

1 **I. INTRODUCTION**

2 **Q. On page 4, line 24-26, Mr. Woodcock states “This rate case is no different, and the**
3 **Commission, the Division, and Portsmouth are left to assess Newport’s filing in a factual**
4 **vacuum.” This sentiment is expressed throughout Mr. Woodcock’s testimony. Do you agree**
5 **with his position?**

6 A. No, I do not. Although I did not participate in past rate filings by Newport, a review of the
7 order in Docket 2985 indicates that this filing is drastically different. First, it appears that the
8 filing made by Newport in 1999 was initially rejected as it contained a number of deficiencies
9 that almost caused the filing to be withdrawn altogether. This was not true of this Docket.
10 Further, Newport apparently did not provide timely responses to data requests on repeated
11 occasions in Docket 2985. In contrast, Newport Water has been diligent in attempting to provide
12 responses within 21 days of each request. Unlike the last Docket, none of the parties has had to
13 file a motion to compel. In addition, Newport’s Consultants and attorneys have remained
14 unchanged since this Docket was filed, and they have worked together to provide the information
15 sought by the parties in this docket. Unlike the last case, there has been no need to revise the
16 original procedural schedule.

17
18 Certainly, Newport Water recognizes that this is an adversarial process, and the parties will
19 almost certainly disagree. Further, Newport Water recognizes it has been noncompliant with past
20 Commission directives. In most instances, we corrected our deficiencies, and we continue to
21 work on outstanding issues. Nevertheless, we are working to improve, and while there will
22 undoubtedly be disagreements between the parties in any rate proceeding, it is inaccurate and
23 unfair to say that this Docket is no different from Docket 2985. Newport Water and its
24 consultants have worked very hard on this Docket, and will continue to do so until the
25 completion of this Docket.

26
27 **Q. Mr. Woodcock also states on page 5, that Newport made a “conscious decision not to**
28 **collect the data and information that is required to develop a proper cost allocation study.”**
29 **Do you agree?**

30 A. No, I do not. As has been testified to in this Docket, none of the City employees working on
31 this Docket for Newport Water were even employed when the last filing was submitted. There

1 has been much turnover in both the City and at the Water Department. Mr. Woodcock attaches
2 an Order from Docket 2029 that is fourteen years old. None of the participants in that Docket, or
3 Docket 2985, for that matter, are still employed by the City of Newport. Furthermore,
4 Portsmouth did not even participate in that Docket. Newport Water understands that to a large
5 extent it is responsible for past administrations and employees, and we have taken steps to
6 improve operations and comply with the Commissions' prior orders. With all the issues facing
7 Newport Water since Docket 2985, it has been difficult to accomplish every thing that needs to
8 be accomplished, but it is not from lack of effort, or any conscious decision to ignore the
9 Commission. While Newport Water can appreciate some level of frustration from Portsmouth, it
10 is wrong to state that the individuals working on Newport Water's problems have *consciously*
11 disregarded the Commission's orders.

12

13 **II. REVENUE REQUIREMENT**

14 **Repayment to City of Newport**

15 **Q. Have you had an opportunity to review Mrs. Catlin's and Woodcock's testimony with**
16 **regard to Newport's revenue request?**

17 A. Yes, I have.

18

19 **Q. Do you have any concerns with their recommendation?**

20 A. Yes I do. Primarily I am concerned with their request to deny (Mr. Woodcock), or reduce
21 (Mr. Catlin), Newport's request for funds to repay the City of Newport.

22

23 **Q. To summarize, Newport is seeking revenue to repay \$2.5 million dollars to the City of**
24 **Newport for funds advanced from the City's General Fund, is that correct?**

25 A. Yes, that is correct.

26

27 **Q. The terms of the repayment are \$500,000 per year for five years, without interest, is that**
28 **correct?**

29 A. Yes, there is no interest included in this repayment plan.

30

1 **Q. On page 7 of his testimony, Mr. Woodcock states that Newport “failed to fund” the**
2 **restricted accounts established in Docket 2985. Do you agree with his statement?**

3 A. No, I do not. We have always acknowledged that prior Water Department and City Officials
4 did not begin funding the accounts in a timely manner, but they were eventually funded.

5
6 **Q. Mr. Woodcock also states on page 8 of his testimony, that “Based on the response to**
7 **PWFD 1-15, Newport has not spent anything on debt, chemicals, or capital.” Is this**
8 **correct?**

9 A. No. I believe Mr. Woodcock has mischaracterized Newport’s response to PWFD 1-15. The
10 schedule provided by Newport may not have contained the level of detail Portsmouth was
11 looking for, and in retrospect, our response could have contained more information, but it is
12 inaccurate to state that Newport did not spend any money on debt, chemicals or capital. Further,
13 before Mr. Woodcock filed his testimony, I don’t believe he had Newport’s response to PWFD
14 3-4, which shows actual expenses for these accounts.

15
16 **Q. In his testimony, Mr. Woodcock states that repayment to the City of Newport should not**
17 **be allowed because “the Commission should not reward Newport’s failure to fund**
18 **restricted accounts or to monitor its expenditures by allowing Newport to use this rate case**
19 **to remedy deliberate violations of the Commission’s orders.” Do you agree with Mr.**
20 **Woodcock’s position?**

21 A. No, I do not. First, there have been no “deliberate” or knowing violations of the Order entered
22 in Docket 2985 by the persons involved in this Docket. Furthermore, Newport did not “fail” to
23 fund the restricted accounts. While Mr. Woodcock, and his client may be frustrated with the City
24 of Newport, it must be emphasized that the current City officials working on this Docket were
25 not employed when the Order in Docket 2985 was litigated and decided. Furthermore, none of
26 the current City officials were employed when the directives in that order should have been
27 effectuated. The current City officials are essentially trying to rectify a number of problems
28 created by our predecessors. Quite frankly, many of these people are no longer employed by the
29 City because of the problems they created, and for their failure to timely comply with the Docket
30 2985 Order.

31

1 **Q. On page 9 of his testimony, Mr. Woodcock states that Newport Water’s request to repay**
2 **the City was caused by its failure to fund the restricted accounts and its failure to file for a**
3 **rate increase in a timely manner. What is your position with regard to this statement?**

4 A. I agree with it in part, and disagree in part. Certainly, the previous administration did not
5 properly set up and fund the restricted accounts. When this was discovered, the City of Newport
6 began working with Mr. Massaro from the Commission to properly set up and fund these
7 accounts. This eventually called for the transfer of cash from the General Fund. The City could
8 have refused to remedy the deficiencies in the accounts. Had this happened, Newport Water
9 would not have had the necessary funds in these accounts. The City did what it thought was right
10 in advancing funds to the Water Division. As set forth in James Smith’s testimony, public
11 necessity, health and safety dictated we continue to operate the water system even though it
12 would require the Newport taxpayers to advance money to a water system that serves three (3)
13 cities and the Navy. As will be addressed below, in light of the testimony filed by the Division
14 and Portsmouth, the City will no longer advance funds, and the Water Division is facing serious
15 financial difficulties.

16
17 Furthermore, as will be addressed below, there *was* a shortfall in revenue, which led to annual
18 deficits in the water fund. Both Mr. Woodcock and Mr. Catlin state that Newport should have
19 filed for rate relief before 2003. As I will address below, Newport was unable to file a request for
20 increased rates before 2003. It must be stressed that Newport was trying to file a rate case with
21 the Commission. However, a series of obstacles prevented us from filing. In addition, it took
22 some time to discover the extent of the problems facing the Water Department. The efforts of
23 Newport Water to rectify its problems must be viewed in context with the myriad of issues that
24 have faced the new administrators at Newport Water and in the City of Newport.

25
26 **Q. Can you explain this further?**

27 A. Yes, enclosed with my testimony is a timeline that outlines the obstacles and issues faced by
28 Newport Water since the Docket 2985 (see Tab 1). In my testimony, I will address each of these
29 issues.

1 As has been set forth previously in my testimony and data responses, I was hired in March 2001,
2 almost one year after the order was entered in Docket 2985. Naturally, there was a transitional
3 phase when I began. Furthermore, management of the Water Division is only one part of my
4 duties as Director of Public Works. As a result, it took some time to become familiar with the
5 specific operations of Newport Water, and the issues facing the system.

6
7 My first indication that Newport had not complied with the of the Docket 2985 order, was when
8 I became aware that annual reports had not been filed with the Commission. I was informed that
9 in November 2000, Newport Water filed an application with the Division of Public Utilities and
10 Carriers to issue debt. This filing was made so Newport could borrow \$3 million dollars with the
11 Rhode Island Clean Water Finance Agency as authorized in Docket 2985. This application was
12 rejected, as Newport was not in compliance with the requirements in the Order from Docket
13 2985. In addition, other non-compliance issues existed such as the Newport's failure to file
14 its 1999 annual report with the Commission. The City's financial consultant at the time, Bacon &
15 Edge, who was responsible for preparing the 1999 and 2000 annual reports for the Water Fund,
16 was waiting for information from the City's financial audit. The 1999 annual report was
17 completed shortly after I began employment with the City, and I forwarded this report to the
18 PUC in early May 2001. The 2000 annual report was submitted February 2002. By May, 2001 I
19 became aware of the extent of non compliance on the part of the City with the Docket 2985
20 Order and recommended to the City administration that the services of a financial consultant
21 were needed to assist in complying with the mandates of the Docket 2985 Order, and to assist
22 with the Division filing.

23
24 **Q. Did you alert the Commission and the Division to the problems Newport was facing**
25 **when you took over?**

26 A. Yes, at the suggestion of our attorney, we met with members of the Commission and Division
27 staff on May 16, 2001. (See Tab 2). At the meeting, we informed the Division and Commission
28 that an RFP for a financial consultant to assist the Water Department had been issued and would
29 be opened on May 23, 2001. We also discussed the Division filing. At that point, we had recently
30 submitted the 1999 annual report, and the 2000 report could not be submitted until we had
31 audited financial statements from the City for that year.

1 **Q. When was the financial consultant hired?**

2 A. Raftelis Financial Consultants (RFC) was ultimately chosen as the financial consultant and a
3 contract was signed in August 2001. Around this time, RFC began working on Newport Water's
4 2001 annual report, which was required before any further rate filings could be made with the
5 Commission.

6

7 **Q. What other projects did RFC undertake when it began as financial consultant?**

8 A. One of the projects addressed by RFC was the development of a flat retail commodity rate
9 structure as required in Docket 2985. This draft was completed and it is my understanding it was
10 provided to the Division's expert, Mr. Catlin, in January 2002. (See Tab 3). RFC's services
11 included assistance with the preparation of the quarterly reports for the restricted accounts, the
12 semi- annual financial reports, and annual reports for 2001 and 2002. Also RFC was to assist in
13 the acquisition of data in order to prepare a base/extra capacity cost allocation study. From this
14 study RFC was to develop water rates for Newport Water's next general rate filing and provide
15 assistance at the subsequent filing with the PUC.

16

17 **Q. Did Newport Water encounter any other problems at this time?**

18 A. Yes, in December 2001, four months after Newport entered into the contract with RFC, the
19 City of Newport's Finance Director resigned. One month later, in January 2002, the City
20 Manager also resigned.

21

22 **Q. Were these positions filled immediately?**

23 A. No. Although the positions would be filled by temporary replacements, a new finance director
24 would not be hired for nine months, and a new City Manager would not be appointed for eleven
25 months.

26

27 **Q. Did any other issues arise at this time?**

28 A. Yes, in January 2002, I received correspondence from the Commission scheduling a
29 compliance hearing regarding the order in Docket 2985. (See Tab 4) This hearing ultimately took
30 place on March 4, 2002.

31

1 **Q. What occurred after this hearing?**

2 A. After this hearing, Newport Water was allowed to proceed forward with its Division Filing to
3 enter into the Clean Water Finance loans. This filing was submitted on March 18, 2002, and a
4 Report and Order was issued on May 3, 2002.

5

6 **Q. Did Newport take any steps to file and implement the flat retail commodity rate
7 structure developed by RFC?**

8 A. After the Division approved the application in Docket D-02-03, Newport Water was reluctant
9 to file the cost allocation study with the Commission. While the filing would not have *increased*
10 rates, it would have *changed* rates if the flat design was put into effect. At that time, we thought a
11 general rate case filing was imminent in which Newport would seek a rate increase. It was our
12 position that customers would be confused by a rate *change* followed by a potential rate
13 *increase*. As such, we sought to avoid two separate filings in a short period of time.

14

15 **Q. Despite these concerns, was the flat rate study filed with the Commission as part of a
16 Docket?**

17 A. Yes. After consultation between our attorney and the Commission, the cost allocation study
18 was submitted as Docket 3457 on August 1, 2002. At that time, it was apparent that Newport
19 needed to file a full rate case. Therefore, we requested that the Cost Allocation Study not be
20 implemented, but that it be deferred until Newport could file its next general case. After
21 consulting with our attorney and financial consultants, we thought a full rate filing could be
22 submitted by December 1, 2002. (See Tab 5)

23

24 **Q. Were there any changes at Newport Water or the City of Newport at this time?**

25 A. Yes, on August 26, 2002, Laura Sitrin, who had recently been hired, began work as the City's
26 new finance Director. This ended a nine month period in which Newport had no finance director.

27

28 **Q. Did Newport file a full rate case in December 2002?**

29 A. No we did not. As RFC was working with Ms. Sitrin, it became apparent that the City's prior
30 administration had never been completed the FY01 audit (which should have been filed in
31 December 2001), nor had they done the work necessary to submit the FY02 audit (which was

1 due in December 2002). Without the audited numbers, Newport was unable to submit the 2001
2 or 2002 annual reports, which was a procedural prerequisite to filing a full rate case.

3
4 **Q. What steps did Newport take with respect to the FY01 and FY02 audits?**

5 A. As the City had been without a permanent Finance Director for 8 months, the existing staff
6 was not trained to complete the year-end accounting and prepare for the financial statement
7 audit. As such, Ms. Sitrin's first order of business was to complete the accounting, train the staff
8 and provide workpapers so the audits could be completed. In the first four months of her new
9 job, Ms. Sitrin had to complete the FY01 for filing with the State of Rhode Island by December
10 31, 2002. In the next three months, she had to complete the FY02 audit for filing with the State
11 of Rhode Island by March 31, 2003. The fact that Ms. Sitrin and the staff of the Finance
12 Department had to devote almost all of their time to completing the audits for FY 01 and FY02 is
13 important because this prevented them from devoting much time to the preparation of the rate
14 filing. As a result, it was difficult for the water utility and its consultants to access necessary data
15 since all of the financial and billing data for the water utility resides in the Finance Department's
16 computer system.

17
18 **Q. While Ms. Sitrin was working on these audits, a new City Manager was appointed,
19 correct?**

20 A. Yes, On November 4, 2002, James Smith began work as Newport's new City Manager. This
21 ended an eleven-month span in which Newport did not have a permanent City Manager. Upon
22 his arrival, Mr. Smith began working with Ms. Sitrin on these audits.

23
24 **Q. Were these problems communicated to the Commission?**

25 A. Yes they were. Our legal counsel at the time alerted the Commission to our problem with the
26 audits. The Commission was informed that due to the lack of audited numbers, a general rate
27 filing could not be submitted by December 1, 2002 (See Enclosed, Tab 6). In January 2003,
28 Newport was allowed to withdraw its filing in Docket 3457. On March 17, 2003, the official
29 withdrawal request was filed. (See Tab 7)

1 **Q. During this time period, did the City Manager take any steps to address the problems in**
2 **the Water Department?**

3 A. Yes. As set forth in Newport Water's response to PWFD 3-4, Mr. Smith has stated that when
4 he began as City Manager it became apparent to him that based upon the lack of available
5 records, additional support was needed in both Finance and Engineering. Mr. Smith undertook a
6 study of the organization of the City's Public Works and Finance Departments and in December
7 2002, made several recommendations to the City Council for reorganization and additional staff
8 capacity. These included reorganization of the Finance Department to provide additional
9 capacity for information technology, which would facilitate improved utility accounting and
10 billing systems. Further, by removing responsibility for Municipal Records, Purchasing and
11 Human Resources, capacity was freed up in the City's Finance Department to assist with Water
12 Utility records keeping, in particular the interface between Water Fund records and the City's
13 General Ledger. Relieving the Finance Department of these responsibilities allowed the
14 Department to provide more attention to the quality of future Water Utility financial and billing
15 information.

16
17 Apparently, Mr. Smith also observed that in my capacity as Public Works Director, I was heavily
18 burdened by direct responsibility for the Highway Division and for Fleet Maintenance. It was
19 recommended to the City Council that a Transportation Engineer be provided for the Public
20 Works Department and that the responsibility for Fleet Maintenance be transferred to a newly
21 created Administrative Services Department. These changes would allow me to work more
22 closely with the Deputy Director for Utilities on utility issues.

23
24 Finally Mr. Smith also concurred with the recommendation for financial staff to the Water
25 Department, which was funded in the FY 02-03 Budget. The addition of the financial staff
26 position was a result of the March 4, 2002 hearing before the Commission. As a consequence, he
27 recommended the addition of a Financial Analyst position in the Water Division. The City
28 Council approved Mr. Smith's recommendations at their December 11, 2002 meeting, and they
29 were subsequently adopted.

30

1 **Q. Referring back to the audits, was the City able to accurately assess the financial**
2 **condition of the Water Fund without these audits?**

3 A. No, in fact, until these audits were complete, the financial conditions of the all the City funds
4 (including the Water Fund) could not be determined.

5
6 **Q. Did the lack of completed audits for FY01 and FY02 have any other adverse effects?**

7 A. Yes, as stated before, without the audits we could not file our 2001 and 2002 annual reports
8 with the Commission. As a result, the Commission's Rules of Practice and Procedure precluded
9 us from filing a rate case. Further, we were concerned about the accuracy of the data and
10 information to be used in the full rate filing.

11

12 **Q. As the audits were being prepared, did Newport discover any problem?**

13 A. Yes, as stated previously, Ms. Sitrin began in August 2002, and her first task was to complete
14 the FY01 audit for filing with the State of Rhode Island by December 31, 2002. During this time,
15 it became apparent that Newport was still experiencing difficult in funding the restricted
16 accounts. As set forth previously, prior City officials had not properly set up and funded the
17 restricted accounts. In the Spring of 2001, Newport began working with Mr. Massaro to correct
18 this problem, and Newport began funding these accounts. Nevertheless, when Ms. Sitrin began,
19 it is my understanding that problems still existed. As a result, Ms. Sitrin hired Stephen Woerner,
20 who had municipal accounting and finance experience in Rhode Island, on a temporary basis to
21 get the City into compliance with the Docket 2985 Order, and they once again contacted Mr.
22 Massaro at the Public Utilities Commission.

23

24 **Q. What did Newport do with its restricted accounts funding?**

25 A. As set forth in Newport's response to PWFD 3-4, it was obvious that Ms. Sitrin could not go
26 back and determine exactly what was deposited into, and spent out of, these accounts with the
27 type of detail we would have liked. At that time, the persons responsible for complying with the
28 PUC's order in Docket 2985 were no longer employed by the City of Newport.

29

30 Nevertheless, Ms. Sitrin and the Finance Department were able to determine what the balances
31 should have been in these accounts. With the concurrence of Mr. Massaro, the finance

1 department calculated what the appropriate balances should have been as of June 30, 2001 and as
2 of June 30, 2002. This was done by taking the annual appropriation as ordered in Docket 2985
3 and subtracting out all legitimate expenses from the general ledger associated with chemicals,
4 debt service and capital. Detailed lists of expenses were also provided to the PUC. In November
5 2002, the first transfers were made to the Debt Service and Capital accounts. With the further
6 assistance of Mr. Massaro, Newport was brought into compliance by March 2003.

7

8 **Q. Did Newport discover any other problems as the FY01 and FY02 audits were being**
9 **prepared?**

10 A. Yes, it began to become apparent there was cash deficit in the water fund. However, due to
11 the manner in which cash and physical assets were displayed in the FY01 audit, the nature of the
12 cash activities was not immediately apparent. The first indication of financial problems in the
13 water department actually showed up in the FY02 audit, which was completed in March 2003.
14 At that time, the first negative unreserved cash deficit in the amount of \$297,246 appeared. The
15 FY03 audit would eventually reveal a larger problem with respect to this deficit.

16

17 **Q. With the FY01 and FY02 audits complete, what steps did Newport take with respect to**
18 **its full rate filing?**

19 A. Upon completion of the FY01 and FY02 audits, the Finance Department was able to provide
20 RFC with accurate financial and billing information for the water utility. However, by this time
21 the test year for which RFC had preliminary data had become outdated and it became necessary
22 to use a more recent test year. In an effort to expedite the rate filing, it was decided to use a test
23 year that did not coincide with the City's fiscal year since the fiscal year did not end until June
24 30, 2003. Therefore, a test year beginning April 1, 2002 and ending March 31, 2003 was used.

25

26 **Q. Did any problems arise as you began work on the full rate filing?**

27 A. Yes, in May 2003, we were forced to seek new legal counsel as our attorney at the time,
28 Frank Flaherty, was appointed as a Supreme Court Justice. It was not until approximately June
29 2003, that Newport obtained current legal counsel. Naturally, in light of everything that had
30 transpired since Docket 2985, it took some time for counsel to familiarize himself with the issues
31 involved in this filing.

1 **Q. As Newport worked on its rate filing, did any further problems arise?**

2 A. Yes, the City, and specifically, Ms. Sitrin, began seeing bigger problems during the FY03
3 audit. This audit, which was filed in December 2003, further indicated significant problems with
4 the Water Fund. At this time, both the operating results and the trends for the Newport Water
5 Utility were realized. It became apparent that by funding the restricted accounts, Newport
6 taxpayers had in effect loaned the water utility approximately \$2 million, as all of the City's cash
7 accounts including its General Fund and Enterprise Accounts are commingled. But this was not
8 fully discovered until the time period between March and December 2003 when the FY02 and
9 FY03 audits were completed.

10

11 **Q. Did this have any effect on the filing in this Docket?**

12 A. During the time when the FY02 and FY03 audits were being completed, we were
13 simultaneously working on the filing for this Docket. However, as previously mentioned, it was
14 proving difficult to locate and extract reliable data from the City's billing software. In addition,
15 although it was becoming apparent that Newport's financial problems were increasing, the full
16 nature and extent of the utility's financial problems were not apparent.

17

18 **Q. Can you further discuss the financial problems indicated by the FY2002 and FY2003**
19 **audits and the FY2003 draft management letter?**

20 A. Yes, it is now appears that the City of Newport Water Fund is in serious fiscal distress. Laura
21 Sitrin has prepared a worksheet labeled LLS – Sch.1 that shows the results of FY01, FY02, and
22 FY03 as audited and presented in the financial statements for those years. (See Tab 8) The
23 schedule also includes the FY2004 budget, year-to-date numbers as of March 19, 2004 and the
24 projected year-end numbers. As indicated in Ms. Sitrin's schedule, it appears that operating
25 expenses exceeded the amounts assumed in Docket 2985. FY01 had operating expenditures that
26 were \$2.7M higher than the rate year amounts. This was partially offset by miscellaneous
27 revenues, but it appears the water fund had a deficit of \$1.2M at the end of FY2001. (It is my
28 understanding that Ms. Sitrin's schedule assumes full compliance with the restricted account
29 funding on the schedule, even though the funding did not actually take place until November
30 2002 and March 2003.) The water fund had \$873,740 of cash at the beginning of FY2001. This

1 combined with the non-cash expense depreciation in the amount of \$1,049,052 allowed the water
2 fund to continue to operate without showing a negative cash balance in FY2001.

3 According to Ms. Sitrin's schedule, the operating deficit in FY2002 was \$2.4M. As stated
4 above, the FY02 audit revealed a negative cash balance of \$297,246. In order to continue
5 operating while a rate filing was being prepared this amount was loaned by the General Fund to
6 the Water Fund.

7
8 The operating deficit in FY2003 was \$3.1M. The audited cash deficit and resulting additional
9 general fund loan was \$2,697,170. This is addressed by the auditors in the draft FY03
10 management letter. (See enclosed, tab 9) It appears that the approved revenues in Docket 2985
11 were never sufficient enough to fund both the operations and the restricted account funding
12 requirements. Yet, the restricted accounts were fully funded.

13

14 **Q. Has the City taken any action with respect to further advances to the Water Fund?**

15 A. Yes, upon receipt and review of testimony with respect to this rate filing submitted by
16 Portsmouth and the Division, Newport City officials were disturbed by the recommendations that
17 funds advanced by the City of Newport not be repaid. As such, the City will no longer advance
18 money from the General Fund to the Water Fund, and the City has established a separate account
19 for the Water Fund. It is my understanding the General Fund had an audited surplus of \$12.5M
20 as of June 30, 2003. The City Council appropriated \$4.9M to balance the FY04 budget, which
21 still required a 4.5% tax increase, leaving only \$1.4M for the current year, again anticipating a
22 significant tax increase. Apparently, the rest has been or will be loaned to the Water Fund,
23 leaving the City in a potentially dangerous situation because there will be no cash reserves.

24 I am told the projected deficit for FY2004 is \$5.4M. The actual cash loan as of March 19, 2004
25 is \$4,122,345.47. It is projected to grow to \$6,999,079 as of June 30, 2004. It is my
26 understanding that without immediate and significant additional revenue, the Newport Water
27 Fund will not be able to sustain operations through FY2005.

28

29 **Q. What steps does Newport plan to take to address this situation?**

30 A. Once the FY04 fiscal year ends, Newport will have to seek additional rates from the
31 Commission. In all likelihood, a filing will have to be submitted in early Fall of 2004.

1 **Q. In its fourth data request (PWFD 4-3) Portsmouth asked Newport to explain how a \$2.5**
2 **million deficit was developed. It is Portsmouth's position that the deficit does not appear to**
3 **be from a deficit in revenues; rather that expenditures exceeded the revenues found**
4 **reasonable by the Commission. Do you have any response?**

5 A. I have consulted with Laura Sitrin, the City of Newport's Finance Director, and I believe the
6 majority of this question has been answered in the testimony above. However, Portsmouth also
7 asked that we indicate, using the allowed expenses from Docket 2985, which areas were in
8 excess of those allowances by year, (b) why each of the excesses occurred, and (c) when
9 Newport first became aware of each. I believe I addressed item (c), that the deficits were
10 discovered in the FY02 and FY 03 audits. As to items (a) and (b), I have attached a schedule
11 from Ms. Sitrin. (see Tab 10) If Portsmouth has any further questions after reading this
12 testimony, we would be happy to address them on an expedited basis.

13
14 **Miscellaneous Revenue Requests**

15 **Q. Do you have additional information regarding Mr. Catlin's description of the Customer**
16 **Accounts 225 Support Services and 238 Postage ?**

17 A. Prior administrations had used these accounts to fund a portion of the preparation and mailing
18 of the CCR's and any other regulatory reporting expense. However the 225 account is now used
19 solely to fund the contract with the firm that prepares the water billings and for testing of meters
20 and other meter services and the 238 account is for all postage associated with billings (regular
21 and past due, etc). The budgeted amount is solely for these purposes that are not onetime
22 expenses. After careful review of these accounts, it appears they are overstated, but not to the
23 extent claimed by Mr. Catlin and Mr. Woodcock. We recommend that the amount for the rate
24 year for account numbers 225 and 238 be reduced by \$3000 and \$ 5700, respectively, for a total
25 of \$8700.

26
27 **Q. Please comment on the recommendation of Mr. Catlin to reduce the training accounts**
28 **for NWD's employees.**

29 A. I believe this is a significant mistake. As drinking water regulations become more stringent
30 and new programs, such as a formal Backflow Prevention Programs are recommended, training
31 of our employees is becoming increasingly important. In addition to training to meet new

1 objectives, we are responsible for ensuring that employees maintain certification as both
2 Treatment and Distribution Operators in accordance with state licensing regulations. However,
3 Mr. Catlin prefers to compare the current administration's objectives with that of the past. Also
4 unlike our counterparts in other water utilities, the Director and Deputy Director in 2003 were
5 unable to take part in national and many regional conferences due to addressing the needs of the
6 division. It is at these conferences that information on upcoming changes in the drinking water
7 regulations, new technologies and O&M practices are obtained to improve the utility. It is
8 important to provide Newport Water's employees with adequate opportunities for professional
9 development. Attendance at industry conferences and training sessions provide them with this
10 opportunity. Additionally, the licensed operators that operate Newport's water system are
11 required to receive a specific amount of training each year in order to maintain their certification.
12 Reducing the level of funding for conferences and training will at best limit the employees'
13 opportunities for professional development and at worst, jeopardize the certification status of the
14 utility's certified operators.

15

16 **Q. Please provide an update on the status of NWD's Vulnerability Assessment?**

17 A. As was provided in response to Div 1-17 there are no grants available to assist with the
18 funding of a vulnerability assessment for water utilities the size of Newport. Federal grants were
19 only provided to large suppliers. The only assistance that was available to Newport was in the
20 form of federally funded training programs provided by RIDOH. These programs provided
21 utility staff with training in the preparation of the required Vulnerability Assessments

22

23 In February, 2004 the City Council awarded a contract to Prism Environmental Inc. in the
24 amount of \$34,000 for the preparation of the water systems Vulnerability Assessment. The
25 amount requested in the rate filing was developed based on available information for this
26 assessment, which is a new regulatory requirement. It was intended to use unexpended funds to
27 address vulnerabilities that were identified. Depending on the recommendations forthcoming in
28 the Vulnerability Assessment, which could be significant based on the extensive facilities in
29 Newport's system. Some of these are known such as the lack of alarms and/or security systems
30 at the various facilities. Therefore, while we agree these funds should come from the capital
31 account, we do not believe the funding should be reduced from \$85,000 to \$34,000.

1 **Q. Mr. Catlin suggests in his testimony and per Schedule TSC-5 that the employee benefits**
2 **amount in the filing should be reduced by \$96,178. Do you agree with this?**

3 A. No, I do not. Mr. Catlin suggests that the benefit amounts in the filing are from the City of
4 Newport's Water Fund Budget for FY2003-04, and that actual amounts are less than budgeted
5 amounts. To this end, he annualized the actual year-to-date amounts submitted by the City of
6 Newport as a response to DIV 3-15. Benefits amounts, particularly health, dental and life
7 insurance premiums are known at the beginning of the year and can be scheduled. The only
8 factor that would affect the total of the known benefits is if an employee or retiree changes
9 benefits or leaves employment prior to retirement. I have scheduled out the salary and benefit
10 costs for each employee for FY2003-2004 on LLS Sch.2 & 3. (See Tab 11) The benefit totals
11 were then added on to Mr. Catlin's Schedule TSC – 5. The benefits for FY2003-2004 are lower
12 than the amounts indicated in the filing by \$48,903 and not the \$96,178 suggested by Mr. Catlin.
13 However, we know for a fact that retirement, life insurance and dental insurance will increase in
14 FY2004-2005. We do not yet have the rates for health insurance, and the AFSCME union
15 contract has not yet been settled. These items will also affect benefit amounts. Therefore, I
16 would suggest that the benefit amounts in the filing are reasonable amounts, and should not be
17 reduced.

18
19 **Clean Water Finance Loan**

20 **Q. In your testimony above you refer to Newport's Division Filing in Docket D-02-03. In**
21 **that Docket, Newport was authorized to borrow up to \$3 million dollars from The Rhode**
22 **Island Clean Water Finance Agency. As of this date, has Newport borrowed this money?**

23 A. No.

24
25 **Q. Please explain why not.**

26
27 A. Due to the uncertainty associated with this rate filing, the City did not feel it was prudent to
28 borrow this money at this time. Without knowing the results of the rate filing, Newport could
29 not be certain that it would be in a position to repay the loan in a timely manner. Even more
30 important, there is significant money sitting in the capital restricted account. The City's bond
31 counsel thought that this could potentially jeopardize the tax-exempt status of the bonds
32 Nevertheless, Newport had been approved for this loan. (See tab12). Once this Docket is

1 completed, it is my understanding the City will move forward with this loan if it gains some
2 confidence that it is allowed to recover the revenues necessary to make debt service payments.

3
4 **III. WATER SYSTEM AND WATER QUALITY ISSUES**

5 **Q. Have you had a chance to review the testimony submitted by William McGlenn on**
6 **behalf of Portsmouth Water and Mr. Monaco on behalf of the Navy?**

7 A. Yes, I have. Mr. McGlenn addressed three areas (1) Portsmouth's dissatisfaction with
8 Newport's rate filing; (2) The manner in which Portsmouth obtains water from Newport; and (3)
9 Water Quality problems, particularly TTHM's. Mr. Monaco addresses the third issue as well.

10
11 **Rate Filing**

12 **Q. Do you have a response to Mr. McGlenn's testimony regarding his dissatisfaction with**
13 **Newport's rate filing?**

14 A. Yes. However, I think I have addressed these issues earlier in my testimony, as Mr.
15 McGlenn's comments echo those made by Mr. Woodcock.

16
17 **Newport's Water System**

18 **Q. Portsmouth maintains they only receive water from the 4Mgal storage reservoir at the**
19 **LVWTP, do you wish to provide additional comment?**

20 A. Yes. Portsmouth's meter pit does receive treated water from the southwest end of the 4Mgal
21 storage reservoir at the Lawton Valley Plant. However, there are also two other connections that
22 allow Portsmouth to receive treated water in an emergency. These are the connections to the 2
23 Mgal storage tank at the LVWTP and to the Goulart Lane 1.5 Mgal storage tank. Both of these
24 connections are operated manually. Furthermore, both of these emergency connections can be
25 supplied from Station 1.

26
27 **Q. PWFD maintains that since they only receive water from the Lawton Valley Treatment**
28 **Plant, that costs associated with other portions of the system should not be allocable to**
29 **Portsmouth. Do you agree?**

30 A. No. It is our position that Portsmouth's connection to Newport's system cannot be viewed in
31 isolation. Rather, their connection must be viewed in context of the entire system. Newport's

1 system is clearly one of the most complex systems in the state with two (2) water treatment
2 plants, nine (9) raw water reservoirs of varying quality (two of which are on the mainland and
3 serviced with the Sakonnet River crossing), and a significant demand fluctuation between
4 seasons. While Portsmouth may only receive water from the Lawton Valley plant they benefit
5 from costs associated with the Newport's system wide management policies.

6
7 Newport's water system consists of three (3) pressure zones, High, Medium, and Low. The
8 pressure zones are located at the northern (high), middle (medium) and southern (low) sections
9 of Aquidneck Island. The Station 1 WTP and the LVWTP are linked together by a 24-inch
10 transmission main. Water from the nine (9) surface water reservoirs is treated and can be
11 distributed to either of the three pressure zones. We must manage operations of both treatment
12 facilities taking into account where the quantity of raw water is located as well as the quality of
13 the raw water with respect to treatment ability. The LVWTP, located in the medium pressure
14 zone, can also supply treated water to the high and low pressure zones. Likewise Station 1,
15 located in the low pressure zone, can supply treated water to the medium and high pressure zones
16 at different times of the year. While treated water from Station 1 does not directly feed
17 Portsmouth's meter pit, they receive all the benefits of Newport's flexibility to provide water to
18 the entire Island. Moreover, Station 1 provides an emergency supply to Portsmouth should a
19 failure ever occur at the LVWTP. In short, Portsmouth benefits from costs associated with
20 Newport's management of other areas of the system.

21

22 **Q. Can you please provide an example?**

23 A. Yes. The Lawton Valley, St. Mary's and Sisson reservoirs provide water to the Lawton
24 Valley WTP, which in turn provides water to Portsmouth. These reservoirs are located at higher
25 elevations in the northern end of the Island, and they have smaller watersheds. Within the
26 system, there are large fluctuations of water demands between winter and summer months.
27 Obviously the greater demand occurs in the summer. Therefore, we must allow these three
28 reservoirs in the higher elevations to recover in the winter. This recovery ensures that we can
29 meet demand in the peak seasons, and that we can provide Portsmouth with the water they need
30 from the Lawton Valley Treatment plant during peak demand.

31

1 While these reservoirs recharge, the majority of treatment occurs at Station 1 utilizing one of the
2 facilities' two booster pumps (each rated at 2.25 MGD). During this time period, Station 1
3 produces 5-6 MGD , and Lawton Valley's production drops below 2 MGD. However, we have to
4 continue operating Lawton Valley to provide water to Portsmouth in the winter. During the
5 winter, treatment at Lawton Valley occurs approximately one shift per day. If we did not have to
6 supply Portsmouth, we could shut the plant altogether on certain days and reduce costs.
7 Following Portsmouth's logic, only they should be paying these costs, yet currently other
8 customers share in the cost of keeping Lawton Valley open in the winter.

9

10 By allowing these three reservoirs to recover, it ensures there is enough water for Portsmouth in
11 the peak demand seasons, and it reduces the cost of providing water during this peak time. If the
12 reservoirs were not allowed to recover, we would have to pump water using the Sakonnet Pump
13 Station from the mainland reservoirs to the Lawton Valley Treatment plant during peak season.
14 Pumping from the mainland reservoirs would bring increased costs. That is why I maintain that
15 system wide costs associated with proper management – in this case replenishing the three
16 reservoirs – benefits Portsmouth.

17

18 **Q. Portsmouth maintains that water supplied by the Station 1 is more costly than that**
19 **supplied by the LVWTP, do you wish to comment?**

20 A. Yes, this is mostly due to the pumping costs associated with Station 1 providing water to the
21 medium and high pressure zones. But again, these costs cannot be viewed in a vacuum. One
22 must consider system wide management issues. First, Lawton Valley's costs are lower because it
23 is at a higher elevation and can provide water to the medium and low pressure zones by gravity.
24 Station 1 also uses granular activated carbon (GAC) as a filter media, which requires
25 replacement and can be thought of as a consumable. Lawton Valley's filtration uses a dual media
26 sand, which is backwashed rather than being replaced on a regular schedule similar to the GAC.
27 GAC however is more effective in meeting TOC removal and turbidity standards. Further, in
28 accordance with system wide management strategies, we choose to maximize treatment at
29 Station 1 and minimize treatment at Lawton Valley to better control sludge discharge.
30 Historically, the Lawton Valley plant discharges sludge to Lawton Brook. Currently, there is no
31 treatment process for sludge at Lawton Valley. We are working on this project, and under our

1 Residuals Management project we will transport this sludge to the Newport Wastewater
2 Treatment Facility, thereby protecting the environment. However, maximizing the operation of
3 Station 1 also addresses this environmental concern by minimizing LVWTP sludge discharges.
4 Naturally, this also raises the costs at Station 1. However, it benefits the entire system, and all
5 our customers, including Portsmouth.
6

7 **Q. PWFD states that costs associated with the Lawton Valley Pump Station should not be**
8 **allocated to them. Do you agree?**

9 A. No. Once again, I refer to my testimony above. Under Portsmouth's logic, they should be
10 responsible for the majority of the costs associated with Lawton Valley during the winter season.
11 As I stated, during this time the LVWTP is on line primarily to supply Portsmouth. If Portsmouth
12 was not a customer, then Lawton Valley could be operated intermittently on an as needed basis,
13 and Station 1 could support the demand on the rest of the Island. During the winter, Lawton
14 Valley produces 2 MGD. Approximately 1 MGD is provided to PWFD. Should Portsmouth be
15 responsible for 50% of the operation costs at LVWTP during the winter when we are in this
16 operation mode? Following their argument, they should be.
17

18 **Water Quality Issues**

19 **Q. Portsmouth and the Navy have addressed issues pertaining to water quality. Do you**
20 **have any general observations with respect to this testimony?**

21 A. Yes. First, it must be stressed that Newport is committed to providing safe drinking water for
22 all its customers. Further, the EPA and the RIDOH, which are the regulatory agencies primarily
23 responsible for ensuring public drinking water quality and safety, are addressing the water
24 quality issues raised by Portsmouth and the Navy. For this reason, and other reasons I will
25 address below, this particular issue should not be addressed in this Docket.
26

27 **Q. Both Portsmouth and the Navy allege that Newport Water is the sole cause of water**
28 **quality problems in their respective systems, especially with respect to TTHM's. Do you**
29 **have any general comments on this issue before you address the specific issues raised?**

30 A. Yes. This position that Newport is the sole cause of water quality problems oversimplifies a
31 complex problem. Compliance with water quality regulations is a multifaceted issue, especially

1 in our system. Further compounding the problem is Newport’s connection to two separate
2 distribution systems – Portsmouth’s and the Navy’s – over which we have no control. The new
3 drinking water regulations, which I will address below, have increased attention to water quality
4 in distribution systems. Variables in distribution systems can be compared to the shelf life of
5 food products at home or the grocery. Clearly the condition of the container and the storage
6 environment make a big difference in how long a food product will last. Similarly, pipe materials
7 and detention time in a system effect how well a water utility will meet these new distribution
8 systems standards. This is a challenge for most distribution system operators. Certainly,
9 Newport, can, and will, modify treatment processes to ensure a safe and high quality product, but
10 these modifications may not always maintain the quality throughout Portsmouth and the Navy’s
11 secondary distribution systems. As a result, they may have to take steps on their own to address
12 these problems.

13

14 **Q. On page 4 of his testimony, Mr. McGlenn characterizes Newport’s attitude as one of**
15 **“denial and lack of concern” regarding TTHM compliance issues. Do you agree with this**
16 **assessment?**

17 A. No, I do not. It must be stressed that Newport is fully aware of the current and future
18 regulations regarding TTHM’s, specifically the Stage 1 and Stage 2 Disinfection/Disinfectant
19 Byproduct Rules (D/DBPR). I will not go into describing what TTHM’s are or how they are
20 formed as Mr. McGlenn has already detailed this information in his testimony. However, I do
21 wish to clarify and provide additional information regarding the drinking water regulations.

22

23 **Q. Please address the Stage 1 EPA regulations referenced in Mr. McGlenn’s testimony.**

24 A. The Stage 1 D/DBP Rule was promulgated by EPA in December 1998 and went into effect
25 January 2002. This rule effected Newport as follows:

26

27 1) It established a 0.8 ppm daily sample standard for chlorine dioxide at the point of entry into
28 the distribution system. (Chlorine Dioxide is also required to be monitored monthly in
29 Newport’s distribution system).

30

- 1 2) The Total Organic Carbon (TOC) removal percentage was established based on several
2 factors. The removal percentage is calculated monthly, and then a running annual average
3 (RAA) is calculated based on the quarterly averages. Compliance is based on the RAA being
4 greater than 1.
5
- 6 3) The standard for TTHM was reduced from 100ppb to 80ppm based on a running annual
7 quarterly average of all samples taken. (For example, as explained herein below, Newport
8 takes one (1) quarterly sample at eight (8) sites in the distribution system. These sample
9 readings are averaged, reported once per quarter, and these quarterly averages are included
10 in the four quarter running annual average).
11
- 12 4) The standard for haloacetic acids was established at 60 ppb. This is reported in the same
13 manner as TTHM's. (Newport has had no problem meeting this standard.)
14
- 15 5) The standard for chlorite was established. Chlorite is a by-product of disinfection with
16 chlorine dioxide, and is measured daily at the plants and entry points to the distribution system,
17 and monthly in the distribution system. The chlorite level MCL is 1 ppm .
18

19 Of the above noted parameters only the TTHM and haloacetic acid standards are applicable to
20 Portsmouth and the Navy, and they are measured at points in their respective distribution
21 systems.
22

23 **Q. When you began as Public Works Director in March 2001, was Newport ready to meet**
24 **the Stage 1 standards, which became effective in January 2002?**

25 A. No. Along with the other discoveries I made, it was apparent that Newport Water was not
26 completely prepared to meet the new standards. In addition to the financial difficulties I faced, I
27 also had to work with staff on getting Newport Water ready to meet these standards. The
28 challenge was (and still is) that the Stage 1 standards are all interconnected. An adjustment to
29 one treatment process affects the entire treatment train in meeting all the required regulations.
30 Adjusting treatment to meet one standard can place another standard in violation.
31

1 **Q. Did this have any effect on Newport's ability to treat TTHMs?**

2 A. Yes it did. Prior to January 2002 we relied on the use of chlorine dioxide as a disinfectant to
3 control the formation of TTHM's. This practice worked until the Stage 1 Rule went into effect in
4 January 2002. At that time, we could no longer use chlorine dioxide in the same manner due to
5 the rule change for regulating chlorine dioxide residual levels. In addition to monitoring chlorine
6 dioxide we also had to begin monitoring and meeting limits for chlorites, TOC removal
7 percentages, *and* meet the new TTHM standard in the distribution system. We also had to
8 balance the ability to oxidize manganese and still comply with the required disinfectant contact
9 time (CT) at the plant. Essentially, we could no longer rely on our old treatment process for
10 dealing with TTHM's. This forced us to re-balance our treatment process to meet the new
11 standards.

12

13 **Q. Did the new treatment process have any effect on the TTHM levels?**

14 A. Yes. A review of Exhibits 3 and 4 attached to Mr. McGlenn's testimony shows the increase in
15 TTHM's level occurred primarily during a three month period in 2002 after the Stage 1 rules
16 came into effect. (See Tabs 13 & 14) As stated above, during this time we were reconfiguring
17 our treatment process. Eventually, we were able to control the TTHM levels more effectively.
18 This is supported by Mr. McGlenn's exhibit 3. Furthermore, this three month period was in May,
19 June and July when TTHM readings are usually higher. We were also experiencing drought
20 conditions that year, and we were pulling water from lower levels of the reservoir. This caused
21 us to mix more water, which exacerbated the problems we were having with our new treatment
22 process.

23

24 In addition, it is important to stress that TTHMs readings for regulatory purposes are quarterly
25 averages of readings (as set forth in column 10 of Exhibit 3), and violations are based on a four
26 quarter running annual average (RAA). In looking at Exhibit 3, one can see the negative effect
27 caused by the high third quarter average of 137ppb in 2002. This raised Portsmouth RAA from
28 57.5 to 90.7. Furthermore, this 137 reading was used in the next three RAA's. Therefore, even
29 though the next three *individual* quarters had readings of 65.9, 64.5 and 64.3, the four quarter
30 running (RAA) averages were 89.0, 89.9 and 82.9. This was caused by the inclusion of the 137

1 reading from the third quarter of 2002. Once this reading was dropped from the four quarter
2 running average, the readings drop back to 70.8, 73.2 and 67.7.

3
4 So in effect, the TTHM problem in the PWFD system is essentially a problem that was caused by
5 one bad quarter in 2002. Since that time Newport has taken steps to address the problem and
6 there has been no four quarter running average in excess of 80 ppb. However, Newport Water is
7 very much aware how close we are to just maintaining compliance to the TTHM standard in
8 addition to other standards of the Stage 1 Rule, and we continue to work on compliance.

9

10 **Q. Was Newport cited for any EPA violations under the Stage 1 Rules?**

11 A. Yes. Newport was cited for a TOC removal violation at Station 1 in December 2002.

12

13 **Q. Did Newport meet with representatives from the RIDOH and/or the EPA regarding the**
14 **December 2002 TOC violation occurred, and can you provide additional information**
15 **regarding this meeting?**

16 A. Yes, we were requested to attend a meeting on January 22, 2003 at the RIDOH with
17 representatives from the EPA to review the Interim Enhanced Surface Water Treatment Rule and
18 the Stage 1 Rule. We were asked to be prepared to discuss our operation practices. Newport's
19 staff, including myself, attended this meeting prepared to discuss the topics. We had not been
20 notified that an attorney from EPA would be present, and were taken aback when the attorney
21 led the questioning. The attorney indicated she had conversations with representatives from
22 Portsmouth Water about their concerns. Apparently, Portsmouth made allegations about our
23 operations and the reporting data we submitted to RIDOH. The consensus of the RIDOH and
24 EPA technical staff was that we were operating the system to meet the standards taking into
25 account our system's complexity. It was acknowledged that our system was complex and
26 presented a number of challenges. Nevertheless, the EPA determined that we were still
27 responsible for compliance, and due to the TOC violation, an Administrative Order would be
28 issued. At the meeting, we informed RIDOH and EPA that Newport had been planning to hire an
29 engineering firm for a comprehensive evaluation of the treatment facilities for future compliance
30 issues. However, in light of the TOC violation, I informed RIDOH and EPA that the time table
31 for this evaluation would be accelerated.

1
2 As of this date, Newport has not been issued an order to address any violations in the
3 Portsmouth’s system, and we have submitted all information requested by the regulatory
4 agencies.

5
6 **Q. What steps had Newport taken with respect to compliance issues, and in particular, with
7 respect to the Compliance Evaluation Report you referenced?**

8 A. Contrary to Portsmouth’s portrayal of Newport as having an attitude of “denial and lack of
9 concern”, our staff has been monitoring and balancing our treatment and maintaining compliance
10 with the Stage 1 regulations. On February 25, 2003, a RFP for the Compliance Evaluation Report
11 was advertised with proposals due March 25, 2003. A contract was awarded to CDM, Inc., and
12 the final report was submitted to the City February 20, 2004. This report has also been forwarded
13 to RIDOH, EPA and the parties to this Docket.

14
15 **Q. Do the recommendations included in the Final Compliance Evaluation Report address
16 these water quality issues?**

17 A. The short term improvements for both treatment plants address Newport’s concern with
18 maintaining compliance with TOC removal, turbidity, and disinfectant by-product reduction. To
19 address the reduction of disinfectant by products (TTHM’s), our engineering consultant
20 recommends the addition of chloramines for secondary disinfection at both water treatment
21 plants. Free chlorine can be converted to chloramines with the addition of ammonia. The
22 ammonia feed improvements at both treatment plants will include bulk storage, day tank, transfer
23 pump, metering pumps, wet scrubber system, and chemical feed piping.

24
25 **Q. Will the use of chloramines address these issues?**

26 A. Yes. This option of adding ammonia is also applicable to the PWFD system. I understand that
27 Portsmouth’s consultant believes that conversion to chloramines in the Portsmouth system is not
28 an option due to the monitoring for TTHM that has been done on a weekly basis at the meter pit.
29 However, we believe this relatively simple alternative of adding ammonia near the meter pit has
30 been dismissed without thorough consideration. As noted in Portsmouth’s testimony, 90% the

1 TTHM tests at the meter pit were below the 80 ppb running annual average threshold. I would
2 again point out that the Stage 1 regulations require *quarterly* testing and averaging.

3

4 **Q. PWFD and their engineering consultant have suggested implementation of Enhanced**
5 **Coagulation by NWD to remove the organics that allow TTHM's to form. Has NWD**
6 **considered this?**

7 A. Yes, enhanced coagulation was reviewed at Station 1. Enhanced Coagulation is essentially
8 increasing the dosage of Alum (coagulant) to the treatment followed by filtration to remove the
9 organics. We have found that the optimum pH for our system for coagulation is 5.8 to 6.2.
10 However, Alum reduces the pH, which can allow soluble aluminum to pass through the
11 treatment plant to the distribution system where there can be post precipitation of aluminum.
12 Also we have found that operating at a low pH makes it difficult to remove manganese, which
13 can then also post precipitate in the distribution system. Our consultant recommends the
14 addition of ammonia to use chloramines for secondary disinfection as a best practice to control
15 the formation of TTHM's.

16

17 **Q. Mr. McGlenn has provided testimony on the health effects associated with prolonged**
18 **exposure to high levels of TTHM's. Do you have any comment on this issue?**

19 A. Yes. Certainly, Newport is concerned with the TTHM problems, along with other water
20 quality issues, and is committed to addressing all such issues. In fact, we monitor a number of
21 treatment processes to ensure safe drinking water. In addition to TTHM's, Chlorite and chlorine
22 dioxide levels are monitored and reported daily at the treatment plant and monthly in the
23 distribution system. While Portsmouth and the Navy do not monitor these parameters, Newport
24 is required to monitor them and is responsible for complying with these parameters.

25

26 However, some of Mr. McGlenn's testimony in this area is irresponsible. First, Mr. McGlenn
27 attaches newspaper articles on a water system in Chesapeake, Va. Mr. McGlenn states these
28 articles describe the "public's loss of confidence in the water supply and the resultant public out-
29 cry and lawsuits that followed." He seems to infer that these problems are imminent on
30 Aquidneck Island. However, a close examination of these articles indicates substantial
31 differences between Newport and Chesapeake's systems. In Chesapeake, it appears the City was

1 constructing a new treatment plant to address water quality issues. Before the new plant was
2 fully on line, the City removed two treatment towers whose sole purpose was to combat THM.
3 Obviously, this is not the case with Newport.

4
5 Further, Portsmouth's own customer notices seem to be at odds with Mr. McGlenn's testimony.
6 These notice indicate that "This is not an emergency or immediate risk," and Portsmouth's
7 customers "do not need to use an alternate (i.e. bottled) water supply." Certainly, Newport is not
8 ignoring the potential problems that can result from water quality issues, but it appears Mr.
9 McGlenn is attempting to incite a loss of public confidence in his testimony.

10

11 **Q. On page 21 of his testimony, Mr. McGlenn states "Imagine the public's reaction and loss**
12 **of confidence in the water supply when language regarding reproductive and**
13 **developmental effects are required under Stage 2 DBPR." Has any such language been**
14 **approved?**

15 A. Not to my knowledge. As stated before, the Stage 2 rules have not even been issued yet. This
16 appears to be speculation on Mr. McGlenn's part. It should also be noted that any violation notice
17 required by the EPA includes health warnings. As can be seen in the notices sent by Portsmouth,
18 there is already language concerning potential health effects, including "reproductive or
19 developmental effects in laboratory animals." So assuming the Stage 2 rules require this
20 language, it is difficult to see how the notices will differ from those already sent by Portsmouth.

21

22 **Q. Is Newport aware of the Stage 2 regulations referred to in Mr. McGlenn's testimony?**

23 A. Yes. Newport is fully aware that the TTHM compliance is changing under the Stage 2 Rule
24 that will be promulgated in late 2004 or in 2005. As Mr. McGlenn noted, the changes will require
25 an MCL of 80ppb at each sample site. However, Mr. McGlenn's testimony seems to suggest that
26 these regulations become effective in 2004. Therefore, I think it is important to explain the
27 timing of the Stage 2 regulations.

28

29 **Q. Would you please do so?**

30 A. Yes. First, we don't know exactly when the final Stage 2 rule will be issued. But, I will
31 assume for the purpose of my testimony that it will issue in Fall 2004. Once the final rule for

1 Stage 2 is issued, water systems will have 3 years (approx. 2007) to comply with an intermediate
2 RAA of 120ppb for TTHM's at sample sites. This RAA is higher than the current limit because
3 samples will be taken at individual sites. By way of example (and referring to Exhibit 3 of Mr.
4 McGlenn's testimony) in the past you would take the quarterly averages from 6 sites (Exhibit 3 -
5 RWC, VFW, PFD, RISP, LV-WTP and 98 Braman Lane), add them together, and get the overall
6 quarterly average for the system. In the future, the averages from each site will be considered on
7 their own. So in the future, you would have six separate readings (RWC, VFW, PFD, RISP, LV-
8 WTP and 98 Braman Lane), rather than one system wide reading.

9

10 Any systems requiring capital improvements to meet this intermediate rule of 120ppb, will have
11 an additional 2 years extension (approx 2009) for this intermediate compliance. Within 6 years
12 from the issuance of the Stage 2 rule (approx 2010), the RAA comes back down to 80 ppb for
13 TTHM's at individual sample sites. Any system requiring capital improvements have an
14 additional 2 year extension for compliance (approx 2012).

15

16 Therefore, the earliest compliance date for the intermediate rules is 2007, with a capital
17 improvement extension to 2009. The earliest compliance with the final rule is 2010, with a
18 capital improvement extension to 2012.

19

20 **Q. Is Newport preparing to comply with the Stage 2 Regulations?**

21 A. Yes we are. It is important to consider that the situation with the Stage 2 regulations is
22 completely different from when the Stage 1 rules took effect. As I stated earlier, I arrived at
23 Newport months before the Stage 1 rules became effective. I discovered that the prior
24 administration had not prepared for these new rules. This is not the case currently. We are aware
25 of the rules and we are taking steps to comply. The first of these steps was the completion of the
26 Compliance Evaluation Report.

27

28 **Q. It is Portsmouth's position that the TTHM issues must be resolved by Newport, as it
29 makes no sense for the Navy and Portsmouth to construct secondary treatment plants.**

30 **What is your position with respect to this issue?**

1 A. It must be understood that in addition to organics in the source water, TTHM formation is a
2 function of both chlorine concentration and chlorine contact time. Each of these parameters is a
3 function of PWFD's and the Navy's secondary system. In the case of the Navy, they add
4 additional chlorine resulting in an increase in the concentration parameter. In the Island Park
5 section of the PWFD, the decision to discontinue purchasing a portion of their water from the
6 Stonebridge Water and Fire District increased the contact time of LVWTP water in their
7 distribution system. It has been stated by EPA representatives that secondary water systems, such
8 as PWFD and the Navy, are responsible for the standards in their systems. In the future, Newport
9 as the primary system may not be able to meet all the EPA standards for specific conditions in
10 secondary systems. With progressively tighter regulations, at some point in the future each water
11 system may need to have treatment capabilities in place to address system specific system
12 conditions for compliance with things such as, disinfection, disinfectant by products, lead and
13 copper, etc.

14

15 **Q. Does Portsmouth have any alternative suppliers from which they can draw water other**
16 **than Newport?**

17 A. Yes, PWFD has a connection to the Stonebridge Water & Fire District. Prior to 1999 PWFD
18 received their water supply from both Stonebridge and NWD. It is my understanding that
19 Portsmouth provided additional treatment to the supply received from Stonebridge. This
20 connection still exists, and I am informed that Stonebridge is under contract through 2008 to
21 reserve a certain amount of water for Portsmouth.

22

23 **Q. If Portsmouth purchased water from Stonebridge, would any of these water quality**
24 **issues be resolved?**

25 A. It is my understanding that Portsmouth did not have any TTHM problems when they
26 purchased water from Stonebridge. If Portsmouth resumed purchasing water from Stonebridge, it
27 would likely reduce the problem.

28

29 **Q. Can you address Mr. McGlenn's comments that Newport failed to address the TTHM**
30 **problem in Docket 3457 and this Docket?**

1 A. Yes. As Portsmouth well knows (and has been addressed above in my testimony), Docket
2 3457 was initiated solely to implement the flat retail rate design. Furthermore, as addressed
3 above, that Docket was eventually withdrawn. Portsmouth was well aware of these issues. (See
4 Tabs 15 & 16)

5
6 With respect to this filing, Mr. McGlinn is correct that it does not address the regulatory
7 compliance issues raised by PWFD, nor was not intended to. This filing, and the delays
8 associated therewith, has a significant history that has been described above. Furthermore, the
9 contract for the compliance evaluations was awarded in May 2003, and as referenced above, was
10 not completed until February 2004. In the interim (November 2003) this Docket was opened. We
11 did not believe it prudent to delay the rate filing for the completion of the compliance evaluation.
12 It was our feeling that we would be returning to the Commission after the compliance
13 evaluations were completed and the City had developed a strategy for the implementation and
14 funding the recommended improvements. As referenced above, it now looks as though we will
15 be filing a rate case in the Fall of 2004.

16

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

18 A. Yes it does. Other than issues that may be raised between now and the hearings, this
19 concludes my testimony.

20

21

22

Newport Timeline

June 19, 2000 – written order issued in Docket 2985

November 2000 – Newport's Division filing for Rhode Island Clean Water Finance (RICWFA) borrowing rejected

March 2001 – Julia Forgue hired as Public Works Director

May 8, 2001 – 1999 Annual Report filed with PUC (prepared by Bacon & Edge)

May 16, 2001 – Meeting with Newport Water, Commission and Division

June 2001 – Raftelis Financial Consultants (RFC) chosen as financial consultants to Newport Water

August 2001 – Raftelis Financial Consultants sign contract as financial consultants to Water Department

December 2001 – City of Newport Finance Director Resigns

January 2002 – Newport City Manager resigns
Draft copy of flat retail commodity rate structure provided to Division
Compliance Hearing requested by the Commission.

February 27, 2002 – 2000 Annual Report filed with PUC (prepared by Bacon & Edge)

March 4, 2002 – Compliance Hearing before Public Utilities Commission.

March 18, 2002 – Division Filing (No. D-02-03) for RICWFA borrowing submitted

May 3, 2002 – Division Order in Division Filing D-02-03 issued

August 1, 2002 – Newport submits flat retail commodity rates in Docket 3457

August 26, 2002 – Laura Sitrin begins work as Newport Finance Director

November 4, 2002 – James Smith begins work as Newport City Manager

November 15, 2002 – correspondence to PUC in Docket 3457 re: feasibility of full rate filing

December 31, 2002 – FY 01 audit completed and filed with State of R.I. Auditor General

January 2003 – PUC allows Newport to withdraw Docket 3457

March 17, 2003 – Docket 3457 officially withdrawn

March 20, 2003 – 2001 annual report filed with PUC (prepared by RFC)

March 31, 2003 – FY O2 audit completed and filed with State of R.I. Auditor General

April 2003 – work begins on full rate filing using test year of April 1, 2002 to March 31, 2003 (Filing is eventually submitted in this Docket #3578.)

May 2003 – Francis X. Flaherty withdraws as Newport legal counsel

June 23, 2003 – 2002 annual report filed with PUC (prepared by RFC)

July 2003 – Joseph A. Keough Jr. hired by Newport

November 28, 2003 – Newport submits filing in Docket 3578

December 17, 2003 – 2003 annual report filed with PUC

December 31, 2003 – FY03 audit completed and submitted to State of Rhode Island