on unpaid account balances over 30 days from due date.

SCHEDULE F
PROVIDENCE WATER
TERMS & CONDITIONS
SERVICE FEE SCHEDULE
(effective January 1, 2003)
page 1 of 2

NOTE: All applicants must complete financial arrangements prior to services being rendered. Applicants are responsible for obtaining and paying for all permits and any additional fees.

SERVICE	FEE
PHOTOCOPYING	
Distribution Sheet	\$ 3.00/copy
Letter or Legal Size Document	\$.15/copy
LIEN CERTIFICATE	\$ 6.00
RETURNED CHECK FEE	\$ 20.00
PLAN CHECKING/WATER AVAILABILITY REVIEW	\$ 57.00/hour
EASEMENT/ABANDONMENT REQUEST	\$ 50.00/hour
FIRE HYDRANT FLOW TEST	\$ 118.00
NEW WATER SERVICE INSTALLATION - BASIC	
1" Water Service	\$1,673.00
1 ½" Water Service	2,596.00
2" Water Service	2,931.00
4" Water Service	3,700.00
6" Water Service	3,998.00

NEW WATER SERVICE INSTALLATION - SPECIAL CIRCUMSTANCES

All services greater than 6" will be installed and charged on a time and materials basis, consistent with the methodology used in computing the above service charges. **Notwithstanding the above schedule**, any sites where special circumstances may be encountered (ie. ledge, special fittings, routing around other utilities) will also be charged on a time and materials basis. The average time rate for all manpower and equipment (including overhead) averages approximately \$400/hr.

PAVEMENT/SIDEWALK RESTORATION CHARGES

Applicants are responsible for all *actual* road and/or sidewalk restoration charges, as the charge varies with the size of the excavation and the pavement thickness. For illustrative purposes, on average, the charge is approximately \$300 for pavement restoration and \$75 for sidewalk.

**SCHEDULE F
PROVIDENCE WATER
TERMS & CONDITIONS
SERVICE FEE SCHEDULE
(effective January 1, 2003)
page 2 of 2**

SERVICE	FEE
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POLICE DETAILS

If the work being performed presents a safety hazard and it is necessary to employ police details for traffic control, the applicant will be responsible for such costs at the then current rate of the respective Town or City. For illustrative purposes, the hourly detail rates as of June 15, 2002 are as follows:

Cranston	\$40.12
Johnston	30.00
North Providence	33.00
Providence	42.00

NEW WATER METER INSTALLATION - INCLUDING ERT

5/8" Meter	\$ 184.00
3/4" Meter	230.00
1" Meter	266.00
1 ½" Meter	457.00
2" Meter	545.00

All meters greater than 2" will be charged on an actual time and materials basis.

NEW ERT - ALL METER SIZES	\$ 109.00
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SERVICE SHUTOFF FEE	\$ 64.00
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SERVICE RESTORATION FEE	\$ 43.00
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SPECIAL REQUESTS FOR SERVICES NOT LISTED ABOVE THAT DO NOT BENEFIT ALL CUSTOMERS	Billed at actual Cost plus overhead Rates in effect
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