

1 **Q. Please provide your full name, title and business address for the record.**

2 A. Julia Forgue, P.E. I am employed by the City of Newport where I serve as Director of Public
3 Works. My business address is 70 Halsey Street, Newport, RI.

4 **Q. How long have you held this position?**

5 A. I began my employment at the City of Newport in my current position March 12, 2001.

6 **Q. What are your responsibilities as Public Works Director with regard to the Newport
7 Water System?**

8 A. As Director of Public Works, I also serve as general manager of the water division. I am
9 responsible for planning, organizing and directing the activities of the Water Division. I direct
10 and supervise the work of supervisors on administrative and technical issues conforming to a
11 policy framework established by the City and state and federal agencies.

12 **Q. Can you provide a brief description of your work experience?**

13 A. Prior to working for the City of Newport, I was employed by the City of East Providence for
14 14 years with the last 11 years as Director of Public Works. As DPW in East Providence, I
15 managed the water division. The City of East Providence purchases water wholesale from
16 Providence Water and operates and maintains its own transmission and distribution system with
17 approximately 15,000 services. Prior to working for the City of East Providence, I was
18 employed as a project engineer at consulting firms in Colorado and New Hampshire.

19 **Q. What is your educational background?**

20 A. In 1981 I received a B.S. in Civil Engineering from Northeastern University and in 1982 a
21 M.S. in Civil Engineering from the University of Colorado at Boulder. I am a registered
22 Professional Engineer in Rhode Island and New Hampshire.

1 **Q. What is the purpose of this testimony?**

2 A. To support the request of the City of Newport, Utilities Department, Water Division
3 (hereinafter “Newport” or “Newport Water”) for a rate increase. Currently, Newport is
4 authorized to collect \$7,658,108 in revenue as provided for by the Order in Docket # 2985. We
5 are requesting \$515,143 in additional funds in the amount of \$8,173,251 representing a 6.7%
6 increase in revenues. The increase can be broken down as follow:

7	O&M	\$5,695,163	68.3%
8	Capital	\$2,516,020	30.2%
9	Additional Revenue Requirements	<u>\$123,168</u>	<u>1.5%</u>
10	Total Revenue Requirements	\$8,334,351	100.0%
11	Less Offsets	<u>(\$161,100)</u>	
12	Net Revenue Requirements	\$8,173,251	

13 In my testimony, I will present and explain the differences between amounts shown in the
14 normalized test year and in the proposed rate year. Having set a test year of actual expenses for
15 the Water Fund from April 1, 2002 through March 31, 2003 a normalized test year has been
16 established to indicate expenses that would be normally expected to occur for the Water Fund.
17 This will aid in the establishment of revenue requirements for the rate year upon which rates and
18 charges for retail and wholesale customers will be based in order to collect revenue to support
19 the O&M and capital costs for the Water Fund.

20 **Q. Will the revenues from current rates be sufficient to cover expenses for the upcoming**
21 **2004 fiscal year?**

1 A. No. The revenues generated from the existing rates will not be sufficient to recover the
2 expenses for the rate year (FY 2004) However, the proposed rates should recover revenues
3 sufficient to recover the rate year (FY 2004) expenses.

4 **NEWPORT WATER SYSTEM**

5 **Q. Please provide a description of Newport's treatment and distribution system.**

6 A. Newport Water draws its raw water supply from a system of nine (9) surface reservoirs. North
7 Pond, South Pond, Paradise Pond, Gardiner Pond, St. Mary's Pond, Sisson Pond, and Lawton
8 Valley Reservoir are located on Aquidneck Island. Nonquit Pond is located in Tiverton and
9 Watson Reservoir is located in Little Compton. Water from these reservoirs flows to one of
10 Newport's Water Treatment Plants by gravity or is pumped. The Station 1 Plant located in
11 Newport was put into service March 6, 1991. It is capable of producing treated water at an
12 average rate of 6 MGD with minimum and maximum rates of 3 MGD and 9 MGD, respectively.
13 The treatment steps at Station 1 are pre-treatment with chlorine dioxide, coagulation, upflow
14 clarification, granular activated carbon filtration, disinfection, post pH adjustment and
15 fluoridation.

16 The Lawton Valley Plant located in Portsmouth was constructed in 1942 and has gone through
17 several upgrades since then. The current production capacity is 7 MGD. This plant can be
18 categorized as a conventional water treatment plant. Water flows through three (3) paddle
19 flocculators to the three (3) double deck settling tanks. Supernatant overflows to the six (6) dual
20 media filters. The water is then chlorinated and fluoridated prior to being pumped from the
21 clearwell to the Lawton Valley finished water reservoir.

1 Newport Water's system is served by five (5) distribution storage facilities located within three
2 (3) service zones (high, medium, and low pressure) in the distribution system. The storage
3 facilities are Reservoir Rd Tank (low) 3.0 Mgal.; Lawton Valley standpipe (medium) 2.0 Mgal.;
4 Lawton Valley Reservoir (medium) 4.0Mgal; Goulart Lane standpipe (high) 1.5 Mgal.; Station 1
5 clearwell (low & medium) 0.2 Mgal.

6 Newport Water has nine (9) pumping facilities; five (5) are for raw water pumping between
7 reservoirs and the two treatment plants and four (4) are for pumping treated water to the
8 distribution system storage facilities.

9 Newport Water maintains approximately 160 miles of water mains, transmission and
10 distribution, 3300 valves, and 900 hydrants.

11 **Q. Please describe Newport's customer base**

12 A. Newport Water's retail customer base total is 14,784 accounts. The Portsmouth Water & Fire
13 District is a wholesale customer with one metered connection at the Lawton Valley Plant. The
14 Navy contract includes fourteen (14) metered connections of which two (2) are inactive. Twelve
15 (12) metered connections are measured monthly. In addition, the City reads twenty seven (27)
16 deduct meters for services that are provided water through the Navy's distribution system.

17 Newport Water performs the meter readings and billings for the 27 services. The Navy account is
18 credited for the water billed to the 27 services.

19 **PRIOR ORDERS**

20 **Q. In 1999, Newport filed a rate application in Docket 2985. A report and order was issued**
21 **on June 19, 2000, that was critical of Newport Water. Before addressing the issues in this**
22 **Docket, would you please address some of the issues raised in Docket 2985?**

1 A. I would be happy to do so.

2 **Q. First, were you the Director of Public Works when Docket 2985 was filed?**

3 A. No, I was not. As stated hereinabove, I was not hired until March 12, 2001.

4 **Q. Can you briefly outline some of the issues and or difficulties that confronted you when**
5 **you assumed your position as Public Works Director?**

6 A. Yes. When I began, it became apparent that Newport had not complied with the requirements
7 in the order from Docket 2985. Also, the City had not complied with requirements of a consent
8 agreement with the RIDEM regarding the Wastewater Treatment Facility. There were concerns
9 about the budget, primarily regarding lack of an up to date audit. In December 2001, the Finance
10 Director resigned, and in January 2002 the City Manager also resigned. These important
11 positions were filled on an “acting basis” until permanent replacements were hired. These
12 replacements are Laura Sitrin, Finance Director who was hired in August 2002 and James Smith
13 who was hired as City Manager in November 2002.

14 **Q. In its Order the Commission directed Newport to develop and submit a cost allocation**
15 **study utilizing the base-extra capacity method. Has Newport complied?**

16 A. Yes. This rate filing includes a cost allocation study by our consultants Raftelis Financial
17 Consulting, P.A. (hereinafter “RFC”) The cost allocation study is addressed in detail through the
18 testimony and supporting schedules submitted by Harold J. Smith of RFC.

19 **Q. The development and submission of this cost allocation study was first requested in June**
20 **2000. Did Newport encounter any difficulties in developing this study?**

1 A. Yes. This is one of the several items I found in the order that had not been addressed. In May,
2 2001 a Request for Proposals was prepared for financial consulting services to assist the City in
3 completing the PUC directives in Docket No. 2985. The contract with Raftelis Financial
4 Consulting was executed in August 2001. It soon became apparent that obtaining the necessary
5 information from city records would be difficult such as distinguishing which data the Finance
6 and Public Works Department had responsibility in maintaining. Also, there were compatibility
7 issues with the system that the Water Department uses in maintaining customer billing data with
8 other systems used by Newport. For instance the billing system maintained by the Tax Assessor,
9 which classifies property owners is incompatible with the Water Department's billing system.
10 However, this compatibility issue will improve with the water billing system being upgraded to a
11 new OPAL billing software. This update should make the billing system more compatible with
12 other data systems used by the City and allow the Water Department to gather and access data on
13 its customers more effectively.

14 **Q. The commission also directed the establishment of restricted accounts in various**
15 **categories. Has Newport established these accounts?**

16 A. The accounts have been established. The balances in the accounts as of June 30, 2003 are:
17 Chemicals- \$40,533.01; Debt Service- \$1,975,972.51; Capital- \$2,473,692.26.

18 **Q. Newport's capital funding was also restricted, and Newport was ordered to provide**
19 **better reporting on IFR and Capital. Has Newport complied with this directive?**

20 This issue has been difficult as it soon became clear to me that there did not exist a detailed IFR
21 or CIP program that staff was working with. Some of the projects discussed in the previous rate
22 filing have been dropped, as staff did not support the projects. For example, the 3 Mgal storage

1 tank did not make sense if the Paradise Pump Station was not improved to provide water to treat
2 and then fill the new tank. The City's Infrastructure Replacement Plan (IRP) submitted to the
3 RIDOH in 2000 was reviewed with City staff and improvement programs were identified. The
4 IRP is required to be updated in July 2004. At that time, the City would like to develop a detailed
5 IFR and Capital program that is accepted by all agencies. In this approach the City will clearly be
6 able to identify progress and reports on the IFR and Capital programs.

7 **Q. The Commission also directed Newport to revise the format of its billing. Was this**
8 **done?**

9 A. Yes. The new bill format is submitted as part of this filing. I addressed this issue within the
10 first few months of my employment. The use of the revised bill format began with the July 2001
11 billings.

12 **Q. In Docket 2985, Newport Water was also sought revenue for debt service, and in a**
13 **subsequent Division filing, Newport was authorized to borrow up to \$3,000,000 from the**
14 **Drinking Water State Revolving Fund to continue work on its capital improvement**
15 **program.**

16 A. Yes. That is correct.

17 **Q. Has Newport borrowed these funds?**

18 A. No, Newport has not projected the debt service associated with the SRF Loan to begin until
19 FY 2005 and has excluded it from the rate year revenue requirements in this filing. However, I
20 will address the status of the projects that comprise the three million dollars of funds to be
21 borrowed.

1 First, the City of Newport has been issued Orders of Approval from the RIDOH to proceed with
2 the projects at Station 1, 1.) Paradise Pump Station Upgrade and 2.) Supervisory Control and
3 Data Acquisition (SCADA) System and Variable Frequency Drives (VFDs).

4 Second, the Paradise Pump Station Upgrade project has been submitted to the RIDEM Wetlands
5 Section and the CRMC for permits. Once permits are received the contract documents will be
6 advertised for construction bids.

7 Third, bids have been received for the SCADA improvements at Station 1 and a contract for
8 construction in the amount of \$422,500.00 was approved by the City Council in August, 2003.

9 Finally, the projects associated with Lawton Valley, 1.) SCADA, 2.) Residual Management, 3.)
10 Filter Improvements, and 4.) Chemical Feed improvements are at the 90% design phase. The
11 Residual Management project requires RIDOT and Federal Highway approvals for an easement
12 and this review process is long. In anticipation of the RIDOT & FHA approvals, the City
13 Council has approved a contract to construct the 4" force main in Jepson Lane in Portsmouth.
14 This work is proceeding to accommodate the Town of Portsmouth's roadway improvement
15 program.

16 **Q. Please describe how much has been spent for the above projects to date.**

17 A. The City has awarded an engineering services contract for the projects at Station 1 to Weston
18 & Sampson in the amount of \$200,663 of which \$163,853 has been paid. An amendment is
19 anticipated to provide for services during the construction phases.

20 The City has also awarded an engineering services contract for the projects associated with
21 Lawton Valley to the Maguire group in the amount of \$430,500 of which \$353,865 has been

1 paid. This is discussed in further detail in the Debt Service and Capital Outlay section later in my
2 testimony.

3 **INCREASES FROM NORMALIZED TEST YEAR TO RATE YEAR.**

4 **Operating Budget**

5
6 **Q. Is Newport seeking increased revenue related to increase in specific Operating Budget,**
7 **Items?**

8 A. Yes we are.

9 **Q. Would you please identify each of these items, and explain why you are projecting an**
10 **increase?**

11 A. Yes, I would be happy to do so. Herein below, I have identified these by referencing their
12 corresponding Schedule and specific line item, and I have also provided an explanation for the
13 increases or net increases. I have tried to address each increase in an attempt to provide the
14 Division and the Commission with as much information as possible.

15 **Q. Please explain why Newport is projecting increases in Salaries and Wages (line item**
16 **001), Employee Insurance Coverage (line item 100), and Retiree Insurance Coverage (line**
17 **item 103 – administration account) for the rate year compared to the normalized test year.**

18 A. The difference can be attributed to a demonstrated increase in cost of 3% through two
19 contractual agreements with local unions: the National Education Association of Rhode Island,
20 which applies to middle management and the AFSCME Council 94, City Local 911.

21 **Q. Please explain the increase in Workers' Compensation under the Administration**
22 **account (Schedule RFC 1.1 and 1-A, line item 105)?**

1 A. Workers' Compensation premiums are projected to increase by 30%. The rates have stayed
2 the same for the current, and last two, fiscal years. However, the premiums are a percentage of
3 total salary. As the total salary has increased, so have the premiums.

4 **Q. Please explain why Newport is projecting increases in Consultant Fees under the Source**
5 **of Supply – Island account (line item 220, Schedule RFC 1.1 and 1-A).**

6 A. This is necessary to engage a consultant to evaluate the safe yield/capacities of Island
7 reservoirs beginning with the North & South Ponds. North and South Ponds are subject to
8 stormwater runoff from the Town of Middletown. Measurement of the storm debris and its
9 effects on the floor elevations was undertaken twenty or more years ago. As pond levels decrease
10 below 70%, the raw water treatment becomes more difficult. We want to ensure the most
11 accurate information on our inventory. The 2001 Water Supply Systems Management Plan,
12 Section 4.4 references a 1985 USGS erosion analysis to include, “Most of the sediment has
13 accumulated in the deeper parts of the reservoirs in areas below the water supply intakes.”
14 However, North and South Ponds have no “deeper parts;” these reservoirs are very shallow and
15 should be inspected as proposed here.

16 North and South Ponds represent approximately 20% of the total surface area of Newport
17 Water’s nine reservoirs. A depth survey for these two ponds would cost between \$8,000 and
18 \$10,000. Depth surveys for all reservoirs would require \$45,000 to \$50,000. Remaining funds
19 from this account would be used to make any repairs to the intakes, beyond the funds of the
20 Source Supply – Repair & Maintenance accounts.

21 **Q. Please explain why Newport is projecting increases in Consultant Fees under the**
22 **Administration account (line item 220, Schedule RFC 1.1 and 1-A).**

1 A. The \$54,761 increase is due to attorney and consultant fees related to the rate case filing.

2 **Q. Please explain why Newport is projecting an increase in Regulatory Expense under the**
3 **Administration Account (line item 282, Schedule RFC 1.1 and 1-A).**

4 A. This account was formerly known as Capital Studies (line item 430). It has been re-
5 categorized as the line item 282, Regulatory Expense. This account contains proposed funding of
6 \$105,000 for the rate year for regulatory reporting requirements (\$85,000 for a Vulnerability
7 Assessment, and \$20,000 for Consumer Confidence Report and any required reporting).

8 In accordance with the Safe Drinking Water Act, water utilities are required to issue an annual
9 Consumer Confidence Report to all consumers summarizing information regarding water source,
10 detected contaminants, compliance, and educational information. The consumers must receive
11 the report by July 1 for the previous calendar year. The report is prepared in house by Water
12 Division staff. Costs are associated with printing and mailing. The reports are also distributed to
13 city buildings to be available to the general public.

14 The Vulnerability Assessment for the water system facilities is required by the EPA as directed
15 by the Public Health Security and Bioterrorism Preparedness and Response Act of 2002.

16 **Q. Please explain why Newport is projecting increases in Regulatory Assessment under the**
17 **Administration and Water Laboratory accounts (line item 281, Schedule RFC 1.1 and 1-A).**

18 The 281 line item, Regulatory Assessment, under both accounts has been increased due to a
19 review of actual expenditures and projections.

20 The Regulatory Assessment account under Administration is used for paying assessments from
21 the RIDOH and the RIPUC. This account has been normalized in the amount of \$13,379. Due to

1 the non-coinciding test year, the test year amount did not show our actual expenses for regulatory
2 expenses.

3 The Regulatory Assessments Account under Water Laboratory is used to pay the expenses for
4 the required sampling and analyses of the water plants and distribution system. The City
5 contracts with private laboratories for analysis of water samples in addition to the analyses,
6 which are performed in the Water Laboratory at Station 1. The RIDOH also conduct sampling
7 and analyses, which are paid from this account. This account has been normalized in the amount
8 of \$1,081. Due to the non-coinciding test year, the test year amount did not show our actual
9 expenses for regulatory expenses.

10 **Q. Please explain why Newport is projecting an increase in Legal and Administrative (line**
11 **item 266) and Data Processing (line item 267) under the Administration Account (Schedule**
12 **RFC 1.1 and 1-A).**

13 A. The test year indicates amounts of \$227,281 and \$158,905 for line items 266 and 267,
14 respectively. Normalization adjustments were made to these line items in the model in order to
15 normalize the test year to reflect a 3% budget increase from the normalized test year (FY 2003)
16 to the rate year (FY 2004). The normalization adjustment resulted in a (\$117,857) decrease in
17 line item 266 and a (\$80,176) decrease in line item 267. The amounts for the normalized test
18 year are consistent with the FY 2003 budget amounts. Both line items represent fees paid to the
19 General Fund for services provided by the Management Information Systems (MIS) and Finance
20 Departments and the City Solicitor's office. These fees are based on actual studies being done in
21 the Finance Department and other departments for time and effort related to the Water Fund and
22 for indirect cost analysis to recover General Fund costs for providing services to the Water Fund.

1 Where the FY 2003 budgeted amounts for these line items were insufficient, the FY 2004
2 budgeted amounts assume a 3% increase over the projected actual costs for FY 2003. The 3%
3 increase is due to contractual increases and recommended increases in salaries and benefits and
4 is represents a standard annual salary increase for employees in the MIS and Finance
5 Departments and the City Solicitor's Office.

6 **Q. Please explain why Newport is projecting a net increase in Electricity, under the**
7 **Administration (decrease), Source of Supply – Island (increase), Transmission and**
8 **Distribution (decrease), Source of Supply Mainland (decrease) and both the Treatment-**
9 **Newport Plant (increase) and Lawton Valley (increase) accounts (line item 254, Schedule**
10 **RFC 1.1 and 1-A).**

11 A. The proposed funding levels reflect the actual expenses based on available records. In prior
12 years, the accounting for these funds was inaccurate. The former Director did not involve
13 subordinate Supervisors in the budgeting or accounting process. This has changed. Typically at
14 the end of fiscal years, there were funds remaining in the accounts that have been referenced as
15 "over budgeted." Current administration wishes to be more accurate in our cost estimation.
16 The net increase of \$33,586 for all accounts is indicative of the current formal analysis of
17 electricity usage as opposed to those done in the past. In addition, the increase reconciles
18 accounting issues with respect to which fund is used to pay for costs related to electricity. The
19 increases and decreases in electricity costs for all the accounts reflect the current projections of
20 how electricity costs will be incurred at different facilities

1 **Q. Please explain why Newport is projecting an increase in Chemicals, under both**
2 **Treatment accounts, particularly with respect to the Treatment Plant – Lawton Valley**
3 **account (line item 335, Schedule RFC 1.1 and 1-A).**

4 The increase in the budget line item for Chemicals under the Treatment – Newport Plant account
5 reflects an increase in chemical application that is occurring at the Newport Plant. In regards to
6 the need for additional chemicals at the Newport Station 1 WTP, increased use of polymers has
7 assisted the reduction of billowing sludge blankets during the summer months when the source
8 water is warmer than optimal. Billowing sludge increases the turbidity of the WTP product. The
9 increased use of polymers is in addition to the cool water benefits of Gardiners Pond being
10 pumped by the Paradise Pump Station to South Pond to control the sludge blankets.

11 For the Lawton Valley Plant, an increase of \$20,000 from the normalized test year to the rate
12 year has been included as an allowance for short term recommendations to be identified in the
13 Compliance Evaluation Study scheduled to be completed in November 2003. A normalization
14 adjustment from the test year to the normalized test year of \$64,147 was necessary to reflect the
15 normal usage of polymer during FY 2003 especially during the summer months that was not
16 captured under the test year. The normalization adjustment resulted in an amount for the
17 normalized test year of \$180,000. The control of the formation of disinfection by products is one
18 area where a treatment process change is anticipated at Lawton Valley Plant in order to maintain
19 compliance with drinking water standards.

20 **Q. Please explain why Newport is projecting an increase for Chemicals, under the Source**
21 **of Supply – Island account and a decrease in the Source of Supply – Mainland account (line**
22 **item 335, Schedule RFC 1.1 and 1-A).**

1 A. The increase for the Source of Supply – Island Account is attributed to copper sulfate which is
2 required for the treatment of the Island reservoirs to control algae, while the Mainland reservoirs
3 are not treated in this manner due to the water quality and size of the reservoirs. Historically, the
4 Island reservoirs have been the only reservoirs where this chemical application has worked
5 effectively. The chemical account for copper sulfate application for Supply-Mainland was
6 established to reserve the option of doing so. The problem is the size of the Mainland reservoirs.
7 The Nonquit and Watsons Reservoirs are so large that it would be impractical to apply copper
8 sulfate. The amounts of copper sulfate and therefore the costs would be exorbitant. The funds
9 were not used for that location. Historically, the funds have been transferred to the Supply-Island
10 chemical account to apply copper sulfate to more controllable mixing areas – combining Island
11 sources, Mainland sources, and copper sulfate. By experience, it was realized that repeated
12 transfers were needlessly made. The accounts have been consolidated to reflect historical use.

13 **Q. Please explain why Newport is projecting an overall increase in the Wastewater Charge,**
14 **budget under the Treatment – Newport Plant (decrease) and Treatment – Lawton Valley**
15 **(increase) accounts (Schedule RFC 1.1 and 1-A, line item 265).**

16 A. This amount is based on the actual charge for Newport Station’s residuals discharge to the
17 City’s Wastewater Treatment Facility (“WWTF”). As projected under the Residuals
18 Management Project in the Capital Improvements Plan (“CIP”), the Lawton Valley Plant is to
19 have such a connection to discharge residuals to the City’s WWTF. No budget was previously
20 established for the Lawton Valley WTP. The US Navy designed the WTP in 1942 to discharge
21 its residual solids to Lawton Brook. Currently, Newport Water, in conjunction with the Maguire
22 Group, is preparing a design to build a holding tank and pump station at the WTP, and to convey

1 the residual solids to Middletown's existing sanitary sewer system. Treatment would occur at the
2 Newport Water Pollution Control Facility. Based on the estimated volumes and costs to convey
3 and treat the residuals, \$104,000 is recommended for FY 2004 at Lawton Valley.

4 In regards to the increased funding for the Newport WTP, previous funding levels were too low.
5 This was not realized until the most recent budget because previous administration neglected to
6 pay for these services, which essentially is a transfer of funds from the Water Funds to the Water
7 Pollution Control Funds. Appropriate estimates of the volumes and costs have been made,
8 leading to the recommended funding level of \$144,000 for FY 2004 at the Newport Plant.

9 **Q: Please explain the why Newport is projecting increases in the following line items:**

10 **Copy and Binding (Customer Accounts, Schedule RFC 1.1 and 1-A line item 205)**

11 The increase is due to the addition of new water services located in Middletown that were
12 added to the system in FY 2003. Additional customers directly correlate to additional
13 expense that is incurred with tracking their water consumption. Communication cards
14 and meter cards are a significant portion of this expense.

15 **Legal Advertisement (Administration, Schedule RFC 1.1 and 1-A, line item 207)**

16 Public notices are required by the PUC to be posted whenever there is a change in
17 regulations. This specifically relates to the public notice that will be issued for the Notice
18 of Rate Change associated with the Full Cost Allocation Study covered under this
19 Docket.

1 **Conferences and Training (Administration, Treatment – Newport Plant, Treatment**
2 **– Lawton Valley, and Transmission and Distribution, Schedule RFC 1.1 and 1-A,**
3 **line item 212)**

4 The increases in Treatment- Newport Plant, Treatment- Lawton Valley, and Transmission
5 and Distribution are associated with the training costs for re-certification of operators.
6 Funds are also provided for the Water Quality Production Supervisor and the Supervisor
7 of Water Distribution/Collection to attend meetings and conferences sponsored by the
8 NEWWA and RIWWA. Operators of drinking water supply facilities and systems are
9 required to be certified in accordance with the rules and regulations of the RIDOH Board
10 of Certification for Public Drinking Water Operators. Certification renewal is required
11 every three (3) years. As a prerequisite of certificate renewal, an operator must complete
12 the required continuing education contact hours as determined by the Board. The City
13 reimburses an operator for satisfactorily completing training to maintain certification.
14 The recertification applies to the operators at both treatment facilities and the employees
15 of the Transmission and Distribution section. An allowance of one (1) CEU at \$250 is
16 provided per fiscal year for each certified operator. This affects eighteen (18) certified
17 operators at the two plants and eight (8) certified operators in Distribution. Funds are
18 provided in Administration for the Director and Deputy Director to attend technical
19 conferences and meetings sponsored by AWWA, NEWWA, and RIWWA.

20 **Support Services (Customer Accounts and Transmission and Distribution, Schedule**
21 **RFC 1.1 and 1-A, line item 225)**

1 This increase is necessary to begin inspections of storage tanks, miscellaneous welding
2 and metal fabrications. Dive inspections of tanks are not an annual program and
3 therefore were not budgeted in the last two fiscal years. There have been indications since
4 the recent harsh winter that inspections are needed, and possibly repairs. The Reservoir
5 Road tank was fully inspected in FY 2003. Indications for tank repairs were obvious
6 leaks where plates had been previously welded in-place, extensively blistered coatings on
7 the tank interior, and surface corrosion at most welds. The recommendations in the
8 inspection report were to completely restore interior and exterior surfaces, make minor
9 repair to the center tank vent, and to remove 3"-4" of accumulated sediment in the tank.
10 Structurally, the tank was found in good condition. These repairs would restore problem-
11 free operation for at least three years when the tank will be inspected again. This 225
12 account covers the inspection services, while the Distribution 275 (Repair &
13 Maintenance) account would cover the actual repair work.

14 **Fire and Liability Insurance (Administration and Treatment – Lawton Valley**
15 **Schedule RFC 1.1 and 1-A, Line Item 239)**

16 There is only a small net increase of \$339 projected in the FY 2004 premiums for all
17 accounts as shown in Schedule RFC 1.1.

18 **Rental Equipment and Facilities (Administration, Treatment – Newport Plant,**
19 **Treatment – Lawton Valley, and Transmission and Distribution, Schedule RFC 1.1**
20 **and 1-A, line item 260)**

21 Inflation is the reason for the total increase. These nominally funded accounts are used to
22 rent various equipment as needed. For example, if Distribution's pipe cutter broke during

1 a job, we could rent a cutter so as not to delay the job completion. The rental costs for the
2 dumpsters at 70 Halsey St., Station 1, and Lawton Valley Plants are also paid from these
3 accounts.

4 **Equipment Service Charge (Customer Accounts, Source of Supply – Island,**
5 **Treatment – Newport Plant, and Transmission and Distribution, (Schedule RFC 1.1**
6 **and 1-A, line item 271)**

7 This is the Water Fund's share of costs associated with gasoline and vehicle maintenance
8 expenses. It is based on the prior year actual use records and is increased for budgeted
9 salary and expense increases in the Equipment Operations Fund.

10 **Repair and Maintenance Equipment (Administration, Customer Accounts, Source**
11 **of Supply Mainland and Island, Treatment – Newport Plant, Treatment – Lawton**
12 **Valley, Water Laboratory, Transmission and Distribution, and Fire Protection,**
13 **Schedule RFC 1.1 and 1-A, line item 275)**

14 This increase is based on actual expenses recently incurred for all of the accounts. Under
15 Customer Accounts the 275 line item provides funds to repair the meter reading guns and
16 parts for the meter testing machine. Under the Source Supply-Island and Mainland this
17 would cover expenses to repair the grass mowers, trailers, and field lighting as necessary.
18 Under the Water Laboratory Account, the increase addresses repairs of laboratory
19 equipment.

20 Under the Transmission and Distribution Account, line item 275, was increased to cover
21 anticipated repairs to the Reservoir Road Tank. The Reservoir Road tank was fully
22 inspected in FY 2003. Structurally, the tank was found in good condition. However,

1 indications for tank repairs were obvious leaks where plates had been previously welded
2 in-place, extensively blistered coatings on the tank interior, and surface corrosion at most
3 welds. The recommendations in the inspection report were to completely restore interior
4 and exterior surfaces, make minor repairs to the center tank vent, and to remove 3"-4" of
5 accumulated sediment in the tank bottom.

6 In addition, as noted previously in the explanation for Support Services, line item 225,
7 under the Transmission and Distribution Account, the recent winter revealed probable
8 need for repair of the tanks. Under Fire Protection, line item 275, the increase reflects
9 costs associated with the repair and maintenance of the 950 fire hydrants for which
10 Newport water is responsible. As for administration, the increase represents repairs to
11 office equipment.

12 **Reservoir Maintenance (Source of Supply – Mainland, Source of Supply – Island,**
13 **Schedule RFC 1.1 and 1-A, line item 277)**

14 A normalization adjustment of \$1,035 was applied to the Mainland account for a
15 normalized test year amount of \$5,000, which is consistent with the amount in the FY
16 2003 budget. A rate year adjustment of \$1,000 was applied to the normalized test year,
17 which resulted in \$6,000 for the rate year to reflect increased maintenance of the South
18 Pond Dam perimeter. When combined with the rate year adjustment for the Island
19 account a total rate year adjustment of \$1,592 is the result for both accounts.

20 Maintenance of the South Pond Dam perimeter (the "moat") is an annual labor expense.
21 It is projected that the maintenance will include slope stabilization, such as the
22 application of a geo-fabric, which has not been used in the past. We are seeking funds to

1 do this project. The goal of the project is to stabilize the dam to substantially reduce the
2 man-hours and materials currently needed on an annual basis to maintain the dam as it is.
3 The Water Division plans to utilize its in-house staff. The estimated expense for the geo-
4 textile fabric is \$7,000 to \$9,000 for the project area, based on material quotes from
5 Haley & Aldrich, Incorporated.

6 **Meter Maintenance (Customer Accounts, Schedule RFC 1.1 and 1-A, line item 299)**

7 A normalization adjustment of \$4,069 was applied to the test year for line item 299
8 resulting in \$10,000 for the normalized test year, which reflects the amount adopted in
9 the FY 2003 budget. A rate year adjustment of \$1,000 was applied to the normalized test
10 year for a rate year amount of \$11,000.

11 The increased costs under this line item, is attributable to the age of the meters and
12 growth in the customer base. As stated previously, one hundred fifteen new water
13 services were added to the system in FY 2003. Additional customers directly correlate to
14 additional expense with metering their water consumption. Age becomes a factor as
15 well, where meters require changeouts at a frequency of 10-12 years, or sooner
16 depending on volumes measured and manufacturers' recommendations. For example,
17 5/8"-1" Neptune T-10 meters are good through 10 MG, while 1 1/2"-2" are good through
18 100 MG.

19 **Operating Supplies (Customer Accounts, Source of Supply – Mainland, Treatment**
20 **– Lawton Valley and Newport Plant, Water Laboratory, and Transmission and**
21 **Distribution, Schedule RFC 1.1 and 1-A, line item 311)**

1 The increase is attributed to former line items 339 (Laboratory Supplies), 360 (Office
2 Furniture), 350 (Equipment Parts), 363 (Computer Supplies), and 410 (Reference
3 Materials) being consolidated under Line Item 311. The combined rate year adjustments
4 for these line items are based on historical needs. In addition, the increase is based on
5 actual expenses recently incurred by the Water Fund. Costs incurred under these accounts
6 are for various items used during daily operations. For the Source of Supply accounts,
7 purchases were to acquire all supplies related to operating equipment and tools, such as
8 lubricants, grease guns, and replacement blades. For the Treatment Plant accounts,
9 purchases were to acquire a wide range of daily supplies: pump and motor lubricants,
10 office supplies, computer supplies, and contracts to maintain equipment at the plants,
11 such as the contract with Ed Alteiri to maintain the BIF equipment at Lawton Valley and
12 the contract with Mike Bilodeau to maintain the Fischer & Porter control systems at
13 Station 1.

14 **Clothing/Protective Gear, line item 322, under Treatment – Lawton Valley,**
15 **Transmission and Distribution, and Source of Supply – Island accounts and line**
16 **item 320 under Customer Accounts and Treatment – Newport Plant Accounts,**
17 **Schedule RFC 1.1 and 1-A, line item 322**

18 The overall increase for line items 320 and 322 is affected both by City/Union contract
19 provision and the actual expenses recently incurred by the Water Fund. Expenses include
20 raingear, safety goggles and gloves, and work boots as needed. Costs have increased at
21 the Treatment Plants due to the replenishment of a full staff. The increase in personnel

1 has increased the amount budgeted for this line item. Again, expenses include purchases
2 of raingear, safety goggles and gloves, and work boots as needed.

3 **General Office Supplies (Administration, Schedule RFC 1.1 and 1-A, line item 361)**

4 These expenses are associated with outfitting an office for the Financial Analyst in the
5 Public Works Department. The Financial Analyst is a new position in the Water Division
6 and it is necessary to provide a desk, chair, computer and other miscellaneous items. Due
7 to space restrictions at 70 Halsey St, it is necessary to install partitions to change the
8 office layout to accommodate a new workspace.

9 **Customer Service Supplies (Customer Accounts, Schedule RFC 1.1 and 1-A, line
10 item 380)**

11 This new account will be used for expenses associated with purchasing consumer relation
12 supplies such as conservation kits. Also, it will be used to further develop and otherwise
13 increase customer/public relations and communication through the use of educational
14 brochures, water conservation kits and possibly a public workshop. Expenses would be
15 primarily the brochures, since some conservation kits may be available at limited or no
16 cost. Research is continuing to reduce these types of expenses. Costs for a batch of
17 brochure mailings may be similar to those in developing the 2002 CCRs: \$2,000-\$2,500.
18 Additionally, low-cost “stuffers” or no-cost text can be added to the bills. The City has
19 indicated in the Demand Management Section of its “Water Supply Systems
20 Management Plan” that Newport Water would provide conservation kits and other
21 information to its customers. Public education is vital to any water conservation effort.

1 Funds would be used for a campaign to educate and inform customers of water
2 conservation efforts.

3 **Main Maintenance (line item 295), Service Maintenance (line item 296), and Gate**
4 **Maintenance (line item 298) under the Transmission and Distribution account in**
5 **Schedules RFC 1.1 and 1-A.**

6 The 295 and 296 accounts are based on maintenance projections. The 298 account
7 increase is due to projects for development of a hydraulic model and a unidirectional
8 flushing program including valve operations that will aid in the detection of problematic
9 valves. The 295 Main Maintenance account was increased due to the number of expected
10 projects on Warner Place, Bancroft Avenue, and possibly Ledge Road. As the
11 unidirectional flushing program and hydraulic model are developed, it is expected that
12 numerous main valves will be found in need of repair or replacement due to non-use and
13 mechanical atrophy.

14 **Unemployment Insurance (Administration, Schedule RFC 1.1 and 1-A, line item**
15 **563)**

16 No increase is projected for line item 563 from the FY 2003 budget to the FY 2004
17 budget. The test year indicates that no expenses were incurred for this line item, however
18 a normalization adjustment was provided to normalize the test year to reflect that
19 premium payments of \$3,000 would normally be paid by Newport. No rate year
20 adjustment was therefore required to reconcile between the normalized test year and the
21 rate year.

1 **Telephone & Communication (Administration, Schedule RFC 1.1 and 1-A, line item**
2 **251)**

3 A normalization adjustment of \$7,265 has been added to the test year to reflect no change
4 for this line item in the FY 2004 budget. The adjustment is primarily attributed to a
5 change in the service provider for Newport that resulted in a lag in billing for the test
6 year, and other costs associated with the transfer of operations to another provider were
7 not taken into account for the test year.

8 **Property Taxes (Administration, Schedule RFC 1.1 and 1-A, line item 261**

9 This represents an increase in assessed taxes on the Cities real and tangible property.

10 **Self Insurance (Administration, Schedule RFC 1.1 and 1-A, line item 561)**

11 The test year contains a normalization of \$14,089 to \$20,000 due primarily to an increase
12 in flood insurance. As such, there is no increase.

13 **Temporary/Seasonal Wages (Source of Supply – Mainland and Water Laboratory,**
14 **Schedule RFC 1.1 and 1-A, line item 004)**

15 Temporary/Seasonal Wages is increased for Source of Supply- Mainland for temporary
16 employees hired to assist in monitoring the Nonquit Pump Station in Tiverton. This
17 pump station is activated when the supply from Watson Reservoir is needed due to
18 shortages of supply on the Island. The supply from Watson Reservoir was essential
19 during the drought of 2002. The increase in Water Laboratory represents a request from
20 the Lab Director for hiring part time help during the year to assist in the Lab.

1 **General Debt Interest (Source of Supply – Mainland (decrease), Treatment –**
2 **Newport Plant (increase), and Transmission & Distribution Maintenance (decrease),**
3 **Schedule RFC 1.1 and 1-A, line item 452)**

4 The overall decrease is attributed to the schedules of annual debt service payments
5 associated with all debt that Newport has outstanding and the varying levels of its
6 principal and interest components. The schedules indicate that the interest component of
7 these payments decreases with each annual payment.

8 **Holiday Pay (Treatment – Lawton Valley, Schedule RFC 1.1 and 1-A, line item 003)**

9 This item is a contractual agreement with Local 911. Employees on a seven day rotating
10 basis shall receive holiday pay in lieu of time off which is 1/5 of the employees weekly
11 salary. This is paid to each employee at the treatment plants over and above the weekly
12 salary whether or not the employee works the holiday. The increase is due to COLA and
13 step salary increases which occur over the fiscal year.

14 **Q. Are there any line items with projected rate year adjustments of less than \$1,000?**

15 A. Yes there are, but I have not addressed these accounts in this testimony due to the minimal
16 nature of the increases, but I would be happy to provide information on these accounts if
17 requested.

18 **DECREASES FROM NORMALIZED TEST YEAR TO RATE YEAR**

19 **Operating Budget**

20 **Q. Is Newport projecting any decreases in some of its expenses?**

21 A. Yes. We are projecting decreases in several areas.

1 **Q. Are there decreases in specific Operating Budget Items?**

2 A. Yes there are.

3 **Q. Would you please identify each of these items, and explain why you are projecting a**
4 **decrease?**

5 A. Yes, I would be happy to do so. Herein below, I have identified these items by referencing
6 their corresponding Schedule and specific line item, and I also provide an explanation for the
7 decreases.

8 **Q. Please explain the decreases in Vacation/Sick Pay under the Administration, Customer**
9 **Accounts, Source of Supply – Island, Treatment – Newport Plant, Treatment- Lawton**
10 **Valley, Water Laboratory, and Transmission and Distribution account (Schedule RFC 1.1**
11 **and 1-A, line item 009).**

12 A. The decrease in vacation and sick pay is due to these accounts no longer being active in future
13 budgets, the pay is included in the base salary for FY 2004.

14 **Q. Please explain why Newport is projecting an overall decrease in Overtime under the**
15 **Customer Accounts (increase), Source of Supply – Island (decrease), Source of Supply –**
16 **Mainland (increase), Treatment – Newport Plant (decrease), Treatment – Lawton Valley**
17 **(increase), and Transmission and Distribution (decrease) accounts (Schedule RFC 1.1 and**
18 **1-A, line item 002).**

19 A. Both of the treatment plants have filled three vacancies and are fully staffed at the present
20 time thereby reducing the need for Overtime.

1 **Q. Please explain why Newport is projecting a net decrease in Postage and Delivery under**
2 **the Administration (increase) and Customer Accounts (decrease) accounts (Schedule RFC**
3 **1.1 and RFC 1-A, line item 238)**

4 The administration account increased due to expenses associated with non-billing postage costs
5 of the Water Division being transferred from Customer Accounts. Postage in Customer
6 Accounts was decreased with the transfer and now only represents postage associated with
7 billings.

8 **Q. Please explain why Newport is projecting a net decrease in Natural Gas under the**
9 **Administration, Treatment – Newport Plant, Treatment – Lawton Valley, and**
10 **Transmission & Distribution accounts (Schedule RFC 1.1 and 1-A, line item 255).**

11 A. Part of the net decrease is attributed to how natural gas expenses for the Lawton Valley and
12 Newport plants had been paid for as recently as the test year. Natural gas expenses for both
13 plants have been historically paid from the Newport Plant account. Mistakes were made in the
14 past in regards to the payments of the natural gas bills. While the bill for each treatment plant
15 should have been paid out of its own account, there were occasions where both bills were paid
16 from only the Newport WTP account. Handling these bills has since been additionally
17 scrutinized to avoid this type of error.

18 The decrease in the Administration account can be attributed to the abnormal severity of the
19 weather last winter and the demand for natural gas to provide heat to the Department buildings.
20 A test year normalization of (\$1,122) was used to adjust for this anomaly to reflect no change
21 under the rate year adjustment.

1 The amount for the Natural Gas line item budgeted under the Transmission & Distribution
2 account is negligible at \$41.

3 **Overtime (Transmission and Distribution, Schedule RFC 1.1 and 1-A, line item 002)**

4 A normalization adjustment of \$21,309 decrease was applied to the test year amount of
5 \$61,309 to reflect the FY 2004 budgeted amount of \$40,000 as the amount for the rate
6 year. The decrease is attributed to the severity of last winter, which caused a higher than
7 average number of water main breaks and the drought that occurred for the majority of
8 FY 2003.

9 **Hydrant Maintenance (Transmission and Distribution, Schedule RFC 1.1 and 1-A,
10 line item 297)**

11 The Hydrant Maintenance line item was eliminated for the Rate Year since those
12 expenses are now captured under the Fire Protection account in the FY 2004 budget.

13 **Q. Are there any line items with projected rate year adjustments of less than \$1,000?**

14 A. Yes there are, but I have not addressed these accounts in this testimony due to the minimal
15 nature of the decreases, but I would be happy to provide information on these accounts if
16 requested.

17 **Q. Please explain the Annual Leave Buy Back and the reason for the overall decrease
18 under the Customer Accounts (increase), Source of Supply – Island (increase), Treatment –
19 Newport Plant (increase), Transmission and Distribution (increase), Treatment – Lawton
20 Valley (decrease) and Water Laboratory (decrease) accounts (Schedule RFC 1.1 and 1-A,
21 line item 565).**

1 A. The Annual Leave Buy Back item is for the contractual vacation policy which entitles City
2 employees who reach the maximum for accumulated vacation hours to sell back to the City 100
3 hours of accumulated vacation hours per year in 50-hour increments. This policy also applies to
4 the employees in the Water Division. Due to the longevity of the Water Division personnel the
5 vacation accumulation rate is at the highest contractual rate. As a result employees accumulate
6 vacation and tend to take advantage of the benefit of selling back vacation hours. Since this is
7 essentially an employee benefit to be used at their discretion, the funding for these line items are
8 based on past usage and estimates.

9 **Q. Please explain the \$30,000 that appears under “Allowance for Uncollectables”.**

10 The Receivables for the Water Fund on average are two million dollars per year. It is assumed
11 that \$1 million of this will be written off in the future and with a conservative estimate of 97% in
12 the collection rate in receivables applied to the remainder, an additional 3% as an “Allowance for
13 Uncollectables” has been included in the revenue requirements to lessen the impact of
14 uncollectables. The City has determined that \$1,061,296 of the accounts receivable are not
15 collectible. This consists of \$364,539 of billing in error to Portsmouth Water in the early 1990’s.
16 The balance of \$696,757 is twenty (20) years old and is due from the Navy. The amounts were
17 disputed and collection was not pursued. The City tax collector indicated that the collection rate
18 on water bills is around 97%. Some amounts are not collectible because of move-outs and
19 turnovers.

20

21

1 **DEBT SERVICE AND CAPITAL OUTLAY**

2 **Q. Please describe Capital Studies, budget line item 430, and explain why it has not been**
3 **included in the budget for the rate year.**

4 A. Line Item 430 has been re-classified as line item 282, Regulatory Expense, as was mentioned
5 earlier in the testimony.

6 **Q. Please describe the projects captured under Other Improvements, budget line item 435,**
7 **and explain why Newport is projecting an overall increase under the Source of Supply –**
8 **Island (decrease), Treatment- Lawton Valley (decrease) and the Treatment – Newport**
9 **Plant (increase) accounts.**

10 A. The overall increase is due primarily to the SCADA project for the Newport Plant under the
11 Treatment – Newport Plant account that will be funded through the SRF loan. The test year
12 shows that \$82,788 has been spent primarily on design for the project, however construction has
13 not yet begun. Although a portion has already been spent for the test year and funded through
14 the capital restricted account, the total amount of \$700,000 has been included in the rate year for
15 budgeting purposes. Since this project will be funded through the SRF this amount has not been
16 included in determining revenue requirements for the rate year. This project as well as other
17 projects to be funded through the SRF will be paid through debt service payments that will begin
18 the year after construction is complete.

19 The Source of Supply Island account shows a decrease from the test year to the rate year. The
20 expenditures for the test year are due to design work for the Paradise Pump Station. This project
21 is listed under FY 2003 in the CIP but due to delays it has been carried forward to FY 2004.

1 This amount is not reflected in the budget and will not affect the revenue requirements for the
2 rate year in this filing since it is an SRF funded project. However, it will be included in rate
3 setting in the future as construction of the SRF funded projects are completed and the debt
4 service payments commence the following year.

5 The final account included in the calculation of the overall increase in this line item is the
6 Treatment - Lawton Valley account, which shows a decrease. The projects listed for FY 2004
7 that have been included in the rate year total of \$1,845,000 for Line Item 435 and the
8 corresponding amounts are as follows: Sedimentation Rehabilitation (\$250,000), Residual
9 Management (\$550,000), Filter Upgrade (\$50,000), Raw Water Main (\$300,000), and Chemical
10 Feed Improvements (\$695,000). The projects to be funded through the SRF loan are Residual
11 Management, Filter Upgrade, and Chemical Feed Improvements, which leaves \$550,000 to be
12 funded through the Water Fund. The test year amount that has been encumbered is \$2,069,750
13 for the Lawton Valley Plant. As with all CIP projects for Newport Water, those projects that are
14 not completed in the given year it is projected in the CIP are accumulated as encumbrances and
15 are carried forward to the following year. This is the amount shown in the test year. The CIP for
16 FY 2003 shows a total of \$1,550,000 for projects related to the Lawton Valley Plant. The rate
17 year amount only represents those projects as designated in the CIP for FY 2004. As is the case
18 in the other two accounts payments on debt service for the SRF funded projects will not occur
19 until the year after construction is complete.

20 **Q. Please explain why Newport is projecting an overall increase for General Debt**
21 **Principal, line item 451, under the Source of Supply – Main (increase), Treatment –**
22 **Newport Plant (decrease), and Transmission & Distribution (increase) accounts and an**

1 **overall decrease in General Debt Interest, line item 452 under the Source of Supply – Main**
2 **(decrease), Treatment – Newport Plant (increase), and Transmission and Distribution**
3 **(decrease) accounts.**

4 A. Under the Source of Supply – Mainland account there was no payment shown in the test year
5 of General Debt Principal, a normalization adjustment of \$610,000 was added to reflect the
6 principal that was budgeted and would be normally paid by Newport. The reason for this
7 adjustment is due to the test year and rate year not coinciding month by month. Newport had not
8 recorded the principal payment as of the termination date of the Test Year, March 31, 2003.

9 In addition, these two accounts are based on the total principal and debt owed on various bonds
10 that are shown in Schedule RFC 11. The increases and decreases are a function of the
11 amortization schedules that were established when the bonds were issued. As mentioned earlier
12 in this testimony, Newport has not projected the debt service of the proposed \$3 million SRF
13 Loan to begin until FY 2005, therefore the revenue requirements do not reflect these payments.

14 **Q. Please describe the Transfer to Equipment Replacement (Schedule RFC 1.1 and 1-A,**
15 **line item 600) and why Newport projects an increase for the rate year.**

16 A The City has implemented a new program whereby future equipment (mostly vehicle)
17 replacement will be funded annually so that when the equipment is due to be replaced, funding
18 will be in place. Equipment replacement was fully funded in prior years in the capital
19 improvement plan. The new program keeps level funding and eliminates wide swings based on
20 equipment needs and costs. This is a change in process. Vehicles and equipment have been
21 replaced in the past subject to budget allowances; i.e. if money was available during the budget

1 process. The new program sets up a system where equipment and vehicles will, essentially, be
2 leased from an equipment replacement fund. The life of the vehicle is determined and the
3 replacement cost is divided by the life of the vehicle. Each year this amount is transferred to the
4 Equipment Replacement Fund. The Equipment Replacement Fund purchases the replacement
5 vehicle or equipment at the end of its life. This stabilizes the amount needed for vehicle and
6 equipment replacement in the future because the amount needed each year should be the same
7 unless vehicles and equipment are added to the inventory as new items and not replacements.

8 **Q. Please explain the “Payment to General Fund” line item and the \$500,000 that has been**
9 **included in the budget for the rate year.**

10 A. The Water Fund has received over the years a total of \$2.5 million in order to meet revenue
11 shortfalls. A five-year plan to repay this amount back to the General Fund has been included in
12 the revenue requirements. The PUC required (per the June 2000 Order, Docket 2985) that the
13 City of Newport establish restricted separate accounts for chemical purchases, debt service and
14 capital improvements. The City was not in full compliance with this mandate until December
15 2002.

16 The City pays the personnel and operations bills of the Water Fund out of the City’s general
17 pooled cash account (unrestricted cash). This is the only checking account. The unrestricted
18 cash belongs to all of the City’s funds in various amounts.

19 When it was discovered that the restricted accounts were not properly established and funded,
20 The City transferred cash from the unrestricted cash account to the restricted cash accounts. The
21 amount of cash in the restricted accounts at February 28, 2003 is \$4,480,156.98. The result of
22 taking this much cash out of the unrestricted cash is to put the unrestricted cash in a negative

1 position. Funds with negative cash must have borrowed the money from funds with positive
2 cash, in most cases the City's general fund since most other funds' cash is restricted for various
3 purposes. The negative unrestricted cash (amount of funds borrowed) is \$2,524,170 at June 30,
4 2003 and is estimated to grow to \$4,000,000 by December 31, 2003 and \$5,500,000 by June 30,
5 2004 without rate relief. The City has become increasingly concerned, as it cannot afford to
6 continue to loan ever increasing amounts to the Water Fund.

7 It should also be noted that the City of Newport is using taxes paid solely by Newport taxpayers
8 to fund these accounts that benefit all of Newport Water's customers. This includes customers
9 such as the Navy, The Town of Middletown and the Town of Portsmouth. Therefore, a small
10 subsection of Newport Water ratepayers (i.e. Newport Taxpayers) are subsidizing the entire
11 system.

12 **Q. Please explain why Newport is projecting increases in IFR Equipment, line item 824,**
13 **under the Administration, Customer Accounts, and Transmission and Distribution**
14 **accounts.**

15 A. The increase in Administration line item 824 represents the Vehicle Replacement for the
16 Water Division. The Customer Accounts line item 824 is used for the replacement of large and
17 domestic water meters and has a projected increase of \$5,000. Under the Transmission and
18 Distribution account line item 824 is increased by \$10,000 and is for purchasing new leak
19 detection equipment. This equipment will be used to conduct the in house leak detection
20 program after the system wide leak detection survey is completed by the contractor.

21 **Q. Please explain why Newport is projecting increases in IFR Improvements, line item 835,**
22 **under the Treatment – Lawton Valley and Transmission and Distribution accounts.**

1 A. Under the Treatment- Lawton Valley account, the increase in line item 835 is attributed to the
2 High Pressure Water Service Project in which \$20,000 was funded in FY 2003 and \$84,000 in
3 FY 2004 per CIP schedule.

4 Under the Transmission and Distribution account, the increase in line item 835 represents the
5 following projects as indicated in CIP schedule for 2004: Trench Repair, East Main Rd Utility
6 Bridge, Leak Detection Program, and Water Infrastructure Improvements (Ocean Ave water
7 main).

8 **Q. Please explain why Newport is projecting a decrease in IFR Fire Hydrants, line item**
9 **853, under the Fire Protection account.**

10 A. This line item shows a test year normalization of \$3,599. This normalization accounts for
11 replacement of two hydrants. It is believed that replacement of two extra hydrants over the norm
12 was attributable to last year's severe winter.

13 **Q. Does this conclude your testimony?**

14 A. Yes, except for providing any testimony in response to submissions by any parties to this
15 proceeding, this concludes my Direct Testimony.

16

17