

419

# WATER SUPPLY BOARD



CITY OF PROVIDENCE

RICHARD A. CARROLL  
Chairman  
ALFRED T. CICCONE  
Member  
JOHN A. DOHERTY  
Member  
ROBERT F. HOWARD  
Member  
VINCENT J. CIRELLI  
Councilman  
LAURENCE K. FLYNN  
Councilman  
JAMES R. BERNARDO  
Ex-Officio

WILEY J. ARCHER  
P.E., Acting Chief Engineer  
WILLIAM J. MCGAIR  
Legal Advisor  
JAMES A. LOMBARDI  
Secretary

June 19, 1981

TO THE HONORABLE MEMBERS OF THE CITY COUNCIL  
City Hall  
Providence, Rhode Island

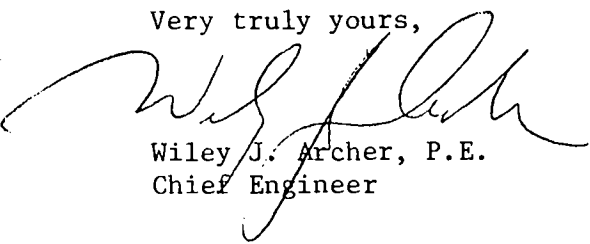
The Public Utilities Commission rendered a decision which is attached for you information. Pertinent facts included are:

Water rate increase of 29.7% on average

and a specific order establishing the Board as an Enterprise Fund.

Please call us if you desire any further information.

Very truly yours,

  
Wiley J. Archer, P.E.  
Chief Engineer

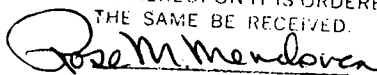
enc.

IN CITY COUNCIL

JUL 2 1981

READ:

WHEREUPON IT IS ORDERED THAT  
THE SAME BE RECEIVED.

  
CLERK

DEPT. OF CITY CLERK  
PROVIDENCE, R.I.

JUN 19 12 20 PM '81

FILED

RICHARD A. CARROLL  
Chairman  
ALFRED T. CICCONE  
Member  
JOHN A. DOHERTY  
Member  
ROBERT F. HOWARD  
Member  
VINCENT J. CIRELLI  
Councilman  
LAURENCE K. FLYNN  
Councilman  
JAMES R. BERNARDO  
Ex-Officio

## WATER SUPPLY BOARD



CITY OF PROVIDENCE

WILEY J. ARCHER  
P.E., Acting Chief Engineer  
WILLIAM J. MCGAIR  
Legal Advisor  
JAMES A. LOMBARDI  
Secretary

June 19, 1981

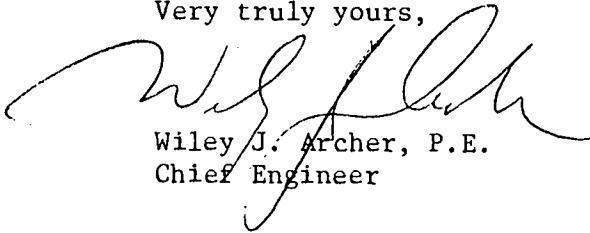
The Public Utilities Commission rendered a decision which is attached for you information. Pertinent facts included are:

Water rate increase of 29.7% on average

and a specific order establishing the Board as an Enterprise Fund.

Please call us if you desire any further information.

Very truly yours,

  
Wiley J. Archer, P.E.  
Chief Engineer

enc.

STATE OF RHODE ISLAND AND PROVIDENCE PLANTATIONS  
PUBLIC UTILITIES COMMISSION

IN RE: PROVIDENCE WATER SUPPLY BOARD:  
TARIFF FILED FEBRUARY 11, 1981 :

Docket No. 1513

REPORT AND ORDER

I. TRAVEL

On February 11, 1981, the Providence Water Supply Board ("the Board") filed its application seeking a permanent increase in rates so as to generate total annual revenues of \$10,402,326, an increase of \$2,423,861 or 30.4% over present revenues (Exhibits P-3 and P-4). This sum includes a proposed attrition allowance of \$1,131,592 (Exhibit P-4; CDM Schedule No. 1 P. 1).

On February 13, 1981, the Board in this same docket filed a motion seeking an interim increase, pending decision on the February 11 filing (Ex. P-8). The temporary increase sought total revenues of \$9,282,255 or \$1,392,269 over present revenues. (It did not include the attrition allowance sought in the permanent filing.) The temporary increase sought would have raised rates by 19.58%. The interim increase however, at the Board's request, was subsequently in effect withdrawn by asking that it "go nisi" (Tr. 3/6/81, p. 6).

The proposed increase is not "across the board". The application also proposed revisions to the Board's existing rate design.

Notice of a public hearing on the Board's request (Comm. Ex. 2) was duly published in the Providence Journal with copies thereof mailed to City and Town Solicitors of communities served by the

\*The Board's filing justified total revenue of \$10,413,847. (Ex. P-4, Sched. 1) Its proposed rate schedule, however, would generate total revenue of \$10,402,326 or \$11,485 less due to rounding and adjustments (ibid.)

Providence Water System, the Rhode Island Consumer Council, and other interested parties. By Order (10387) of the Commission dated March 12, 1981, the effectiveness of the rates was suspended until August 15, 1981.

Public hearings commencing March 2, 1981, were held at the offices of the Commission. Further hearings were held on March 6, 24, and 25, April 3 and 16, May 7, and June 3. Additionally, evening hearings were held on April 21, 1981, at the Warwick Public Library and on May 6, 1981, at the offices of the Commission in order to permit members of the public to attend.

## II. APPEARANCES

Providence Water Supply Board--William J. McGair, Esq.

Division of Public Utilities and Carriers--John R. McDermott,  
Special Assistant Attorney General

R.I. Public Utilities Commission--Melvin L. Zurier, Esq.

Intervenor, City of Warwick--Thomas Mullaney, Assistant City  
Solicitor

Intervenor, City of Cranston--Jeremiah Jeremiah, Jr., City  
Solicitor, Arthur Thovmasian and Kathleen Voccola,  
Assistant City Solicitors

Intervenor, City of East Providence--Orlando Andreoni, City  
Solicitor

Intervenor, Greenville Water District--John Hines, Counsel

Intervenor, Town of North Providence--Robert Ciresi, Town  
Solicitor

Rhode Island Consumers Council--Hugo L. Ricci, Jr. Esq.

## III. JURISDICTION

In 1977, the then Rhode Island Attorney General issued an opinion that the Board was a "public utility" within the scope of

Chapters 39-2 and 39-3, Rhode Island General Laws. The Board in Docket 1314 in 1978 filed for a rate increase of \$3,752,400 or approximately 76%. Following extensive public hearings in that docket, the Commission on August 3, 1978, authorized an increase in the amount of \$1,978,825 or approximately 40% to take effect with respect to service rendered following that date.

The Board subsequently appealed this order on jurisdictional grounds. The Rhode Island Supreme Court, in City of Providence v. Public Utilities Commission 414 A.2d 465 (Decided April 29, 1980) determined that the Commission did not have jurisdiction over the Board.

By Chapter 335 P.L. 1980 approved May 19, 1981, Section 39-1-2 General Laws of Rhode Island, 1956, was amended so as specifically to provide that the Board was a "public utility" within the meaning of that section. (On May 9, 1981, 10 days after the Supreme Court decision but before the change in law, the Board had voted on its own to increase existing rates approximately 76% over those approved in Docket 1314.) The Commission on May 19, 1980 issued its own initial order directing the Board to file rate schedules together with the basis upon which such rates had been set. This initial order commenced the present docket.

After several hearings before the Board in May and June, by Order (10184) the Commission directed that the Board file its testimony and supporting schedules by August 27, 1980. The Commission's Order was appealed by the Board to the Rhode Island Supreme Court and the appeal was denied on August 25, 1980 (M.P. 80-331).

As a result, on August 28, 1980, the Commission issued a further Order (10223) prohibiting the Board's proposed rate increase announced May 9, 1980.

The Board then filed its testimony with the Commission on February 11, 1981. This represented, in effect, a new rate filing--the first submitted by the Board under the 1980 legislative revision. The Board also filed certain information required by R.I.G.L. 39-2-12.1 as well as other pertinent sections of the Rules of Practice and Procedure of the Commission.

#### IV. SUMMARY OF TESTIMONY

The Board presented four witnesses, two of whom submitted prefiled testimony. They were Thomas S. Catlin, Utility Rate Specialist with the management consulting firm of Camp, Dresser & McKee, who prepared the rate filing (Exhibits P-4 and P-9A) and Wiley J. Archer, Acting Chief Engineer of the Board (Ex. P-9B). Additionally, the Board presented for cross-examination Gerard Mack, Assistant Manager of Frank B. Hall Insurance Company who testified about insurance requirements of the Board (Exhibits P-10, 11, 14 and 15), and Robert J. Easton, a certified public accountant and member of the firm of Laventhol & Horwath, who was responsible for preparation of a cost study analysis of services provided by the City of Providence to the Board (Exhibits P-12 and P. 25). Mr. Catlin had prepared the filing on behalf of the Board and testified at length on matters relating to cost of service and rate design. Mr. Archer's testimony concerned the operational requirements of the Board, the relationship with the City Government, and proposed plans for capital programs.

At the request of the Commission, John Rotondi, Providence Acting City Solicitor, appeared and reviewed with the Commission certain legislative history of the Board (Tr. 4/16/81, p. 39, ff: Exhibits E-4 and C-5). Additionally, the Board presented certain exhibits including a position paper presented before the American Water Works Association relating to establishing rate structures with differentials between in-city and out-of-city users for municipally-owned facilities (Ex. D-23). The record was supplemented further by agreement of the parties (Tr. 5/7/81, p. 48) by an affidavit and schedule prepared by Mr. Catlin showing a modified attrition calculation.

While the Division had retained consultants for purposes of examining the filing (Tr. 3/2/81, pp. 12-13), the Division elected not to present any prefiled testimony but rather relied on cross-examination of the Board's case. Intervenor, City of Warwick, presented prefiled and cross-examination testimony of Edmund T. Hague, Warwick City Treasurer and Deputy Finance Director (See Warwick Ex. 1). Mr. Hague took issue with the methodology used by the Board in establishing the differential between in-city and out-of-city users. He also questioned certain fluctuations and expenses of the Board and emphasized the importance to Warwick that funds of the Board be segregated from general revenues of the City of Providence (Tr. 5/7/81, pp. 5 ff.). In addition, East Providence City Solicitor, Orlando Andreoni presented a resolution of the City Council of East Providence opposing further rate increases (Tr. 3/25/81, p. 5).



Testimony on behalf of the general public was presented by Gilbert Armitage (Tr. 4/21/81, p. 3), Owen Perry of the Warwick Water Department (ibid. p. 25), David Kolodorff of the Cranston Coalition for Consumer Justice (Tr. 5/7/81, p. 2), and Anthony Melone, a former bookkeeper with the Providence Water Department from 1921 to 1941 (Tr. 5/6/81, p. 5, ff).

The record in this case consists of all of the foregoing, plus responses to certain data requests, the filing and communications by the Water Supply Board to the Commission, and notices of the hearings.

## V. BACKGROUND AND SCOPE OF PETITIONER'S SERVICE

The Providence Water Supply Board was established by Chapter 1278, Public Laws 1915. Prior thereto, Providence had furnished water to its own citizens and to certain out of city customers by authorization of Chapters 598 and 640, Acts and Resolves, 1866.

The 1915 legislation authorized Providence to acquire the present site of the Scituate Reservoir. At the same time, it created an obligation for the City to furnish water at wholesale rates to communities formerly served by the watershed of what is now the Scituate Reservoir (i.e., the north branch of the Pawtuxet River and related feeder sources).

Examination of the Board's annual reports (Exhibits P-5-7 and Response to Commission Data Request) comprehensively disclose the following information:

The present source of supply at Scituate came into operation on September 30, 1926, at which time the former pumping stations and filter plants of the city at Pettaconsett and Pawtuxet River supply were officially abandoned. The new supply was formed by construction of the Main or Scituate Dam across the North Branch of the Pawtuxet River just below the village of Kent. The Scituate reservoir and five smaller reservoirs tributary to it then became the water supply to metropolitan Providence. Approximately twenty-four square miles of peripheral land was acquired in fee by the City of Providence, by condemnation and purchase--over five square miles more than the total area of the City of Providence. This was part of the overall 92.8 square mile maple leaf shape watershed area which comprises the Scituate Reservoir System.

In the 1930's a number of additional communities were authorized to be serviced by the Providence Water system at wholesale and retail. At present, water is sold at wholesale to the Kent County Water Authority, the cities of Cranston, Warwick and East Providence, the East Smithfield Water District, the Smithfield Water Department and the Greenville Water District, and at retail to North Providence, Cranston and Johnston. Overall, at June 30, 1980 the Board had some 67,674 services at retail. It is estimated that, including the number of persons indirectly serviced by wholesale sales, some 450,000 citizens of Rhode Island receive their water supply from the Providence Water Supply Board (Tr. 3/25/81, p. 54).

As of June 30, 1980, the Board owned some 842.98 miles of water mains in Providence, Cranston, Johnston and North Providence, ranging from six inches to sixty-six inches in diameter. The network consists of iron, steel, asbestos, cement and reinforced concrete steel cylinder pipe. Some of the iron pipe is more than one hundred years old and goes back to the original installation authorized by the 1866 legislation.

During the fiscal year ending June 30, 1980, there was a net increase to the system of 7707.17 feet of mains over the previous year. Services installed showed a gain of 496 over those removed. There were some 5114 hydrants in use and 16,760 valves. The total metered water consumption for the year ending June 30, 1980, was 28,750,450 HCF or 63.25 million gallons per day. Of this amount, almost 33% was furnished to the seven communities receiving water at wholesale. The remaining 67% by volume was divided between

City of Providence retail users (about 39% ) with out of city retail users (Cranston, Johnston and North Providence) comprising the remaining 28%. Thus, overall, it may be seen that about 61% of all the water consumed was consumed by out of city users (See Ex. P-4, Sched. 2, Supporting Table 1; see Tr. 3/25/81, p. 54.)

The quality of Providence water has been well within EPA requirements. The Water Supply Board maintains well staffed laboratories which make regular samplings. (More than 13,000 samples were taken during the year ending June 30, 1980). The total number of tests made during this period approximated 93,000.

The treatment plant has been described as one of the most modern filtration plants in the country. It is all electric from a centralized control system. Approximately 96.1% of the amount distributed throughout the system is accounted for on customers' meters--an unusually high percentage, well in excess of American Water Works Association standards.

#### VI. RATE HISTORY

An excellent statement of the Board's history, with particular reference to rates, is found in "Water Rate Study, October, 1973", prepared by the Board's then Chief Engineer, John E. Rogers, P.E., and the late Philip J. Holton, then a consultant and formerly the Board's Chief Engineer. This study was in evidence in Docket No. 1314 as Providence Exhibit 31, of which the Commission takes administrative notice.

The study discloses that between 1923 and 1959, there was only a single increase in the Water Board's rates. As a result of a 1975 study, it was determined that Providence residents were

subsidizing the cost of water to other communities. Accordingly, a set of rates, effective February 1, 1959, was established resulting in higher differential rates to communities outside of Providence.

The next rate increase was promulgated in 1974 as a result of the 1973 study referred to. It preserved the rate differential between city and out of city users. The 1974 rates, as recommended by the 1973 study, were those in force until August 1978 when the present rates were approved. Current rates are as follows:

THE WATER SUPPLY BOARD OF PROVIDENCE, RI

CURRENT RATE SCHEDULE  
(Effective August 3, 1978)

Retail Water Rates

<u>Block</u>	<u>Rate (\$/HCF)</u>		<u>Block Limits (HCF)</u>		
	<u>Providence</u>	<u>Cranston, Johnston, N. Providence</u>	<u>Annual Accounts</u>	<u>Quarterly Accounts</u>	<u>Monthly Accounts</u>
Domestic	\$.35	\$.45	0 to 400	0 to 100	0 to 33
Intermediate	.24	.30	400 to 4,000	100 to 1,000	33 to 333
Industrial	.16	.19	over 4,000	over 1,000	over 333

Minimum Charges and Water Allowances  
(Providence)

<u>Meter Size (in.)</u>	<u>Annual Accounts</u>		<u>Quarterly Accounts</u>		<u>Monthly Accounts</u>	
	<u>Charge</u>	<u>Allowance (HCF)</u>	<u>Charge</u>	<u>Allowance (HCF)</u>	<u>Charge</u>	<u>Allowance (HCF)</u>
5/8 & 3/4	\$ 14.52	44	\$ 3.63	11	\$ 0.99	3
1	24.75	75	5.94	18	1.98	6
1½	49.50	150	12.21	37	3.96	12
2	77.55	235	19.14	58	6.27	19
3	148.80	470	37.08	117	12.33	39
4	212.40	735	52.92	183	17.61	61
6	388.80	1,470	97.08	367	32.25	122
8	844.80	3,370	211.08	842	70.17	280

Minimum Charges and Water Allowances  
(Cranston, Johnston, North Providence)

Meter Size (in.)	<u>Annual Accounts</u>		<u>Quarterly Accounts</u>		<u>Monthly Accounts</u>	
	Charge	Allowance (HCF)	Charge	Allowance (HCF)	Charge	Allowance (HCF)
5/8 & 3/4	\$18.92	44	\$ 4.73	11	\$ 1.29	5
1	32.25	75	7.74	18	2.58	6
1½	64.50	150	15.91	37	5.16	12
2	101.05	235	24.94	58	8.17	19
3	193.00	470	48.10	117	15.99	39
4	272.50	735	67.90	183	22.59	61
6	493.00	1,470	123.10	367	40.89	122
8	1,063.00	3,370	265.60	842	88.29	280

Private Fire Protection Services

In accordance with the minimum charge schedule for general water use in each community.

Wholesale Water Use

\$230.20 per million gallons

Hydrant Rental Charges

Providence

\$69.50 per year

Cranston, Johnston, N. Providence

\$97.60 per year

(EXH. P-4, APPENDIX A)

The present retail rate schedule is based on a three step structure--domestic, intermediate and industrial. In addition, revenue is derived from wholesale sales pursuant to contracts entered into with Cranston, East Providence, the East Smithfield Water district, the Greenville Water district, Kent County Water Authority, the Town of Smithfield and the City of Warwick. (Exhibits P-16 to P-22) Other revenue is derived from hydrant rentals in the retail communities, private fire protection charges, service installation charges, and main extension charges. Further miscellaneous revenues are realized from the sale of electric power, setting and repairing meters, services, mains, hydrants and sale of lumber.

The Board used as its test year the year ending June 30, 1980 (FY 1980). It calculated pro forma revenues for this period and adjusted for increased sales through FY 82 as follows:

Pro forma Retail Water Sales Revenue	5,517,550
Pro forma Wholesale Water Sales Revenue	1,628,311
Private fire service revenue	115,474
Adjustment for increased sales in FY 82	299,164
Hydrant charges revenue	<u>418,002</u>

Total revenues 7,978,50

(Ex. P-4, Appendix A, pp. 1-2 of 3)

It then calculated pro forma expenses for the test year of \$9,391,130, from which it deducted miscellaneous revenues from sale of electricity, service charges and repairs, sale of timber and other such revenue, totaling \$108,875 (P-4, Sched. 1, p. 1). To this the Board added an attrition allowance of \$1,131,592, resulting in a total revenue requirement of \$10,413,847 (ibid.).

The Board proposed rates that would yield revenue of \$10,402,362. The gap between such revenue and those from existing rates resulted



in a requested rate increase of \$2,423,861 or 30.4%. This is shown in the following statement: (Ex. P-4, Schedule 1, p. 1 of 1).

## STATEMENT OF REVENUE REQUIREMENTS

<u>Item</u>	<u>Supporting Table</u>	<u>Amount</u>
PRO FORMA EXPENSES		
Operation and Maintenance	1	\$4,135,167
City Services	2	358,585
Property Taxes	3	1,595,166
Insurance Requirements	4	281,666
Working Capital Expense	5	261,841
Capital Requirements	(1)	<u>2,758,705</u>
Total Pro Forma Expenses		\$9,391,130
Less: Miscellaneous Revenue	6	<u>(108,875)</u>
Net Pro Forma Revenue Requirement		\$9,282,255
ATTRITION ALLOWANCE FOR FY 1982	(2)	<u>1,131,592</u>
TOTAL REVENUE REQUIRED FROM SALES OF WATER AND FIRE SERVICE IN FY 1982		<u>\$10,413,847</u>
PROJECTED REVENUE FROM SALES OF WATER AND FIRE SERVICE IN FY 1982		
Revenue at Proposed Rates	(2)	\$10,402,362
Revenue at Existing Rates	(3)	<u>7,978,501</u>
RATE INCREASE REQUESTED		
Amount		\$ 2,423,861
Average Percentage Increase		30.4%

NOTES:

- (1) Refer to CDM Schedule No. 4.
- (2) Refer to CDM Schedule No. 7.
- (3) Refer to Appendix A.

## VII. ISSUES PRESENTED

As previously noted, the Division did not see fit to present direct testimony but rather relied on its cross-examination following analysis of the Board's filing, and further discovery. The City of Warwick questioned only the Board's approach to establishing a differential between in-city and out of city users.

Except as hereinafter specifically set forth, neither the Division nor the City of Warwick challenged substantially the Board's figures on its cost of service or capital requirements.

Further, as will be noted in a succeeding section of this Report, the Board in its filing did not seek any return on its investment as would a privately owned utility. In other words, the Board, consistent with the Commission's order in Docket 1314, sought only to recover its operating expenses and an allowance for capital requirements. In its rate design, the Board did set forth a differential between Providence and out of city users, the differential being based on a so-called "return on investment" and depreciation allowance, but the overall rate increases sought would not recover any more revenues for the Board than those required to pay for cost of service and capital needs. There is no allowance for "profit".

Issues raised by the Division are as follows:

1. Should the attrition allowance extend for the period through FY 1981-1982, (as proposed by the Board) or solely through the test year, adjusting for known and measurable changes and an inflation factor of 10 percent?
2. Should the Board's financial operations be independent of other City finances through the medium of an "enterprise fund"?

3. Should the Board "recover", as an offset to charges for city services, an amount to reflect past transfers from Board revenues to the City of Providence general fund?
4. Should the Board's pro forma revenues reflect potential increased revenues from sales of excess electric power to Narragansett Electric Company in line with those proposed in Docket No. 1549?
5. Should the insurance reserve fund proposed by the Board be reduced?

Additionally the City of Warwick raises the issue whether the proposed differential between in-city and out-of city users, as the same applies to sales at wholesale, is appropriate.

1. Attrition Allowance

The Board seeks an attrition allowance of \$1,131,592. The allowance was derived by projecting a \$10,413,847 revenue requirement for FY 1982 as compared with its \$9,282,255 pro forma revenue requirement for the test year\* (Exh. P-4, Sched. 7, Table 1).

The Board adjusted pro forma revenue requirements "for known and measurable or estimatable cost increases for FY 1982". The Board's theory was that the allowance should extend for the first year following the effective date of the order authorizing an increase (Tr. 5/7/81, p. 46). The test year being the fiscal year ending June 30, 1980, the Board's filing took into consideration actual costs for the first six months of FY 1981. It then adjusted these by known and projected increases through June 30, 1982, also factoring in projected increases both in sales revenues and miscellaneous revenues to reach its conclusion.

The Division requested the Board to furnish a calculation modifying this amount by providing that test year expenses be adjusted only by (1) known and measurable expenses through the date of the Commission's Order, and (2) the effective inflation rate for those expenses not otherwise adjusted for known and measurable changes

\*The \$9,282,255 "pro forma revenue requirement" was arrived at by using (1) actual expenses for operation and maintenance during the historic year July 1, 1979 to June 30, 1980. ("the test year"); (2) determining the capital program during the test year, including a working capital allowance based on the City of Providence's cost of money; and then (3) adjusting all these expenses by those items that were "known and measurable" at the time of the filing. The resulting figure is the "pro forma" revenue requirement.

(Tr. 5/17/81, p. 45). By agreement (ibid., p. 48) the record was supplemented by Mr. Catlin's affidavit, setting forth a revised attrition allowance. Following the Division's approach, Mr. Catlin arrived at a revised pro forma revenue requirement of \$9,596,430, or some \$817,417 less than that proposed by the Board. (See "Response to Data Request of May 7, 1981" containing affidavit of Thomas S. Catlin and "Summary of Revenue Requirements" herein.)

An attrition allowance is mandated because of erosion of earnings in an inflationary period. The Division's brief cites our decision In Re: Narragansett Electric Company, Docket No. 1288, 23 PUR 4th 516(1978), as authority for limiting adjustments only to the twelve month period beyond the test year. In that decision, however, we noted at 23 PUR 4th, p. 544:

"We do not believe it is reasonable to go beyond the twelve month period without giving recognition to the additional revenues to be realized beyond the test year." (Emphasis supplied)

In the present case, the Board's calculation does take into account recognition of such additional revenues through FY 1982. Further, as we noted in our decision in Docket No. 1288 at pages 543 and 544, the one year limitation was based upon the record in that case.

In Narragansett Electric Company, Docket No. 1499 decided November 8, 1980, the Commission, in discussing Docket No. 1288, observed:

"Where the Commission disagrees with the Division is in its assertion that the period for which adjustments should be made must be limited to a twelve month period or less. As indicated in Docket 1288 the scope of the prospective adjustments must be determined by the facts in each case. In other words, the scope of the adjustments may be more or less than twelve months depending upon the facts in the case. Generally speaking the scope of the adjustment found to be reasonable is dependent upon the Company's ability to meet its burden of proof that the allowance is required to maintain a reasonable level of return.

While the Commission has rejected the Company's projected operating expenses as the primary basis for ratesetting, it does believe that the forecast is a useful tool to be relied upon for the purpose of establishing an appropriate attrition allowance...."

In the present case the Commission believes that the Board's methodology of calculating an attrition allowance was based on credible evidence and notes that the Division presented no evidence to the contrary. Accordingly, on this record, the Commission approves the attrition allowance approach offered by the Board in its initial filing.

## 2. and 3. Fiscal Independence and Prior Transfers to the General Fund

We now turn to the related issues of (1) whether the City, pursuant to Rhode Island statutory and case law, has the authority to transfer funds from the Board's account to the general fund of the City of Providence without the express permission of the Public Utilities Commission, and (2) whether the Board's fiscal affairs should be managed so as to assure its fiscal independence through the medium of an "enterprise fund". The determination of these questions necessitates a review of the statutes pertaining to the Board's ability to fix its own rates and to control the transfer of its funds.

In 1915, the Board was established by P.L. 1915, Ch. 1278, entitled "An Act to Furnish the City of Providence With a Supply of Pure Water". This Act authorized the City of Providence to issue water bonds, but required that a sinking fund be maintained for the redemption of these bonds. This sinking fund was to be comprised of:

"all excess receipts from water rents over and above the necessary expenses of managing the water works of said city, the interest on loans and bonds issued on account of such water works,

and any amounts transferred to any water works depreciation or extension fund...[a]ll premiums arising from the sale of the bonds issued by authority hereof...[t]he net proceeds from the sale or lease of any buildings or lands authorized hereunder..."

This Act, which has been amended on numerous occasions, was amended by P.L. 1936, Ch. 2316, wherein the Board was permitted to sell water directly to consumers of various towns at retail or to town water or fire districts at wholesale. In addition, the Providence Commissioner of Public Works was authorized to determine the rates at which water should be sold to users or consumers.

Of additional relevance are Sections 6.27 and 6.28 of the Providence City Charter (enacted by P.L. 1945, Ch. 1665). These sections create an apparent conflict concerning the application of surplus funds generated by the Board. Section 6.27 requires that "all revenue from the water supply system...be applied only to the operation and maintenance of said system and for the payment of interest on and the retirement of bonds or for other purposes of said system..." Section 6.28, however, which applies to surplus funds in general without making any specific reference to the Board, requires that any surplus resulting from excess revenue receipts over estimates and unencumbered balances of appropriations shall revert to the general fund of the City of Providence.

At the Commission's request, John Rotondi, Providence's Acting City Solicitor interpreted these charter sections as follows:

"MR. ZURIER: And the last one made reference to the proposed city charter. Now, looking at the present state of the law in Providence, what -- and looking specifically at Paragraphs 2 and 3 or Section 627 and 628, how do you



interpret, as the City Solicitor, the authority of the City of Providence with respect to revenues of the Water Board, can it be used for any purpose other than is set out in Section 627?

THE WITNESS: I don't believe it can.

MR. ZURIER: At 627 says shall be applied only to the maintenance and operation of the system, the payment of interest on retirement of bonds and for other purposes of said system, said system meaning the, presumably, the Water Board. And the succeeding section of the charter, 628 which talks about reversion of the funds resulting from excess revenue would not relate then or is it your opinion that it would not relate to excess revenue from the Water Supply Board?

THE WITNESS: It is my opinion that it would not relate to excess revenue from the Water Supply Board."  
(Tr. 4/16/81, pp. 49-50)

We note that Section 808 of the Home Rule Charter for the City of Providence approved by P.L. 1981, Ch. 37, provides that any excess revenue from the water supply system, as determined by the Board, be paid into and credited to the general fund. We decline to address this Section because the Home Rule Charter does not take effect until June of 1983.\*

---

\* In 1967, two other apparently conflicting acts were passed pertaining to the authority of the Board to fix its own rates. Public Laws, 1967, Ch. 162, amending P.L. 1915, Ch. 1278 discussed above, provided that "in case the City of Providence... elects to sell water directly to water users or consumers, the Board ...shall have the right to determine the rate at which said water shall be sold." In the same year, however, P.L. 1967, Ch. 156 was enacted, which section includes within the term "public utility" any public water works and water service owned by any city which sells water, on a wholesale or retail basis, outside the territorial limits of such city or town. (The Board clearly falls within this definition as it sells water to communities outside of the City of Providence.) By virtue of this latter statute which gives the Board the status of a public utility, it appeared then the Commission had to approve any and all rates set by the Board.

The effect of these two statutes on the Board's ability to fix rates independent of the Commission was determined in City of Providence v Public Utilities Commission 414 A.2d 465 (1980), wherein the Supreme Court of Rhode Island held that because P.L. 1967, Ch. 162 became effective subsequent to P.L. 1967, Ch. 156, Chapter 162 repealed by implication Chapter 156, thus giving effect to Chapter 162 and eliminating the jurisdiction of the Commission over the Board. In response to this decision, the Legislature, in P.L. 1980, Ch. 335 (approved May 19, 1980) specifically defined the Water Supply Board of the City of Providence as a "public utility," thereby clearly establishing the jurisdiction of the Commission over the Board.

Given the Board's status as a public utility, it is within the authority of the Commission to define the financial relationship which we believe must exist between the Board and the City of Providence. See R.I.G.L. 1956 (1977 Reenactment) §39-1-1, §39-1-38, In Re Providence Water Supply Board, docket number 1314 (1978).

In our earlier order in Docket No. 1314, supra, we delineated the financial relationship between the City of Providence and the Board and determined that an "arm's length" relationship must exist in order to eliminate the draining of the Board's reserve fund by the City and the consequent undermining of the self sufficiency of the Board and its ability to render vital services. With our jurisdiction reaffirmed, we continue to adhere to our view that such a relationship must be absolutely and scrupulously maintained, and we repeat our position that no rate increases with special allowances for renewal and replacement to upgrade the water system will be sanctioned if the Board does not remain independent from the City.

The Board is now expressly defined as a "utility". As we noted in Docket No. 1314, in another context, paraphrasing Gertrude Stein, "a utility is a utility is a utility". Section 39-1-1 of the General Laws vests in the Commission and the Division

"The exclusive power and authority to supervise, regulate and make orders governing the conduct of...(public utilities) for the purpose of increasing and maintaining the efficiency of such companies, according desirable safeguards and convenience to their employees and to the public, and protecting them and the public against improper and unreasonable rates, tolls and charges..."

In exercise of this jurisdiction, we would regard any diversion of water revenues by the city for purposes not comprehended within the scope of this Report and Order as a practice proscribed by Section 39-4-10 of the General Laws or other appropriate statutory authority. We further expressly condition the increase in rates provided herein on establishment by the City of a practice providing for independence and segregation of all revenues received by the Board.

Our decision to reaffirm this approach was supported by the unanimous view of all who testified to this issue. It has been urged vigorously, not only by the Division and Intervenor City of Warwick; the City's own consultant Laventhol & Horwath, in its 1979 study recommended

- "1. The City should create a separate enterprise fund for the PWSB. This would establish the PWSB's financial independence, as all surpluses and deficits would remain in this separate enterprise fund.
2. The separate enterprise fund should be set up retroactively to the fiscal year 1978 which is the year after the decision of the Rhode Island Attorney General that rate setting was subjected to Public Utilities Commission (PUC) approval.
3. All transactions between the PWSB and the City of Providence should be handled on an "arms length" basis.  
(Ex. P-12, p. 13).

The fiscal independence of the Board has further been recommended by the former acting finance director of Providence and the Mayor's special finance committee (Tr. 3/25/81, p. 52). The Board itself believes such independence through the accounting method of an "enterprise fund" is appropriate. (See Tr. 3/25/81, p. 55). Board witness Easton reaffirmed that an enterprise fund "is in accordance with generally accepted accounting principles" and agreed that such a fund would represent "sound management" (Tr. 3/25/81, p. 32-33)

The Commission concurs with all these views and therefore mandates that Board revenues and disbursements be separately accounted for through an "enterprise fund". The Commission directs that the Board report to the Commission on or before October 1 detailing the manner in which the same has been or will be implemented.

The continued existence of an arm's length relationship mandates that no funds whatsoever be transferred to the general fund of the city of Providence without the express prior approval of the Commission. While the Commission acknowledges that transfers of surplus funds from the Board's account to the City's general fund have occurred in the past, we decline to engage in retro-active ratemaking or to take any action with respect to such transfers that occurred prior to the enactment of P.L. 1980, Ch. 335, on May 19, 1980 at a time when the Commission was without jurisdiction over the Board.

Therefore the Commission will not direct that the value of city services be offset by a hypothetical working capital value of the amounts of prior transfers as the Division urges. We recognize that the City heretofore has had complete responsibility for the acquisition, ownership, maintenance and management of the plant. Its full faith and credit remains pledged on the general obligation bonds issued and still outstanding. Our order today proscribes future transfers only.

#### 4. Treatment of Revenues from Sale of Excess Electric Power

In the operation of the plant, the Board generates a certain amount of electric power excess to its needs. Under a contract with the Narragansett Electric Company originally entered into in 1930 and subsequently amended, the Board sells its excess power to Narragansett at 6 mills per kilowatt hour. To the extent the Board purchases power from Narragansett, it offsets the cost of this by furnishing a substantially equal amount of its own power to Narragansett. If the Board generates excess power, the excess is sold at the 6 mills rate. This rate has been in force since 1949. The contract is terminable upon 6 months notice (Ex. D-1 Tr. 5/7/81, p. 50-51).

On March 20, 1981 in Docket No. 1549 by Order (10391), the Commission directed Narragansett to file a compliance tariff under a formula which would substantially increase amount paid by it for power thus "cogenerated". The Commission approved the compliance tariff in Order (10452) on June 10, 1981. The applicable rates under the new Power Purchase tariff will result in prices for such excess power at a level several times higher than 6 mills presently paid to the Board.

The Division urges in its brief that such additional revenues be considered by taking a three year average of revenue from such sales for the most recent years, and reflect therein the new rates. The Board's revenue from sales of electricity at the 6 mills rate has declined over the years 1978 to 1980 from \$25,127 to \$12,727 to \$2,341 (Ex. P-4, Sched. 1, Table 6) Testimony indicated that the Board's ability to generate power is a function of rainfall and water levels which recently have been low (Tr. 5/7/81, p. 53-54).

We note further that the contract is terminable by the Board only after 6 months notice. Hence it is not likely that any new rates would take effect until January 1982, assuming the Board gives notice forthwith.

Finally, the impact of Docket No. 1549 on excess power generated by the Board is not clear. Order (10391) provides a number of options including further negotiations between the Board and Narragansett. The present tradeoff is subject to elimination. For this reason the Board noted its difficulty in trying to quantify the effect (Tr. 5/7/81, p. 53).

We therefore conclude that the resulting effect of Docket 1549 is not sufficiently known and measurable for us to incorporate a specific amount in this Order. We do direct the Board to report to us on a semi annual basis on the status of its sales of excess power so that if this becomes a material amount, the Commission will be cognizant of it.

##### 5. Insurance Reserve

Heretofore all claims against the Board based on activities of the Board have been asserted against the City in the first instance. They are referred to the City Council Committee on Claims. If not settled, litigation against the City is defended by the City Solicitor's office. The Board has no commercial insurance nor formal self-insurance covering any of its operations (Ex. P-14), whether for liability, damage to its property, workers compensation or otherwise.

In keeping with the admonition in Docket No. 1314 that the Board maintain an "arm's length" relationship with the City, the

Board's filing provided for an allowance for payment to the City for taxes and city services furnished the Board, as well as recovery from the City of charges for water service and hydrant rentals. The reasonableness of these charges was not contested by the Division or other intervenors.

The Board, in further pursuance of our "arm's length" directive, commissioned Frank B. Hall & Co., insurance consultants, to make a preliminary insurance and risk management study (Exhibits P-11 and P-13). The Board presented Gerard A. Mack, Assistant Manager of Frank B. Hall & Co., to testify on the study. (Tr. 3/24/81, p. 14 ff.) He recommended an annual insurance expenditure of \$281,666. This was based on (1) annual payments toward a reserve fund totaling \$141,666 and (2) annual premiums for a package of commercial policies for liability, workers compensation and property insurance aggregating \$135,000 annually. This is reflected in Ex. P-4, Schedule 1, Table 4.

The Reserve Fund is to cover several categories:

(1) A "Base Reserve Fund" of \$250,000 for claims not covered by insurance. This would be established over a 3 year period by annual deposits of \$83,333.

(2) A special provision for preexisting claims. While these claims aggregate \$900,000, a study indicates an appropriate reserve at \$115,000 to be established over a 3 year period by annual deposits of \$38,333.

(3) A \$25,000 annual allowance for recurring future claims not covered by insurance.

The Commission agrees that essential to the operation of any public utility is a proper insurance program. And the reasonable cost of such a program is a proper element of cost of service.

The Commission, on the uncontroverted record, finds the \$135,000 amount for insurance premiums to be reasonable.

The Division has taken issue with the Board's approach, questioning the basis of witness Mack's amount of \$250,000 for the Base Reserve Fund for future uninsured claims, and the \$115,000 allowance for payment of past claims now pending.

The Commission has previously in this Report and Order directed that it will not reexamine past transfers from the Board to the City of Providence's General Fund on jurisdictional grounds since the transfers took place at a time when the Board was not a "public utility" as defined in R.I.G.L. Section 39-1-2.

The Commission believes, consistent with this approach, that claims asserted prior to May 19, 1981 should also be the City's responsibility. Therefore, the charges of \$38,333 to establish the reserve for preexisting claims is disallowed. We note that part of the cost of City services includes an allowance for legal services performed by the City, some of which are involved in defense of these claims. (See Ex. P-4, Schedule 1, Table 2, Ex. P-12, Ex. P-25)

As to uninsured claims, however, the Commission recognizes the need for such a reserve fund and finds that 2 1/2% of the operating budget (as distinguished from the capital budget, as urged by the Board) is reasonable. We agree with Division's con-



tention however, that this reserve fund should be based on 2 1/2% of the operating budget (i.e. the revenue requirement reduced by the \$2,758,000 capital requirement) (See Ex. P-4, Schedule 1, p. 1) and conclude that a reserve fund of \$180,000 and an \$18,000 annual allowance would be appropriate.

To establish this fund over a 3 year period would result in a \$60,000 annual expenditure rather than the \$83,333 sought by the Board, a reduction of \$23,333. Further the annual appropriation would be reduced by \$7,000 from the \$25,000 sought by the Board. The combination of the foregoing, together with the disallowance of the \$38,333 for payment of preexisting claims, would reduce the Board's requested allowance for insurance expense from \$281,666 to \$213,000 - a total of \$68,666.

Of course, this allowance is predicated on the Board's actually completing the insurance study about which Mr. Archer testified (Tr. 3/25/81, p. 58) and the purchasing of such insurance. Accordingly the Commission directs that the Board report to the Commission on or before October 1, 1981, as to the status of insurance in force or to be contracted for.

#### 6. Rate Design and Differential Rates Between Providence

##### And Out of City Customers

The Board's filing proposed an increase in wholesale rates from the present \$230.20 per million gallons (Ex. P-4, Appendix A) to \$320.76 (Ex P-4, Schedule 1, p-1) or 39.33%. It also proposed at the retail level, eliminating the present distinction between "Domestic" and "Intermediate". Presently, there is a minimum charge for

the first 400 HCF. This block is called "Domestic". The next block is for consumption from 400 to 4,000 HCF or "Intermediate".

Under the proposed new schedule there no longer would be a "Minimum Charge" which encourages wasteful water use up to such minimum.

Further, the elimination of the first block would remove the potential for large residential users to receive quantity discounts - thus further encouraging conservation. This policy follows the U.S. Environmental Protection Agency's directive that recipients of grants consider conservation measures (Ex. P-4, Schedule 2, pp. 3-4).

At present, a Providence residential user pays \$.33 per HCF for the first 400 HCF, \$.24 per HCF for the next 3600 HCF and \$.16 per HCF for water in excess of that amount - the latter being categorized as "Industrial". A counterpart in Cranston, Johnston and North Providence pays \$.43, \$.30 and \$.19 respectively (Ex. P-4, Appendix A).

Under the proposed schedule, by combining the first two categories, the Providence residential customer would pay \$.31 per HCF for the first 4000 HCF and usage thereafter would be billed at the "Industrial" rate of \$.17; out-of-city retail customers would pay \$.47 and \$.23 respectively (Ex. P-4, Sched. 7, p. 1). In addition, the Providence user would pay an annual service charge of \$14.88; others would pay \$16.67.

Each of the wholesale contracts presently in force, except that with the East Smithfield Water District (Exhibits P-17, 18, 20, 21 and 22) recite that the present \$230.20 per million gallons rate

shall apply, subject to "intervening orders" of the Commission. Thus, communities served by the Board are affected at both the wholesale and retail level.

The Commission observes that the interpretation of the whole-sale contracts, i.e. the extent to which they may be reopened, is a matter beyond its jurisdiction. This order assumes, however, that the rates fixed in the contract are so subject to revision.

The Board's filing followed a methodology whereby its proposed rate structure was determined first by breaking down "units of service" or measures of service received by each class of customers. Thus costs of service applicable to all water customers were reflected in all classes-wholesale, retail, hydrants, etc. (See Ex. P-4, Schedule 2).

The Board, determining its revenue requirements, next allocated these to various rate schedule elements. Those expenses relative to retail distribution, metering and billing for example, were not allocated to wholesale customers (See Ex. P-4, Schedule 3, p 1-3). The allocation of revenue requirements to customer classes similarly combined relative units of service provided to each customer class (Ex. P-4, Schedule 5, p. 1-2). The result was to arrive at a "Pro Forma Rate Schedule" incorporating expenses for the test year (Ex. P-4, Schedule 6). By adding the attrition factor discussed previously the Board arrived at the following proposed rate schedule:

**PROPOSED RATE SCHEDULE**  
(Effective March 15, 1981)

Retail Water Rates

Block	Rate Per HCF		Block Limits (HCF)		
	Providence	Cranston, Johnston & North Providence	Annual Accts.	Quarterly Accts.	Monthly Accts.
Retail	\$0.31	\$0.47	0-4,000	0-1,000	0-333
Industrial	\$0.17	\$0.23	over 4,000	over 1,000	over 333

Service Charges

Meter Size (in.)	Annual Accts.		Quarterly Accts.		Monthly Accts.	
	Providence	Cranston Johnston N.Providence	Providence	Cranston Johnston N.Providence	Providence	Cranston Johnston N.Providence
5/8	\$ 14.88	\$ 16.67	\$ 8.87	\$ 9.33	\$ 7.54	\$ 7.70
3/4	18.88	21.56	9.87	10.55	7.87	8.10
1	26.89	31.34	11.88	13.00	8.54	8.92
1-1/2	46.91	55.81	16.88	19.11	10.21	10.96
2	70.94	85.16	22.89	26.45	12.21	13.40
3	135.01	163.44	38.90	46.02	17.55	19.93
4	207.09	251.51	56.92	68.04	23.55	27.27
6	407.30	496.14	106.98	129.20	40.24	47.65
8	647.56	789.70	167.04	202.58	60.26	72.11
10	927.86	1,132.18	237.12	288.20	83.62	100.65
12	1,248.20	1,523.59	317.20	386.06	110.31	133.27

Wholesale Charge

\$320.76/million gallons

Hydrant Rental Charge

Providence - \$74.88 per hydrant per year

Cranston, Johnston, N.Providence - \$104.64 per hydrant per year

Private Fire Protection Charge

In accordance with the service charge and retail water rates in each community.

DETERMINATION OF ATTRITION ALLOWANCE<sup>(1)</sup>

<u>Item</u>	<u>Pro Forma Amount</u>	<u>FY 1982 Amount</u>
Operation and Maintenance		
Salaries & Wages	\$2,271,076	\$2,487,581
Services	590,920	726,838
Materials & Supplies	786,262	994,675
Special Items	347,953	406,647
Employee Retirement System	333,028	338,700
Social Security Taxes	151,027	166,046
Unemployment Compensation	43,940	6,760
Allowance for Bad Debt	93,000	104,000
Subtotal	\$4,617,206	\$5,231,247
Less: Capitalizations	<u>(482,039)</u>	<u>(482,039)</u>
Total O&M	\$4,135,167	\$4,749,208
City Services	\$ 358,585	\$ 442,852
Property Taxes	\$1,595,166	\$1,854,038
Insurance Requirements	\$ 281,666	\$ 281,666
Working Capital Expense	\$ 261,841	\$ 294,879
Capital Requirements	<u>\$2,758,705</u>	<u>\$2,947,984</u>
Total Revenue Requirement	\$9,391,130	\$10,570,627
Less: Miscellaneous Revenue	<u>\$ (108,875)</u>	<u>\$ (156,780)</u>
Net Revenue Requirement	\$9,282,255	\$10,413,847

ATTRITION ALLOWANCE

\$1,131,592NOTE:

- (1) Based on projected costs in FY 1982 taking into consideration actual expenses for the first six months of FY 1981.

(EX. P-4, SCHEDULE 7, PP. 1-2)

To arrive at the proposed schedule, the Board incorporated an allowance for anticipated growth in sales and revenue (Ex. P-4, Schedule 7, pp. 2 and 3). It then computed its proposed metered rates on this basis. (ibid., Table 4). In addition to the metered rate, each retail customer would pay a service charge, combining charges related to the costs associated with billing and service and meter maintenance (See Ex. P-4, Schedule 6, p. 1-2). Thus, the combination of service charge and metered amount will comprise a customer's bill.

By referring to Ex. P-4, Schedule 7, p. 1, the following calculation would apply to an average Providence customer consuming 150 HCF.

1. Metered rate -  $150 \times .31 = \$46.50$

2. Service charge 14.88

Total \$61.38

This compares with the bill based on current rates (Ex. P-4, Appendix A) of a flat \$.33 per HCF or \$49.50

For out of city retail customers, (i.e. in Johnston, Cranston and North Providence) the corresponding calculations are:

1. Metered rate -  $150 \times .47 = \$ 70.50$

2. Service charge 16.67

Total \$ 87.17

This compares with the bill based on current rates of a flat \$.43 per HCF or \$64.50.

In Docket No. 1314, the Commission refused to permit the City of Providence to receive a "rate of return" on its "investment" on the ground that a municipally owned utility, unlike an investor-owned utility, should operate on a cash basis for operating expenses plus an allowance for capital renewal and replacement. The Board in its present filing, does not seek a return or depreciation on investment. The proposed rates are designed only to recover the actual expenses to be incurred by the Board. (Ex. P-4, Schedule 1, p. 4)

However, resort to concepts of return on investment and depreciation was had by the Board to establish the differential in rates between in-city and out of city users. This "utility basis" accounting approach was relied on by witness Catlin in establishing the difference in rates. (Tr. 4/3/81, p. 76 ff.) See Ex. P-4, Schedule 4, p. 1-2). In general, it provided a capital allocation process and depreciation records to support the net investment (ibid. pp. 3-4). It then applied a "rate of return" using Providence's current embedded debt cost of 7.73% (ibid. p. 4; See Ex. P-4, Schedule 4, Table 6).

The Division did not brief or cross-examine on this issue of rate design nor, indeed, on the general issue of whether there should be a differential between in-city and out of city users. (Tr. 6/3/81, pp. 2-3) The only issue on this subject was raised by Intervenor City of Warwick.\*

---

\* Warwick's only testimony was that of City Treasurer Hague. The substance of his testimony was that Warwick as well as other outside communities, had helped repay Providence's bonds issued to acquire and operate the system - and the fact that only Providence's credit was behind the bonds was "difficult to quantify" as an element for differential. (Tr. 5/7/81, p. 25, 37-38)

Even Warwick did not maintain there should be no differential. Rather its concern was with the method by which the differential was reached. (See Tr. 4/3/81, pp. 143-144; Tr. 5/7/81, p. 39).

The Commission in Docket No. 1314 approved the concept of a differential in rates between in-city and out-of-city customers, noting:

"As noted earlier in this Report, since 1959 the Board has charged a differential rate between retail customers in Providence and those in Cranston, Johnston and North Providence. Further, the wholesale rates have factored in a small profit (Providence Exhibit 31, pages 30, 39-40). The 1973 Water Rate Study showed it is a recognized practice in other areas to provide a differential in rates. This practice is supported by ample authority. In a leading case, for example, a fifty percent differential was held to be a reasonable classification. See Louisville & Jefferson County Metropolitan Sewer District v. Joseph E. Seagram's & Sons, 307 Ky. 413, 211 S.W. 2d 122 (1948).

Referring again to past practice and precedent of the Commission, such a differential has been sustained in comparable filing for out of city rates by the City of Woonsocket, Docket No. 1333. One may justify this by concepts of ownership or risk. The Commission has approved such differential and will continue to do so."

On the basis of the present record, the Commission finds the methodology for establishing the differential, as determined by the Board, is fair and reasonable, both as to wholesale and retail rates.



# VIII. CONCLUSION

The Board's filing seeks total revenue of \$10,402,362 an increase of \$2,423,861. In this Report and the Order which follows, the Commission finds on this record that except for the disallowance of \$68,666 relating to insurance expense (supra, p. 30) the remainder of the increase sought is justified and reasonable. Accordingly we this date approve an increase of \$2,366,680 or 29.7%. This is shown on the following table:

## Commission Computation of Revenue Requirement

### 1980 Operating Expenses

Operation & Maintenance	\$3,722,606
City Services	468,585
Property Taxes	1,501,977

### Company Adjustments approved by Commission:

Operation & Maintenance	412,561
City Services	( 110,000)
Property Taxes	93,189
Insurance Requirements (281,666 - 68,666)	213,000
Working Capital	261,841
Capital Requirements	2,758,705
Attrition Allowance	1,131,592

Less: Miscellaneous revenue	<u>( 108,875)</u>
-----------------------------	-------------------

Total Revenue necessary	10,345,181
-------------------------	------------

Revenue generated at existing rates	<u>(7,978,501)</u>
-------------------------------------	--------------------

Revenue Requirement	<u>\$2,366,680</u>
---------------------	--------------------

Rate increase	<u>29.7%</u>
---------------	--------------

In reaching this result, we are mindful that the Providence Water Supply Board has historically furnished water of the highest quality. Indeed, the quality of the Board's service was specifically not an issue in this docket (See Tr. 6/3/81, pp. 3-4).

The Commission is concerned that the continuous provision of water service be maintained at its present fine level. We note that the Board's obligation to furnish service to out of city users, at wholesale and retail is not a matter of choice by Providence but rather constitutes its legal obligation by statute.

Our decision grants virtually intact the relief sought by the Board including its full request for an attrition allowance and for meeting the cost of city services, objectively determined and under an "arm's length" basis. We have further accepted the Board's method of establishing differential rates at wholesale and retail, as between in-city and out of city users. This recognition is based on generally accepted public utility accounting principles.

The Commission is mindful of the fiscal plight of the City of Providence and for that reason has approached this case on an expedited basis\* with some priority over several applications filed earlier. Our purpose has been to let the Board be self-sustaining and not be a burden to the City of Providence.

But now the burden shifts to the City of Providence. We expect this Report and Order to be implemented in good faith - under an "enterprise fund" accounting system. We expect to receive prompt reports on the establishment of this fund, and of the insurance program herein provided. We expect careful segregation of all water revenues and careful accounting of the

\*The Board's filing was received on February 11, 1981. Under Section 39-3-11, General Laws of 1956 (1977 Reenactment), our decision is not due until November 11, 1981.

separate expenses incurred by the Board, particularly those paid to the City for services rendered.

In this way, the Commission intends to retain public confidence in what was referred to at one hearing as "one of the ten best (water systems) in the world". (Tr. 4/21/81, p. 17).

Accordingly, it is

(10453) ORDERED: That a total revenue requirement of \$10,345,181 which includes an increase of \$2,366,680 or 29.7% from all sources, including sales of water at wholesale and retail to in city and out of city customers is approved. The Board is directed to present a tariff schedule reflecting this amount within 20 days hereafter, such tariff to be allocated among wholesale, Providence retail and out of city retail customers in accordance with this Report and Order.

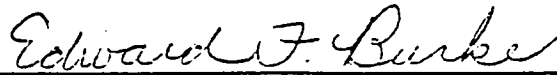
FURTHER ORDERED: The Board shall report to the Commission within 90 days of this order, and quarterly thereafter, on the status of implementation of the order, including the establishment of a system of reciprocal accounts with the City, and the methodology used therein, and the establishment of an "enterprise fund" for segregation of and separate accounting for all revenues received for water service.

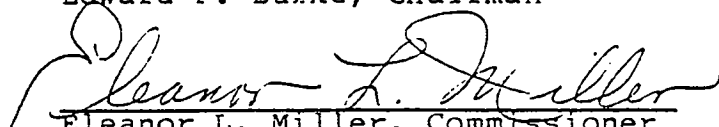
FURTHER ORDERED: That the Board shall report to the Commission within 90 days on the implementation of the insurance program established by this order.

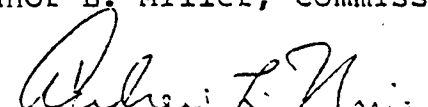
FURTHER ORDERED: That the Board shall report to the Commission within 90 days, and every 6 months thereafter on the status of negotiations on sale of excess electric power and revenues derived therefrom.

FURTHER ORDERED: That the Board shall file annual reports with the Commission in the manner provided by law directed in this order, commencing with the year 1981.

DATED AND EFFECTIVE AT PROVIDENCE, RHODE ISLAND this Eighteenth day of June, 1981.

  
Edward F. Burke, Chairman

  
Eleanor L. Miller, Commissioner

  
Andrew L. Niven, Commissioner