BEFORE THE

PUBLIC UTILITIES COMMISSION

OF RHODE ISLAND

PAWTUCKET WATER SUPPLY BOARD	**)** **)**	**DOCKET NO. 3497**

DIRECT TESTIMONY

OF

THOMAS S. CATLIN

ON BEHALF OF THE

DIVISION OF PUBLIC UTILITIES AND CARRIERS

JUNE 2003

EXETER

ASSOCIATES, INC.
5565 Sterrett Place
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Columbia, Maryland 21044

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Direct Testimony of Thomas S. Catlin

Q. WOULD YOU PLEASE STATE YOUR NAME AND BUSINESS ADDRESS?

A. My name is Thomas S. Catlin. I am a principal with Exeter Associates, Inc. Our offices are located at 5565 Sterrett Place, Suite 310, Columbia, Maryland 21044. Exeter is a firm of consulting economists specializing in issues pertaining to public utilities.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND.

A. I hold a Master of Science Degree in Water Resources Engineering and Management from Arizona State University (1976). Major areas of study for this degree included pricing policy, economics, and management. I received my Bachelor of Science Degree in Physics and Math from the State University of New York at Stony Brook in 1974. I have also completed graduate courses in financial and management accounting.

Q. WOULD YOU PLEASE DESCRIBE YOUR PROFESSIONAL EXPERIENCE?

A. From August 1976 until June 1977, I was employed by Arthur Beard Engineers in Phoenix, Arizona, where, among other responsibilities, I conducted economic feasibility, financial and implementation analyses in conjunction with utility construction projects. I also served as project engineer for two utility valuation studies.

From June 1977 until September 1981, I was employed by Camp Dresser & McKee, Inc. (CDM). Prior to transferring to the Management Consulting Division of

CDM in April 1978, I was involved in both project administration and design. My project administration responsibilities included budget preparation as well as labor and cost monitoring and forecasting. As a member of CDM's Management Consulting Division, I performed cost of service, rate, and financial studies involving approximately 15 municipal and private water, wastewater and storm drainage utilities. These projects included: determining total costs of service; developing capital asset and depreciation bases; preparing cost allocation studies; evaluating alternative rate structures and designing rates; preparing bill analyses; developing cost and revenue projections; and preparing rate filings and expert testimony.

In September 1981, I accepted a position as a utility rates analyst with Exeter Associates, Inc. I became a principal and vice-president of the firm in 1984. Since joining Exeter, I have continued to be involved in the analysis of the operations of public utilities, with particular emphasis on utility rate regulation. I have been extensively involved in the review and analysis of utility rate filings, as well as other types of proceedings before state and federal regulatory authorities. My work in utility rate filings has focused on revenue requirements issues, but has also addressed service cost and rate design matters. I have also been involved in analyzing affiliate relations, alternative regulatory mechanisms, and regulatory restructuring issues. This experience has involved electric, natural gas transmission and distribution, and telephone utilities, as well as water and wastewater companies.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY PROCEEDINGS ON UTILITY RATES?

A. Yes. I have previously presented testimony on more than 200 occasions before the Federal Energy Regulatory Commission and the public utility commissions of Arizona, California, Colorado, Delaware, the District of Columbia, Florida,

Idaho, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Montana, Nevada, New Jersey, Ohio, Oklahoma, Pennsylvania, Utah, Virginia and West Virginia, as well as before this Commission. I have also filed rate case evidence by affidavit with the Connecticut Department of Public Utility Control.

Q. HAVE YOU PREVIOUSLY TESTIFIED ON WATER UTILITY ISSUES BEFORE THIS COMMISSION?

A. Yes, I have been asked by the Division to address water utility issues on numerous occasions. I testified on revenue requirement, cost of service and/or rate design issues in Newport Water Division, Docket No. 2029 and 2985; Providence Water Supply Board, Docket Nos. 2022, 2048, 2304, and 2961, 3163; and 3446; Kent County Water Authority, Docket No. 2098; Woonsocket Water Department, Docket Nos. 2099 and 2904; and United Water Rhode Island, Inc., (formerly Wakefield Water Company), in Docket Nos. 2006 and 2873. In addition, I testified on cost allocation and rate design issues in the Pawtucket Water Supply Board's proceedings in Docket Nos. 3193 and 3378.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

A. Yes. I am a member of the American Water Works Association (AWWA) and the Chesapeake Section of the AWWA. I am currently the Vice Chairman of AWWA's Rates and Charges Committee and I serve on the AWWA Water Utility Council's Technical Advisory Group on Economics.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Exeter Associates was retained by the Division to assist it in the evaluation of the class cost of service study and rate design proposals incorporated in the filing of the Pawtucket Water Supply Board (PWSB). This testimony presents my findings and recommendations with regard to the design of rates.

Q. HAS PWSB PRESENTED A CLASS COST OF SERVICE STUDY IN THIS PROCEEDING IN SUPPORT OF ITS RATE DESIGN PROPOSALS?

A. No. A complete cost of service study was presented and litigated in PWSB's last rate case in Docket No. 3378 and rates were redesigned in that proceeding. Accordingly, PWSB has proposed to recover the allowed revenue increase in this proceeding through a uniform percentage increase in rates.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO THAT PROPOSAL?

A. Recognizing that class cost of service was fully reviewed and a new rate design was implemented in PWSB's late rate case, I believe that increasing rates by a uniform percentage increase to recover the revenue increase allowed in this docket is reasonable. I do recommend, however, that PWSB present an updated cost of service study in its next full rate case, especially if recovery of the costs of the new water treatment plant is being sought in that proceeding.

Q. HAS PWSB MADE ANY OTHER RATE DESIGN PROPOSALS IN THIS DOCKET?

A. Yes. The Town of Cumberland has imposed a significant increase in property taxes on the Pawtucket Water Supply Board for 2003 compared to 2002. PWSB has requested that the Commission consider allowing it to recover these increased property taxes through a surcharge on customers in the Town of Cumberland.

Q. TO WHAT IS THE INCREASE IN PROPERTY TAXES RELATED?

A. According to the response to Division 2-3, the overall Cumberland property taxes for 2003 based on a valuation as of December 31, 2002 are $683,044. This compares to 2002 property taxes of $453,031 based on the valuation as of December 31, 2001. This represents an increase of over $230,000 or 50 percent. Significantly, the taxes on real

property actually declined by over $10,500 while the taxes on tangible property increased from $177,820 for 2002 to $418,400 for 2003. For 2002, the valuation attributed to PWSB tangible property was $8,500,000. For 2003, the Town of Cumberland increased the valuation of PWSB tangible property to $20,000,000.

Q. WHAT IS INCLUDED IN PWSB'S TANGIBLE PROPERTY IN THE TOWN OF CUMBERLAND?

A. The only information available to me is the description included in the Pawtucket Water Supply Board's Motion to Compel the Town of Cumberland's Response to Data Request. At page 3 of that Motion, PWSB indicates that the only information provided by the Town of Cumberland is that the tangible property relates to pipes and the other components of PWSB's water distribution system in the Town of Cumberland.

Q. HAS CUMBERLAND PROVIDED SUPPORT FOR THE INCREASED VALUATION AND ASSOCIATED INCREASE IN PROPERTY TAXES ASSOCIATED WITH TANGIBLE PROPERTY?

A. PWSB has sought that information in discovery and Cumberland was directed to provide that information by the Commission in response to PWSB's Motion to Compel. Responses were due on June 9, 2003 pursuant to the Commission's order of May 30, 2003. However, as of June 10, 2003 when this testimony was finalized, no responses had been received from the Town of Cumberland.

Q. WHAT IS YOUR RECOMMENDATION WITH REGARD TO PWSB'S REQUEST THAT THE INCREASE IN PROPERTY TAXES FOR THE TOWN OF CUMBERLAND BE RECOVERED THROUGH A SURCHARGE ON CUSTOMERS IN CUMBERLAND?

A. As is the case with PWSB, the real property of a utility and, as a result, the property taxes paid by that utility may be concentrated in one or more municipal jurisdictions.

However, the property subject to taxation is normally used for the benefit of all customers. Under such circumstances, it would be inappropriate to recover the property taxes assessed by a given municipality only from the customers located in that municipality. Instead, it is normally appropriate that all property taxes be recovered from all customers as part of base rates.

In this proceeding, however, it is not clear: with what assets the taxes on tangible property in Cumberland are associated; what the bases for the large increase in valuation and taxes are; or whether those taxes are associated with property which benefits all customers (or are comparable to taxes assessed by other jurisdictions). Unless the Town of Cumberland provides information and documentation which address these concerns, it may be appropriate to make an exception in this case to allow recovery of the increase in property taxes on tangible property directly from customers in the Town of Cumberland.

Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.