

**STATE OF RHODE ISLAND
PUBLIC UTILITIES COMMISSION**

IN RE: PROVIDENCE WATER SUPPLY BOARD :
MULTI-YEAR RATE FILING – RATE YEAR 2 AND : **DOCKET NO. 4994**
AMENDED RATE PLAN :

ORDER

I. Overview

On August 27, 2020, the Public Utilities Commission approved an Amended Settlement Agreement which set forth the terms of a Multi-Year Rate Plan for Providence Water Supply Board (Providence Water) commencing with a rate year ending June 30, 2021.¹ On April 30, 2021, Providence Water submitted a Compliance Filing to implement the second step for the rate year commencing July 1, 2021 (RY 2). The proposed rates were designed to collect an additional \$4,310,146 in revenue to support a total cost of service of \$89,309,453.²

Following the issuance of discovery, filings by intervenor, Bristol County Water Authority (BCWA) and the Division of Public Utilities and Carriers (Division) and a hearing, the Commission ordered reductions to electric and payroll expense, totaling \$975,802 finding the expenses had not been adequately supported by the record.³ The result was an approved cost of service of \$88,333,651.⁴

Providence Water’s Multi-Year Rate Plan contemplated an additional rate change on July 1, 2022 (RY 3). Providence Water requested a one-year extension of the effective date from July 1, 2022 to July 1, 2023 which was approved by the Commission at an Open Meeting held on June

¹ Order No. 23928 (Oct. 10, 2020); <https://ripuc.ri.gov/sites/g/files/xkgbur841/files/eventsactions/docket/4994-ProvWater-Ord23928-%2810-20-20%29.pdf>. New rates were effective August 27, 2020.

² Notice at 1 (Apr. 30, 2021). All filings related to this docket may be accessed at: <https://ripuc.ri.gov/eventsactions/docket/4994page.html> or reviewed at the Commission’s office at 89 Jefferson Blvd., Warwick, Rhode Island.

³ The reductions to expense also include the associated reductions to the operating reserves. Schedule HJS-Compliance-1 (June 30, 2021).

⁴ Schedule HJS-Compliance-1. The Compliance filing was approved at an Open Meeting on July 27, 2021.

21, 2022. On May 2, 2023, Providence Water filed another petition requesting an additional one-year delay to July 1, 2024 of the RY 3 revenue increase. Again, no objection was received from any party. Accordingly, at an Open Meeting held on May 31, 2023, the Commission granted the request.

II. Rate Year 2 Filing

Providence Water submitted direct testimony of Ricky Caruolo, its General Manager, and Harold Smith, its rate consultant in support of the RY 2 Compliance Filing.⁵ To provide an update on personnel expense, Mr. Caruolo indicated that Providence Water's personnel expense was \$10,094,975 as of March 31, 2021 with a forecast of \$14,172,335 for the full fiscal year. This represented a \$2,078,588 lower forecast than that which was authorized in RY 1.⁶ Mr. Caruolo attributed the difficulty in attaining a full complement of employees primarily to Covid-related challenges such as quarantine rules and a return to in person work mandate. He also pointed to a software issue at City Hall which affected all hiring activities in the fall of 2020. As of the filing, Providence Water had 232 of the 254 authorized positions filled.⁷

On June 16, 2021, BCWA filed a position memorandum arguing that Providence Water's proposed increase to its IFR Fund and property tax payments should be denied. BCWA posited that because the IFR Fund currently had a larger than expected balance, they could forego the increase in FY 2022. Furthermore, BCWA questioned whether Providence Water's proposed spending on cash-funded projects was consistent with the Multi-Year Rate Plan.⁸ BCWA contended that Providence Water was projecting higher than expected spending on cash-funded

⁵ Mr. Smith provided testimony to support Schedule HJS Amended Settlement-22 that showed the RY 2 revenue requirement under the approved Amended Settlement.

⁶ Caruolo Test. at 1-3.

⁷ *Id.* at 6-7, 10. Mr. Caruolo provided an update on specific positions that had been vacant during RY 1 and were discussed as part of the 2020 proceedings. *Id.* at 7-9.

⁸ BCWA Mem. at 2-4 (June 16, 2021).

projects and if that spending was reduced to the expected amount together with the balance in the IFR Fund, it would eliminate the need for the RY 2 increase in these categories.⁹ With respect to the property tax, BCWA suggested Providence Water could meet its property tax expense with funds from any surplus in its restricted accounts.¹⁰

Also on June 16, 2021, the Division submitted a memorandum from its rate consultant, Ralph Smith. The Division, while noting that Providence Water’s personnel expenses in RY 1 were approximately \$1.4 million below the authorized level, accepted Providence Water’s concerns that reducing the funding in RY 2 might further constrain efforts to fill positions. The Division did recommend a periodic reporting requirement on Providence Water’s efforts to fill positions.¹¹ With respect to a shortfall in the funding of restricted accounts, the Division noted that several of Providence Water’s challenges in this area result from a growing accounts receivable but that Providence Water believes the accounts will prove to be mostly collectible. The Division recommended a reporting requirement to track Providence Water’s success in improving its cash flow.¹² Finally, with respect to the electric expense, the Division noted that Providence Water could sell RECs to maximize the value to ratepayers but has made a management decision to “track and retire in the NEPOOL GIS all of the RECs that are generated by [its] solar facilities and not to sell RECs or attempt to optimize or reduce the cost of its ‘green’ energy position by selling or buying RECs.”¹³ The Division, however, had no recommended changes.

⁹ *Id.* at 4-5.

¹⁰ *Id.* at 6.

¹¹ Div. Mem. at 3 (June 16, 2021).

¹² Div. Mem. at 3-6.

¹³ Div. Mem. at 5.

On June 22, 2021, the Commission conducted an evidentiary hearing. Providence Water presented, Mr. Caruolo, Mr. Smith, Nancy Parrillo, Senior Manager of Finance, and Gregg Giasson, Deputy General Manager. After confirming several numbers in BCWA's filing, Mr. Giasson explained that the projected increase in cash funded projects was the result of project deferrals that occurred in RY 1, primarily as a result of Covid related challenges.¹⁴ Mr. Giasson provided an update on those capital projects and expressed confidence that work would be completed in FY 2022.¹⁵ Addressing BCWA's questions about updated debt service projections being lower than those submitted with the original Multi-Year Rate Plan, Ms. Parrillo testified that the updated assumptions were based on the 2021 market and that since the filing, the expectation in financial markets was that the Federal Reserve was expected to begin raising interest rates earlier than originally expected.¹⁶

With respect to personnel, Mr. Caruolo testified that Providence Water was actively recruiting and he was confident he could build up staffing. He also explained, however, that he was still experiencing challenges for the first time of offering people jobs after the full application and interview process and having them turn it down. He described FY 2021 as particularly challenging compared to his 30-year history at the utility.¹⁷ Mr. Caruolo was unable to give a solid estimate of when in FY 2022 he believed he would be able to have a full complement of employees.¹⁸ The settled position on personnel expense for RY 1 included an \$803,000 adjustment to fund vacancies but the forecasted RY 1 spending on personnel was approximately \$1.4 million below the total allowance. When asked why the Commission should not reduce RY 2 by the

¹⁴ Hr'g. Tr. at 43-44 (June 22, 2021).

¹⁵ *Id.* at 48-53.

¹⁶ *Id.* at 47-48.

¹⁷ *Id.* at 61-65.

¹⁸ *Id.* at 70-72.

\$800,000, Mr. Caruolo testified that he was making every effort to fill all of the positions and suggested Providence Water be allowed one additional year to prove they could fill the positions.¹⁹ With respect to the availability of the \$800,000 from RY 1, he indicated that the money was used for other expenses based on a reduced cash flow and consumption.²⁰ In response to a Commission Record Request, Providence Water advised that “[t]he personnel expense included in the RY2 revenue requirement is based on 100% of FTE’s being on board on Day 1 of RY2.”²¹

Turning to Providence Water’s delayed funding of restricted accounts resulting from cash flow shortfalls, Mr. Caruolo conceded that Providence Water had not reinstated service terminations although the Commission had lifted the moratorium almost one year prior. He explained that he made that decision because of Covid, the political environment, and his gut feeling that it wasn’t the right time. He, therefore, took full responsibility for the resulting shortfall in cash flow.²² He indicated that the earliest service terminations would occur would likely be in August, after he had conferred with his Board. Such actions, he thought, should result in significant positive cash flow very quickly.²³ Despite that, he also expressed concern that there may be some pushback from the City, the community, and the Department of Health, which may delay the increase in cash flow.²⁴

III. Responses to Record Requests – Electric Expense and RECs

At the hearing, the Commission issued record requests related to Providence Water’s electric expense. Providence Water provided that its “electricity consumption in RY1 was 7,334,889 kWh based on consumption reported on monthly bills with estimates for June 2021

¹⁹ *Id.* at 92-94.

²⁰ *Id.* at 92, 104-05.

²¹ Response to RR-4 (June 25, 2021).

²² *Id.* at 74.

²³ *Id.* at 77-78.

²⁴ *Id.* at 86-87.

where readings have not yet been made by National Grid. Providence Water expects that its electricity consumption in RY2 will be approximately 7,500,000 kWh. The increase over RY1 is expected due to the addition of two pump stations and an elevated storage tank that we acquired when we took over the Johnston Water System on March 1, 2021.”²⁵ Next, Providence Water advised that the total solar facility production for RY1 (through 6/23/21) was 6,274,351 kWh while total expected output from Providence Water’s solar facilities in RY2 is 9,178,973 kWh.²⁶

Advising on the expected market value of RECs, Providence Water estimated the market value of New RECs during this period at \$39.00/REC. With a total of 6,274 RECs, the estimated value of the RECs produced in RY 1 was \$244,700. Providence Water estimated that REC prices could range between \$35.00 - \$39.00 per REC in RY 2. Using these values, the estimated market value of the New RECs produced in RY 2 could range between \$321,264 and \$339,622.²⁷

IV. Commission Decision on RY 2

On June 29, 2021, after reviewing the evidence in the record, the Commission ordered a \$106,000 downward adjustment to the RY 2 electric expense to account for the market value of the RECs that would be produced from the solar facilities in excess of 100% of Providence Water’s usage. The record showed that because of the sizing of the solar facility in excess of Providence Water’s three-year average usage, the facility was expected to produce at least 117% of the output needed. The result was that if Providence Water were to settle all of the RECs, it would be 117% renewable. At a technical session held on February Mr. Caruolo testified that it was the utility’s intent to be 100% renewable and he would not object to selling excess RECs.²⁸ RECs can be sold in the market and the value received can be used to offset electric expense. That value was not

²⁵ Response to RR-1 (June 25, 2021).

²⁶ Response to RR-2.

²⁷ Response to RR-3.

²⁸ Technical Session Tr. at 111 (Feb. 11, 2021).

calculated into Providence Water's revenue requirement. Thus, the Commission found that while it is reasonable for ratepayers to support the 100% renewable energy goal, it was unreasonable for ratepayers to fund 117%. To be clear, however, the Commission is not requiring Providence Water to sell the excess RECs. Any shortfall in revenue resulting from a decision not to sell the excess RECs would need to be made up with the unrestricted operating reserve. The \$106,000 reduction in electric expense provides a reasonable opportunity for ratepayers to realize the value of the excess RECs and would still require them to support the value up to 100%.

A majority of the Commission also ordered an \$844,602 downward adjustment to personnel expense, finding that Providence Water's projected expense is not supported by the record of Providence Water's ability to fill positions. In the original order approving the RY 1 revenue requirement, the Commission noted that prior obstacles to filling positions could continue. The Commission, in that decision, stated that it would afford Providence Water the opportunity to effectuate its hiring plan based on the express condition that if Providence Water was unsuccessful, the Commission may credit ratepayers for unused funds from RY 1 and reduce the funding in RY 2. Providence Water's experience in RY 1 and testimony in this case showed that Providence Water did, indeed, continue to struggle to fill positions and the testimony suggested that such struggles are likely to continue. Therefore, while the Commission decided not to credit customers with the RY 1 underspend, it did find that it would be reasonable to reduce the RY 2 expense by normalizing out the RY 1 underspend from RY 2 and allowing the contractual increases to be added to the adjusted RY 2 projections.²⁹

The Commission declined to accept BCWA's proposal to reduce the RY 2 revenue requirement as a result of the balances in the restricted accounts. The Commission noted that

²⁹ Amended Settlement Agreement dated August 20, 2020 - Schedule HJS Amended Settlement-3a: Adjustments to Salaries and Wages.

because those accounts are restricted, ratepayers are protected if there is a short-term mismatch between funding and spending, particularly where the restricted accounts were part of the overall rate plan and not subject to specific concerns in Order No. 23928, unlike the personnel and electric expense.

Finally, the Commission extended the provisions from Order No. 23928 with respect to personnel and electric expense in RY 3. The result was an overall reduction to the RY 2 revenue requirement of \$950,602 plus the associated adjustments to the reserve accounts that are calculated based on the revenue requirement.³⁰

On June 30, 2021, Providence Water submitted its compliance filing showing a \$975,802 reduction in the originally filed revenue requirement which reflected the Commission's adjustments. On July 26, 2021, the Division submitted a Memorandum summarizing the adjustments, finding the calculations to properly reflect the Commission's decisions, and recommending approval. At an Open Meeting held on July 27, 2021, the Commission unanimously found the June 30, 2021 compliance filing to be consistent with its June 29, 2021 decision.

V. Amendments to the Multi-Year Rate Plan

Providence Water's Multi-Year Rate Plan contemplated an additional rate change on July 1, 2022 (RY 3). However, on May 2, 2022, Providence Water filed a petition to amend the Multi-Year Rate Plan. Providence Water explained that due to revised consumption projections and anticipated availability of federal funding for private side lead service replacement, there was not a current need to increase the revenue requirement.³¹ Providence Water requested a one-year extension of the effective date from July 1, 2022 to July 1, 2023. No objection was received from

³⁰ The adjustment to electric expense was \$106,364. Compliance Filing (June 30, 2021).

³¹ Pet. to Amend at 1 (May 2, 2022).

intervenors or the Division and on June 21, 2022, at an Open Meeting, the Commission approved the request.

Similarly, on May 2, 2023, Providence Water filed another petition requesting an additional one-year delay to July 1, 2024 of the RY 3 revenue increase. Providence Water's explanation was identical to the prior year.³² Providence Water's witness, Harold Smith, calculated that with the lead service replacement funds excluded due to the availability of federal funding, the current rates would produce 99.7% of the FY 2024 revenue requirement.³³ Again, no objection was received from any party. Accordingly, at an Open Meeting held on May 31, 2023, the Commission granted the request.

Accordingly, it is hereby,

(24871) ORDERED

1. Providence Water Supply Board's Rate Year 2 allowed cost of service \$88,333,651, a reduction of \$975,802. The approved revenue requirement from rates is \$86,790,488.
2. Providence Water Supply Board's Compliance Filing made on June 30, 2021, is approved.
3. Providence Water Supply Board's Petition to delay Rate Year 3 revenue increase from July 1, 2022 to July 1, 2023 is approved.
4. Providence Water Supply Board's Petition to delay Rate Year 3 revenue increase from July 1, 2023 to July 1, 2024 is approved.
5. Providence Water Supply Board shall make a compliance filing at least sixty days prior to the next scheduled rate change.
6. Providence Water shall continue to comply with all requirements of Order No. 23928.

³² Pet. to Amend at 1 (May 1, 2023).

³³ Smith Test. at 3; Schedule HJS Step 3 Compliance-1:Projection of Revenues Under Existing Rates.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2021, PURSUANT TO OPEN MEETING DECISIONS ON JUNE 29, 2021, AND JULY 27, 2021.

EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2022, PURSUANT TO AN OPEN MEETING DECISION ON JUNE 21, 2022.

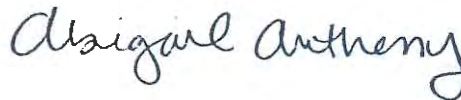
EFFECTIVE AT WARWICK, RHODE ISLAND ON JULY 1, 2023, PURSUANT TO AN OPEN MEETING DECISION ON MAY 31, 2023.

WRITTEN ORDER ISSUED NOVEMBER 27, 2023.

PUBLIC UTILITIES COMMISSION



*Ronald T. Gerwatowski, Chairman



Abigail Anthony, Commissioner



John C. Revens, Jr., Commissioner



*Chairman Gerwatowski dissented from the decision on the personnel expense. He would have approved the entire amount and require Providence Water to restrict any amount not spent on personnel expense in Rate Year 2. However, he approved the overall revenue requirement and compliance filing.

Notice of Right of Appeal: Pursuant to R.I. Gen. Laws § 39-5-1, any person aggrieved by a decision or order of the PUC may, within 7 days from the date of the Order, petition the Supreme Court for a Writ of Certiorari to review the legality and reasonableness of the decision or Order.